GRAP 104 on *Financial Instruments* (Revised)

Your guide to understanding and applying the revised Standard

This article is part of a series of articles that discuss the key amendments to GRAP 104 (revised). GRAP 104 is the authoritative source. Other supplementary resources are intended to be read alongside GRAP 104 and do not replace or override its guidance. The article has been prepared by the Secretariat of the ASB for information purposes only. It has not been reviewed, approved, or otherwise acted on by the Board.

How to account for concessionary loan payables per GRAP 104 (2019)

Entities may enter into loan agreements to receive resources (funding) on terms that are not market related. This includes loans with flexible repayment terms, loans that allow for payment holidays, or loans with below-market interest rates. These loans are referred to as concessionary loans and are provided for social or economic reasons, or to achieve a particular policy objective. For example, when an international agency grants a loan to a municipality to build clinics, or when a development corporation grants loans to an entity to improve infrastructure development or maintenance.

It is important to distinguish a concessionary loan from a waiver of debt owing by an entity. For concessionary loans below-market conditions are considered upfront instead of subsequently or on derecognition.

A concessionary loan is separated into component parts

When an entity enters into a concessionary loan, the loan is separated into its component parts at initial recognition as each component of the concessionary loan is accounted for separately.

A concessionary loan is recognised when an entity becomes a party to the contractual provisions of the instrument. Financial liabilities are initially measured at fair value, which is usually their transaction price. The entity assesses if the transaction price represents the loan's fair value.

Fair value versus transaction price	How to determine the transaction price and fair value of the loan
Fair value of the loan	The fair value of the loan is determined based on a quoted price, if an active market exists. In the absence of an active market, a valuation technique is applied to determine the present value of the contractual cash flows, discounted using a market related rate of interest for a similar debt instrument with a similar, terms, currency and maturity.
Transaction price	Loan proceeds (funds received from borrower).

If the transaction price does not represent the fair value of the loan, the off-market portion of the loan is calculated as follows:

Transaction price LESS Fair value of the loan EQUALS Off-market portion of the loan

How to account for each loan component

The off-market portion

The off-market portion of the loan is accounted for as either a contribution from owners, or as non-exchange revenue using GRAP 23 on *Revenue from Non-exchange Transactions (Taxes and Transfers)*.

The off-market portion of the loan is a contribution from owners if it comprises a contribution by external parties in their capacity as owners to establish, maintain or increase an interest in the net financial position of the entity.

If the off-market portion is not a contribution from owners, the principles in GRAP 23 are applied to assess whether it constitutes a liability based on any stipulations imposed, or whether it should immediately be recognised as non-exchange revenue.

The loan component

The loan component of the concessionary loan is accounted for as a financial liability using GRAP 104 (2019) on *Financial Instruments*. For subsequent measurement, it is classified at amortised cost unless it meets the criteria to be measured at fair value. If the loan component is classified at amortised cost, it is initially measured at fair value minus any transaction costs directly attributable to the financial liability.

Amortised cost is the amount at which the loan payable is initially recognised, adjusted for principal repayments and cumulative amortisation, by applying the effective interest rate. If the loan is received in tranches at a fixed rate, the original effective interest rate may be used, or the entity may elect to use the rate at each draw down. This is an accounting policy choice that needs to be explained in the financial statements.

Resources

For more information on how the requirements of GRAP 104 (2019) apply to concessionary loan payables, access the Fact-sheet-5-Concessionary-loans-payable on the ASB website.