SECTION PS 3310
loan guarantees

SUPPLEMENT

This supplement sets out the previous wording of paragraphs that have been amended as a consequence of the 2022-2023 annual improvements.

PURPOSE AND SCOPE

.01 This Section establishes standards on how to account for and report government loan guarantees in government financial statements. 1 The standards apply to loan guarantees to persons and to organizations outside of the government reporting entity. They are not intended to apply to contractual obligations, or to other contingent liabilities such as indemnities, self-insurance or government insurance programs. [Former paragraph PS 3310.01, amended by 2019-2020 annual improvements, retained in Archived Pronouncements.]

.02 Loan guarantees are a significant tool that governments use to achieve policy objectives. Loan guarantees may be used, for example, to allow organizations to obtain lower cost financing, to support regional development or to give economic assistance to certain industries or to individuals who meet specific criteria. Federal, provincial, territorial and local governments may extend loan guarantees to individuals, organizations and other governments, under programs that apply to a large number of borrowers operating in similar circumstances, or on an individual ad hoc basis. Users of financial statements need information about the current and potential costs of government activities, including the government's exposure to loss and the estimated losses under various classes of loan guarantees.

.04 A loan guarantee is a contingent liability of the government. The generally accepted accounting principles for contingent liabilities are, therefore, appropriate for loan guarantees. The key accounting principles for contingent liabilities are disclosure of contingent liabilities in the notes to the financial statements and recognition of liabilities when it is determined that losses are likely.

.05 *Government loan guarantees should be accounted for and reported as contingent liabilities in the government's financial statements.* [JUNE 1995]

PROVIDING FOR LOSSES

.07 Proper accounting treatment requires recognition of losses when it is determined that they are likely. In most cases, it is known that a loss is likely at some time before the government must make payment with respect to a loan guarantee. It is not sufficient to disclose loan guarantees as contingent liabilities in the notes and schedules when a loss is likely, as disclosure is not a substitute for proper accounting treatment.

.08 *A provision for losses on loan guarantees should be established when it is determined that a loss is likely, and should be accounted for as a financial liability and in the statement of operations as an expense.* [April 2026] [Former paragraph PS 3310.08, amended by FINANCIAL STATEMENT PRESENTATION, Section PS 1202, retained in Archived Pronouncements.]

ESTIMATING THE PROVISION FOR LOSSES

.11 If the government guarantees the interest payments as well as the loan principal, the amount of accrued and unpaid interest would increase the estimated loss.

.12 In addition, the government may have recourse to recover from the borrower, amounts it has paid with respect to the loan guarantee. Amounts expected to be recovered from the borrower would reduce the estimated loss.

.13 Loan guarantees may also be secured with assets of the borrower. Depending on the loan guarantee agreement, either the lender or the government may be responsible for selling the asset pledged as security. Expected net proceeds from the sale of the asset would reduce the estimated loss.

.16 Present value techniques may be used to measure the provision. The government's average borrowing rate may be appropriate to use as the discount rate in determining the present value of the estimated loss.

.18 *The provision for losses on loan guarantees should be reviewed on an ongoing basis. Any changes in the provision for losses on loan guarantees should be charged or credited to expenses in the statement of operations.* [JUNE 1995 *]

REMOVAL OF THE PROVISION FOR LOSSES FROM THE FINANCIAL STATEMENTS

.19 The government's obligation with respect to a loan guarantee would end as specified in the terms of the guarantee. It may end, for example, when the loan is paid in full or when the term of the guarantee has expired. If the government had previously recognized a provision for losses related to the guarantee, the provision would need to be removed from the financial statements once the government's obligation with respect to the loan guarantee has ended.

.20 *The provision for loss on a loan guarantee should be removed from the government's statement of financial position when the guaranteed loan has been discharged or the term of the loan guarantee has expired.* [JUNE 1995]

.21 If the government has made payments under the terms of a guarantee and has recourse to recover amounts paid from the borrower, such amounts should be accounted for in accordance with LOANS RECEIVABLE, Section PS 3050.

GUARANTEED LOANS TO BE REPAID FROM FUTURE GOVERNMENT ASSISTANCE

.22 Governments may guarantee loans to borrowers and provide the borrower with funding that allows the borrower to repay the guaranteed loan. Such guarantees may be provided by the government itself or through an organization that is part of the government reporting entity. If a direct relationship can be established between government assistance to a borrower and the repayment of a guaranteed loan, the amount of the guaranteed loan that is expected to be repaid from that assistance is, in substance, a liability of the government. In effect, the government has assumed the obligation for repayment of all or a portion of the guaranteed loan.

.23 The amount of the guaranteed loan that is expected to be repaid from future government assistance should be accounted for as a liability and an expense in the statement of operations. The amount of the guaranteed loan that will not be repaid through future government assistance would be accounted for in accordance with the other standards in this Section.

.24 *The amount of a guaranteed loan that is expected to be repaid from future government assistance should be accounted for as a financial liability and an expense in the statement of operations in the period when a direct relationship can be established between the repayment of the loan and the government's funding to the borrower.* [APRIL 2026 *] [Former paragraph PS 3310.24, amended by FINANCIAL STATEMENT PRESENTATION, Section PS 1202, retained in Archived Pronouncements.]

.25 A direct relationship would be indicated if the government assists the borrower to repay the loan through specific grants or increases in existing government assistance. There may be other financing arrangements that, in substance, result in a direct relationship between the repayment of a guaranteed loan and the government's assistance to the borrower.

.26 Financial dependence alone, however, would not be sufficient evidence that a direct relationship exists between the repayment of a guaranteed loan and the government funding received by the borrower. For example, if the government does not change its funding to the borrower as a result of the loan guarantee, or if the government assistance provided to a borrower is consistent with that provided to similar organizations that have not received government loan guarantees, a direct relationship likely does not exist. In such cases, the loan guarantee is a contingent liability.

.27 To ensure that expenses are not overstated when the future government assistance is provided to the borrower, the portion of the assistance that is used to make principal payments on a guaranteed loan accounted for in accordance with paragraph PS 3310.24 would be charged against the liability. The portion of the assistance related to interest on the guaranteed loan would be accounted for as an expense in the statement of operations.

DISCLOSURE

.29 *Government financial statements should disclose information to describe the accounting policies selected and applied to loan guarantees, including:*

(a) the basis for initial recognition and measurement of the provision for losses on loan guarantees; and

(b) the policy with respect to changes in the amount of the provision. [JUNE 1995]

.30 Governments need to disclose sufficient information in notes or schedules for readers to understand the nature, terms and risk of loss of the government's significant classes of loan guarantees.

.31 *Government financial statements should disclose in notes or schedules the nature and terms of significant classes of loan guarantees. Information that should be disclosed includes:*

(a) the authorized limit;

(b) the principal amount outstanding;

(c) the amount of provision for losses; and

(d) general terms and conditions. [JUNE 1995]

.33 The level of detail disclosed by governments should reflect the highly aggregated nature of financial statements. In deciding the level of detail to disclose, governments should consider the usefulness of the information to the reader in assessing the nature of, and the costs associated with, a government's loan guarantee programs. The level of disclosure would also consider the sensitivity of the information, particularly any provision for losses on loan guarantees, in relation to the government's or the borrower's financial position.

EFFECTIVE DATE AND TRANSITIONAL PROVISIONS

.34 This Section applies to all loan guarantees of the government. If application of the Section results in a change of accounting policy, ACCOUNTING CHANGES, Section PS 2120, applies.

SUPPLEMENT

This supplement sets out the previous wording of paragraphs that have been amended as a consequence of approving FINANCIAL STATEMENT PRESENTATION, Section PS 1202.

.08 *A provision for losses on loan guarantees should be established when it is determined that a loss is likely, and should be accounted for as a liability and in the statement of operations as an expense.* [JUNE 1995 *]

.24 *The amount of a guaranteed loan that is expected to be repaid from future government assistance should be accounted for as a liability and an expense in the statement of operations in the period when a direct relationship can be established between the repayment of the loan and the government's funding to the borrower.* [JUNE 1995 *]

SUPPLEMENT

This supplement sets out the previous wording of paragraphs that have been amended as a consequence of approving the new CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING.

.06 The key issue in accounting for loan guarantees is assessing when a provision for losses on loan guarantees should be recognized as a liability and an expense. Liabilities are present obligations of a government to others arising from past transactions or events, the settlement of which is expected to result in the future sacrifice of economic benefits. 2

SUPPLEMENT

This supplement sets out the previous wording of paragraphs that have been amended as a consequence of the 2019-2020 annual improvements.

.01 This Section establishes standards on how to account for and report government loan guarantees in government financial statements. 1 The standards apply to loan guarantees to persons and to organizations outside of the government reporting entity. They are not intended to apply to contractual obligations, or to other contingencies such as indemnities, self-insurance or government insurance programs.

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Footnotes

1. The term "financial statements" refers to the summary financial statements published by a government that report on the financial position and changes in financial position of the government reporting entity.

* Editorial change — March 2012.

* Editorial change — June 2011.

2. See FINANCIAL STATEMENT CONCEPTS, paragraph PS 1000.44.

1. Report on the financial position and changes in financial position of the government reporting entity.