

What is a loan commitment?

Loan commitments

What are we doing as an entity?
Assuming credit risk of another party by agreeing to provide them a loan on specified terms. Usually charge a fee for this "facility" as we are committing some of our funds for the other party to utilise.

A firm commitment to provide credit under pre-specified terms and conditions

Not in the scope of GRAP 104 (revised 2019)

EXCEPT FOR

Loan commitments designated as a financial liability at fair value

Measure at fair value

Loan commitments settled net in cash or delivery another financial instrument (i.e. the instrument is a derivative)

Measure at fair value

Other loan commitments granted on normal market terms (and the resulting loan will be measured at amortised cost)

Apply the impairment requirements in GRAP 104

Loan commitments to provide loans on below market terms, including concessionary loans

See next page

For all loan commitments - apply derecognition requirements

Loan commitments on below market terms, including concessional loans

What are we doing as an entity?
 Agreeing to provide credit to another party and will not recover the full amount provided (if there is capital concession), and/or will not receive market-related compensation (if there is an interest concession).
Think of an onerous contract

Is the fee charged for the commitment equal to fair value of a similar transaction in the market?

NO

YES

Determine the fair value of the fee that would be charged for the loan commitment or loss allowance

Measure at fee received

Fair value using the following techniques:
 • Fair value of a similar transaction
 • Discounted cash flow analysis
 Where no fair value can be determined reliably, use loss allowance

Day 1
Dr Expense
Cr Loan commitment liability (fair value or loss allowance) [1]

Day 1
Dr Receivable (for fee to be received)
Cr Loan commitment liability (or deferred revenue) [1]

+ → Day 1
Loan commitment off-market components
Dr Social benefit expense (Concessional loan) or Expense or Statement of Financial Position (Below-market) [Paragraph AG5.4]
Cr Loan commitment liability [2]

Day 2
 Assess whether “loan commitment liability” recognised is adequate based on the entity’s exposure to credit risk.
 Paragraph 4.7(d) Recognise loan commitment liability subsequently at the higher of amounts recognised on initial recognition (less cumulative revenue recognised) and the loss allowance.
 [Note: the social benefit/off-market component remains unchanged]