Directive on Accounting Standards: GC 3050 Loans Receivable

Note to reader

This document is part of the Appendix A of the Directive on Accounting Standards.

A. Primary PSAS reference

PS 3050 Loans receivable

B. Effective date

April 1, 2017

C. Government of Canada Consolidated Financial Statements

1. Further to the accounting requirements outlined in PS 3050 Loans receivable, loans to be repaid through future government appropriations, forgivable loans, and the concessionary terms of

some loans are considered to be transfer payments and may result in the recognition of transfer payment expenses as described below:

a. A transfer payment expense should be used to recognize loans to be repaid through future government appropriations which meet the criteria for expensing the loan (PS 3050.10).
b. Forgivable loans shall be accounted for as a transfer payment expense, unless they meet the definition of a loan receivable where the government has a reasonable expectation of its recovery (PS 3050.17).
c. In cases where a loan has significant concessionary terms (such as a low interest rate or none at all), the concessionary portion shall be accounted for as a transfer payment expense. The remaining net balance of the loan would be accounted for as a discounted loan (PS 3050.20).

2. The rate on the actual yield curve for zero-coupon Government of Canada bonds which matches the term of the funding agreement, established at the date of inception of the agreement, will be used as the Government's average borrowing rate, or discount rate, in determining the present value of the loan. The concessionary portion shall be the difference between the face value of the loan and its present value at the time the loan is made. Professional judgement is required when assessing the significance of the concessionary portion. The concessionary terms shall be considered to be significant where the concessionary portion of the loan is greater than 25 per cent of the face value of the loan or $50 million (PS 3050.23). For programs where there are a large number of smaller dollar value loans, please consult with the Office of the Comptroller General.

3. Notwithstanding paragraph 2 above, the face value of all loans must be reassessed annually for collectability. The provision for the valuation allowance of loan receivables shall be accounted for as an expense (PS 3050.35).
4. Interest revenue should cease to be accrued on a loan when the collectability of either principal or interest is not reasonably assured (PS 3050.43). However, in order to ensure amounts owing are recorded in the Accounts of Canada in accordance with the Financial Administration Act section 24.1 and the Debt Write-off Regulations, 1994 (SOR / 94-602), interest should continue to be accrued as an amount receivable and an offsetting allowance for uncollectible interest should be recorded.
5. The provision for the valuation allowance of any interest receivable shall be recorded as a bad debt (operating) expense (PS 3050.30 and PS 3050.35).
6. The Financial Administration Act sections 24.1, 25 and 64(2)(a) require that a debt, including interest, be recorded in the Public Accounts of Canada before a debt deletion action can be undertaken. Accordingly, as provided for in PS 3050.41, the valuation allowances for the loan receivable and interest as noted above shall remain until a formal debt deletion action has been approved in accordance with the Debt Write-Off Regulations, 1994 (SOR / 94-602).

D. Repayment conditions related to transfer payments

7. If any repayment conditions specified in a funding agreement come into being and it is confirmed that full or partial repayment is

required, departments should recognize a receivable and reduce the transfer payment expense for the current period.

E. Unconditionally repayable contributions

8. Unconditionally repayable contributions (URCs) are contributions which may be administered under a transfer payment program where the recipient is expected to repay all or part of the amount and/or where the government expects to receive a financial return. The terms may specify a date or dates for repayment, or may describe the particular time(s) or circumstance(s) that will determine repayment. As a result, URCs are, in substance, loans receivable and shall be classified and reported as per this section.

F. Departmental Financial Statements

9. Applies without additional policy choices or interpretation for Departmental Financial Statements.

G. Other related references

- PS 3410 Transfer payments [1]
- GC 3410 Transfer Payments
- PS 3320 Contingent assets [1]
- GC 3320 Contingent Assets
- Policy on Transfer Payments
- Interest and Administrative Charges Regulations (SOR/96-188)
- Debt Write-Off Regulations, 1994 (SOR / 94-602)

Footnotes

1 Please note that a CPA Canada membership or an annual subscription is necessary to access this content.

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