



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.

Concessionary loans receivable in the public sector



Concessionary loans are more common in the public sector than the private sector. This is because these loans usually provide funding for the public sector to achieve particular policy objectives. A concessionary loan is a loan granted to an entity on terms that are not market related. In terms of GRAP 104 (revised) on *Financial Instruments*, entities account for both the on-market and off-market components of the concessionary loan receivable.

The on-market component of concessionary loans receivable is accounted for as a financial asset. The off-market (social benefit) component of the concessionary loan is accounted for using the *Conceptual Framework for General Purpose Financial Reporting* (Conceptual Framework). Entities should consider whether they have a loan commitment for the concessionary loan receivable.

Classification of concessionary loans receivable

The concessionary loan can either be classified as a financial asset at amortised cost or at fair value through surplus or deficit. The classification depends on the following criteria:

1) The management model for the concessionary loan

Entities should assess whether their intention is to hold the concessionary loan to collect contractual cash flows from it, or to hold it to obtain gains from its sale.

2) The characteristics of the contractual cash flows of the concessionary loan

Entities should assess whether the cash flows are solely payments of principal and interest on the principal amount outstanding (SPPI).

A concessionary loan receivable is measured at amortised cost if the management model indicates that the entity holds the concessionary loan to collect its contractual cash flows and the SPPI test is met. An interest free loan will not in itself fail the SPPI requirements, provided the loan is a basic lending arrangement and the repayment is solely of the principal. A loan with features that are not consistent with a basic lending arrangement would fail the SPPI test, such as contingent payment features to reach a certain profitability threshold.

Measurement of concessionary loans receivable

Concessionary loans are initially measured at fair value, which is the present value of the contractual cash flows of the loan, discounted using a market rate of interest for a similar instrument. The difference between the transaction price (loan proceeds) and the fair value is recognised as a social benefit in accordance with the Conceptual Framework. After initial recognition, the concessionary loan is

measured at fair value through surplus or deficit *or* amortised cost by applying the classification criteria discussed above.

Concessionary loans at fair value through surplus and deficit are subsequently measured to their fair values at each reporting date. Any gains and losses on remeasurement are recognised in surplus or deficit.

Concessionary loans at amortised cost are subsequently measured at amortised cost which includes any modification gains and losses, write-offs and impairment losses. The impairment model requires entities to consider their exposure to credit risk, based on the entity's assessment of the borrower's ability to repay the loan per the contractual terms. Should there be a significant increase in credit risk since initial recognition of the loan, the model requires an assessment of lifetime expected credit losses. Otherwise, the assessment can be done for a 12-month period. The impairment loss of a concessionary loan receivable is the present value of the difference between the contractual cash flows due in terms of the arrangement, and the cash flows the entity expects to receive.

Resources

For more information on how the requirements of GRAP 104 (revised) apply to concessionary loans receivable, access the [Fact Sheet on Concessionary loans receivable](#) on the ASB website.