FINANCIAL INSTRUMENTS FACT SHEET #5

ASB ACCOUNTING STANDARDS BOARD

CONCESSIONARY LOANS PAYABLE		
Definition	A concessionary loan is a loan granted to or received by an entity on terms that are not market related. Concessionary loans received are received by public sector entities to achieve particular policy objectives.	Paragraph 2.1
Scope	The loan component of concessionary loans payable by an entity is accounted for as a financial liability. The non-exchange component of arrangement, which could be a contribution from owners or non-exchange revenue, is accounted for using the GRAP 23 on *Revenue from Non-Exchange Transactions (Taxes and Transfers)*(GRAP 23).	Paragraph 1.3(f) and 5.4-5.7
Recognition	Recognise the loan when entity becomes party to the contractual provisions of the instrument. Where a facility is in place, this could occur when the draw-downs occur.	Paragraph 3.1 and AG3.12-AG3.13
Classification	Amortised cost, unless (a) the payable qualifies to be measured at fair value through surplus or deficit, or (b) when the payable relates to a financial liability that arises because a financial asset does not qualify for derecognition. Likely that payables are measured at amortised cost.	Paragraph 4.7 [embedded derivatives 4.9-4.15 and AG4.56-AG4.67]
Initial measurement	Fair value, minus transaction costs if subsequently measured at amortised cost.	Paragraph 5.1 and AG5.1
	Fair value = present value of contractual cash flows discounted using a market rate of interest for a similar instrument at reporting date, with similar risk characteristics and similar term.	Paragraph AG5.2-AG5.7 and AG5.12-AG5.21
	Difference between transaction price (loan proceeds) and fair value recognised as a contribution from owners or non-exchange revenue in accordance with GRAP 23.	Paragraph 5.4-5.6 and AG5.16
Subsequent measurement	Most concessionary loans payable are likely to be measured at amortised cost. *Principle* Amortised cost is calculated as: Amount initially recognised (fair value plus transaction costs) minus Principal repayments plus or minus Cumulative amortisation* *by applying the effective interest rate (EIR). Notes: EIR is not changed unless it is a variable rate loan that resets at specific intervals. *Interpretation* If the loan is received in tranches and it is a fixed rate loan, the original effective interest rate may be used or the rate at each draw down. An entity should develop its own accounting policy for these transactions.	Paragraph AG5.50-AG5.57
	Gains and losses that arise from the amortisation process are recognised in surplus or deficit.	Paragraph 5.43

This Fact Sheet explains the Secretariat's views on the possible accounting treatment of public sector transactions based on the principles in GRAP 104 on Financial Instruments (revised in 2019). This Fact Sheet accompanies, and is not a replacement for, the complete text of GRAP 104 Financial Instruments. The Fact Sheet outlines the most common features and accounting considerations related to a particular transaction. The accounting may differ depending on the facts and circumstances of individual arrangements. This Fact Sheet has not been reviewed, approved or otherwise acted on by the ASB.

Interest expense	Interest expense calculated as gross carrying amount X EIR.	Paragraph AG5.50-AG5.57
Derecognition	A concessionary loan payable is derecognised when the obligation is discharged, cancelled, expires or is waived. When the terms of the loan are revised, e.g. modified or renegotiated, an entity considers whether the existing loan should be derecognised and a new loan recognised. When the terms are revised such that the discounted present value of the cash flows under the new terms (discounted using the original effective interest rate) are more than 10% different from the discounted present value of the remaining cash flows or the original financial liability, the existing loan is derecognised and a new loan recognised. An entity also considers qualitative factors that may affect the ongoing recognition of an instrument, e.g. the counterparty to the transaction changed.	Paragraph 6.16-6.19 and AG6.15-AG6.21
	Gains and losses that arise from the derecognition of a financial liability are recognised in surplus or deficit.	Paragraph 5.43
Presentation and disclosure	An entity considers the presentation and disclosure requirements in GRAP 104 and applies materiality when preparing the financial statements. General disclosures – paragraphs 8.1 and 8.2 Accounting policies – paragraph 8.3 Classes of financial instruments and level of disclosure – paragraph 8.4 Significance of financial instruments to financial position and performance – paragraph 8.5 Statement of financial position – paragraphs 8.6, 8.15-8.20, 8.22, 8.24-8.25, 8.28-8.29. Statement of financial performance – paragraphs 8.30, 8.36-8.41 Nature and extent of risks arising from financial instruments – liquidity risk: paragraph 8.58, market risk (if significant exposure to market risk): paragraphs 8.59-8.60.	Presentation: paragraphs 7.1-7.17 and AG7.1-AG7.8

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