FINANCIAL INSTRUMENTS FACT SHEET # 6

LOAN COMMITMENTS	
Definition	A loan commitment is firm commitment to provide credit under pre-specified terms and conditions.
Scope	The impairment and derecognition requirements of GRAP 104 apply to all loan commitments issued by an entity. The following loan commitments issued by an entity are subject to all the requirements of GRAP 104: • Those that are designated at fair value through surplus or deficit. • Commitments settled net in cash or by issuing or delivering another financial instrument. • Commitments to provide a loan on below market terms.
Recognition	Recognise loan commitments when an entity becomes party to the contractual provisions of the instrument, e.g. when the loan commitment is issued.
Classification	Fair value, with specific measurement after initial recognition.
Initial measurement	*Loan commitments* Fair value, which is usually equal to the consideration received for issuing the loan commitment. Where no guarantee fee is charged, or the fee charged does not represent fair value (i.e. the firm commitment is issued in a non-exchange transaction), an entity measures the loan commitment at fair value. Where no reliable measure of fair value can be determined, an entity measures the loan commitment at the loss allowance. *Commitments to provide concessionary loans* Commitments to provide concessionary loans are seen as a sub-set of commitments to provide loans on below market terms, except concessionary loans are provided to achieve specific policy objectives. Where the loan commitment relates to the provision of a concessionary loan, the initial measurement includes both the loss allowance and the value of any social benefit provided. The effective interest rate on initial recognition is not changed (unless required by GRAP 104) each time there is a down on the commitment.
Subsequent measurement	Loan commitments are subsequently measured at the higher of fair value less any amortisation (where applicable) and the loss allowance. Loan commitments to provide concessionary loans that were measured at their loss allowance plus the social benefit component, continue to be measured on this basis for subsequent measurement purposes (Note: only the loss allowance on the loan commitment changes after initial recognition).
Loss allowance	The credit losses (loss allowance) are the present value of the difference between the contractual cash flows due in terms of the contractual arrangement and the cash flows an entity expects to receive.

	For undrawn loan commitments, a credit loss is the present value of the difference between: (a) the contractual cash flows that are due to the entity if the holder of the loan commitment draws down the loan; and (b) the cash flows that the entity expects to receive if the loan is drawn down. Step 1: Use lifetime or 12-month expected credit losses Determine if there has been a significant change in credit risk, i.e. change in risk of default occurring, since the initial recognition of the loan commitment (individual and collective assessment). Significant change in credit risk, including those that are credit impaired on origination, use lifetime expected credit losses. No significant change in credit risk, use 12 month expected credit losses. Rebuttable presumptions (unless reasonable and supportable information to indicate otherwise): • Credit risk increased significantly when contractual payments more than 30 days past due. • Default does not occur later than when a financial asset is 90 days past due. Step 2: Measure expected credit losses The expected cash flows are based on the lifetime or 12 month expected credit losses. The contractual period is the maximum period allowed. Expected credit losses are measured so that the following is reflected: • An unbiased and probability-weighted amount is determined by evaluating a range of possible outcomes. An entity must consider the possibility that a credit loss occurs, as well as the possibility that no credit loss occurs. • Time value of money. This is the effective interest rate determined at initial recognition. Expected credit losses are determined using reasonable and supportable information about past events, current conditions and forecasts of future economic conditions, that is available without undue cost or effort.
Derecognition	A loan commitment is derecognised when the obligation is discharged, cancelled, expires or is waived. When the terms of the contract are revised, an entity considers whether the existing commitment should be derecognised and a new financial liability recognised. When the terms are revised such that the discounted present value of the cash flows under the new terms are more than 10% different from the discounted present value of the remaining cash flows or the original financial liability, the existing contract is derecognised and a new financial liability recognised.
Presentation and disclosure	An entity considers the presentation and disclosure requirements in GRAP 104 and applies materiality when preparing the financial statements.