

SECTION PS 3310

loan guarantees

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PURPOSE AND SCOPE

- .01 This Section establishes standards on how to account for and report public sector entity loan guarantees in public sector financial statements. 1 The standards apply to loan guarantees to persons and to organizations outside of the reporting entity. They are not intended to apply to contractual obligations, or to other contingent liabilities such as indemnities, self-insurance or public sector insurance programs. [Former paragraph PS 3310.01, amended by 2022-2023 remaining annual improvements, retained in Archived Pronouncements.] [Former paragraph PS 3310.01, amended by 2019-2020 annual improvements, retained in Archived Pronouncements.]
- .02 Loan guarantees are a significant tool that public sector entities 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 or their controlled entities 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 public sector activities, including the public sector entity's exposure to loss and the estimated losses under various classes of loan guarantees. [Former paragraph PS 3310.02, amended by 2022-2023 remaining annual improvements, retained in Archived Pronouncements.]
- .03 For the purposes of this Section, a **loan guarantee** is a promise to pay all or a part of the principal and/or interest on a debt obligation in the event of default by the borrower.
- .04 A loan guarantee is a contingent liability of a public sector entity. 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. [Former paragraph PS 3310.04, amended by 2022-2023 remaining annual improvements, retained in Archived Pronouncements.]
- .05 *Loan guarantees should be accounted for and reported as contingent liabilities in a public sector entity's financial statements.* [JUNE 1995] [Former paragraph PS 3310.05, amended by 2022-2023 remaining annual improvements, retained in Archived Pronouncements.]

PROVIDING FOR LOSSES

- .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. A liability is a present economic obligation of an entity to others as a result of a past event(s), the settlement of which is expected to result in the future sacrifice of economic benefits. 2 [Former paragraph PS 3310.06 and related footnote, amended by the Conceptual Framework, retained in Archived Pronouncements.]
- .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 public sector entity 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. [Former paragraph PS 3310.07, amended by 2022-2023 remaining annual improvements, retained in Archived Pronouncements.]
- .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.]

- .09 The following factors may indicate that a loss is likely on a loan guarantee or a class of loan guarantees:
- (a) recent financial performance of the borrower(s), including financial statements that portray a decline in the current financial position of a borrower, particularly its liquidity, as evidenced by severe losses in the current year or recent years, a serious deficiency in working capital or cash flow, or an excess of liabilities over assets;
 - (b) factors known at the time of reporting that are likely to affect the ability of the borrower(s) to repay the loan(s) in the future, including economic conditions in the country, region or industry in which the organizations operate, and for individuals, income stability and income earning potential;
 - (c) recent collection experience for the loan(s), including a current default in making interest or principal payments when due on debt obligations;
 - (d) failure to meet debt covenants on existing debt obligations;
 - (e) independent credit reports that indicate concerns about an individual's or an organization's ability to meet its continuing obligations;
 - (f) a decline in the market value of a traded debt instrument issued by a borrower that is unrelated to a change in market interest rates; and
 - (g) the adequacy of the security pledged for the loan(s), including the type of assets and the ratio of their current market value to the loan principal amount outstanding.

ESTIMATING THE PROVISION FOR LOSSES

- .10 *The provision for losses on loan guarantees should take into account the principal amount outstanding, accrued and unpaid interest if it is guaranteed, and amounts recoverable from the borrower and from the sale of assets pledged as security.* [JUNE 1995]
- .11 If the public sector entity guarantees the interest payments as well as the loan principal, the amount of accrued and unpaid interest would increase the estimated loss. [Former paragraph PS 3310.11, amended by 2022-2023 remaining annual improvements, retained in Archived Pronouncements.]
- .12 In addition, the public sector entity 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. [Former paragraph PS 3310.12, amended by 2022-2023 remaining annual improvements, retained in Archived Pronouncements.]
- .13 Loan guarantees may also be secured with assets of the borrower. Depending on the loan guarantee agreement, either the lender or the public sector entity may be responsible for selling the asset pledged as security. Expected net proceeds from the sale of the asset would reduce the estimated loss. [Former paragraph PS 3310.13, amended by 2022-2023 remaining annual improvements, retained in Archived Pronouncements.]
- .14 *The provision for losses on loan guarantees should be determined using the best estimates available in light of past events, current conditions, and taking into account all circumstances known at the date of preparation of the financial statements.* [JUNE 1995]
- .15 In estimating the provision for losses, different techniques may be required. For individual loan guarantees, the provision could be based on the current circumstances of the individual borrowers. For guarantee programs consisting of a large number of similar loans, the provision could be based on historical experience, or on economic conditions facing that group of borrowers.
- .16 Present value techniques may be used to measure the provision. The public sector entity's average borrowing rate may be appropriate to use as the discount rate in determining the present value of the estimated loss. [Former paragraph PS 3310.16, amended by 2022-2023 remaining annual improvements, retained in Archived Pronouncements.]
- .17 Estimates that are recognized in the financial statements require reappraisal as new events occur, as more experience is acquired, or as additional information is obtained. Changes in the circumstances of the borrower may require changes to the provision for losses on loan guarantees. Changes in the provision for losses on loan guarantees would be charged or credited to expenses in the statement of operations.
- .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 public sector entity'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 public sector entity had previously recognized a provision for losses related to the guarantee, the provision would need to be removed from the financial statements once the public sector entity's obligation with respect to the loan guarantee has ended. [Former paragraph PS 3310.19, amended by 2022-2023 remaining annual improvements, retained in Archived Pronouncements.]

.20 *The provision for loss on a loan guarantee should be removed from the public sector entity's statement of financial position when the guaranteed loan has been discharged or the term of the loan guarantee has expired.* [JUNE 1995]
[Former paragraph PS 3310.20, amended by 2022-2023 remaining annual improvements, retained in Archived Pronouncements.]

.21 If the public sector entity 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. [Former paragraph PS 3310.21, amended by 2022-2023 remaining annual improvements, retained in Archived Pronouncements.]

GUARANTEED LOANS TO BE REPAID FROM FUTURE ASSISTANCE

.22 Public sector entities may guarantee loans to borrowers and provide the borrower with funding that allows the borrower to repay the guaranteed loan. If a direct relationship can be established between 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 public sector entity. In effect, the public sector entity has assumed the obligation for repayment of all or a portion of the guaranteed loan. [Former paragraph PS 3310.22, amended by 2022-2023 remaining annual improvements, retained in Archived Pronouncements.]

.23 The amount of the guaranteed loan that is expected to be repaid from future 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 assistance would be accounted for in accordance with the other standards in this Section. [Former paragraph PS 3310.23, amended by 2022-2023 remaining annual improvements, retained in Archived Pronouncements.]

.24 *The amount of a guaranteed loan that is expected to be repaid from future 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 public sector entity's funding to the borrower.* [APRIL 2026]
[Former paragraph PS 3310.24, amended by 2022-2023 remaining annual improvements, retained in Archived Pronouncements.] [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 public sector entity assists the borrower to repay the loan through specific grants or increases in existing assistance. There may be other financing arrangements that, in substance, result in a direct relationship between the repayment of a guaranteed loan and the public sector entity's assistance to the borrower. [Former paragraph PS 3310.25, amended by 2022-2023 remaining annual improvements, retained in Archived Pronouncements.]

.26 Financial dependence alone, however, would not be sufficient evidence that a direct relationship exists between the repayment of a guaranteed loan and the funding received by the borrower from the public sector entity. For example, if the public sector entity does not change its funding to the borrower as a result of the loan guarantee, or if the assistance provided to a borrower is consistent with that provided to similar organizations that have not received loan guarantees from the public sector entity, a direct relationship likely does not exist. In such cases, the loan guarantee is a contingent liability. [Former paragraph PS 3310.26, amended by 2022-2023 remaining annual improvements, retained in Archived Pronouncements.]

.27 To ensure that expenses are not overstated when the future 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. [Former paragraph PS 3310.27, amended by 2022-2023 remaining annual improvements, retained in Archived Pronouncements.]

DISCLOSURE

.28 DISCLOSURE OF ACCOUNTING POLICIES, paragraphs PS 2100.03 and PS 2100.09, state that a clear and concise description of all significant accounting policies selected and applied to significant liabilities and expenses be included as an integral part of the financial statements.

.29 *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]

[Former paragraph PS 3310.29, amended by 2022-2023 remaining annual improvements, retained in Archived Pronouncements.]

.30 Public sector entities need to disclose sufficient information in notes or schedules for readers to understand the nature, terms and risk of loss of the public sector entity's significant classes of loan guarantees. [Former paragraph PS 3310.30, amended by 2022-2023 remaining annual improvements, retained in Archived Pronouncements.]

.31 *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]

[Former paragraph PS 3310.31, amended by 2022-2023 remaining annual improvements, retained in Archived Pronouncements.]

- .32 General terms and conditions of significant classes of loan guarantees may include:
 - (a) a general description of loan guarantee programs;
 - (b) the period covered by the class of loan guarantees;
 - (c) interest terms;
 - (d) special conditions; and
 - (e) security pledged.
 - .33 The level of detail disclosed by public sector entities should reflect the highly aggregated nature of financial statements. In deciding the level of detail to disclose, public sector entities should consider the usefulness of the information to the reader in assessing the nature of, and the costs associated with, a public sector entity'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 public sector entity's or the borrower's financial position. [Former paragraph PS 3310.33, amended by 2022-2023 remaining annual improvements, retained in Archived Pronouncements.]
- EFFECTIVE DATE AND TRANSITIONAL PROVISIONS**
- .34 This Section applies to all loan guarantees of a public sector entity. If application of the Section results in a change of accounting policy, ACCOUNTING CHANGES, Section PS 2120, applies. [Former paragraph PS 3310.34, amended by 2022-2023 remaining annual improvements, retained in Archived Pronouncements.]
 - .35 FINANCIAL STATEMENT PRESENTATION, Section PS 1202, issued in October 2023, amended paragraphs PS 3310.08 and PS 3310.24. The amendments are applicable at the same time as Section PS 1202, for fiscal years beginning on or after April 1, 2026. Earlier adoption is permitted if Section PS 1202 is also early adopted. Prior period amounts would need to be restated to conform to the requirements for comparative financial information in Section PS 1202.

Footnotes

1. The term "financial statements" refers to the financial reports published by a public sector entity that present the financial position and changes in financial position of the reporting entity. Refer to Figure 3.1 in Chapter 3 of the Conceptual Framework, where financial statements are identified as an important type of financial report.

2. See Chapter 8 of the Conceptual Framework, paragraph 8.16.

* Editorial change — June 2011.

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