SECTION PS 3050
loans receivable

TABLE OF CONTENTS

PURPOSE AND SCOPE

.01 This Section establishes standards on how to account for and report loans receivable in government financial statements. 1 The standards apply to loans to borrowers outside of the government reporting entity. 2 [Former footnote 1 of paragraph PS 3050.01 amended by 2022-2023 remaining annual improvements, retained in Archived Pronouncements.]

.02 Governments lend money primarily to achieve policy objectives and, to a lesser extent, to earn a return on the use of government funds. To support regional development or give economic assistance, governments often lend at concessionary terms that include low interest rates, extended repayment terms and forgiveness clauses.

DEFINITION

.03 For the purposes of this Section, a **loan receivable** is a financial asset of a government (the lender) represented by a promise by a borrower to repay a specific amount, at a specified time or times, or on demand, usually with interest.

.04 The term "loan" refers to both loans and advances.

.05 A loan receivable is a financial asset as defined in the GLOSSARY of FINANCIAL STATEMENT PRESENTATION, Section PS 1202. Key to the definition is the fact that financial assets provide resources to discharge existing financial liabilities or spend on future operations. Many of the accounting issues related to government loans receivable hinge on this aspect of the loan receivable definition. [Former paragraph PS 3050.05, amended by FINANCIAL STATEMENT PRESENTATION, Section PS 1202, retained in Archived Pronouncements.] [Former paragraph PS 3050.05, amended by the Conceptual Framework, retained in Archived Pronouncements.]

.06 A "borrower" may be an individual, an organization (including a corporation), or another government.

.07 The terms of a loan agreement describe when a loan is due. The terms may specify a calendar date or dates for repayment, or may describe the particular time(s) or circumstance(s) that will determine repayment. For example, repayment may be contingent on future events, such as commodity prices or operating results. As well, a loan could be repayable on demand, or it could become repayable on demand if the borrower is in contravention of the terms of the loan agreement.

.08 Most loans have a stated interest rate. However, some loans earn a return because the cash disbursed to the borrower is less than the amount that has to be repaid. The lender effectively earns a return, even though there is no stated interest rate.

.09 All or part of some "loans" that governments make do not meet the definition of a loan receivable because they are not, in substance, financial assets. They include loans issued by governments in the expectation that they will be repaid through future government funding to the borrower, loans with forgivable conditions and loans with significant concessionary terms.

LOANS TO BE REPAID THROUGH FUTURE APPROPRIATIONS

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

.11 Governments sometimes make loans to borrowers that will be recoverable only through future appropriations from the government to the borrower. The effect of the individual loan transaction on the government's funding to the borrower is the key in determining how to account for these loans.

.12 If a direct relationship can be established between the government assistance given to a borrower and repayment of the loan, the loan does not meet the definition of a financial asset. The government would not receive any resources from the loan transaction that could be used to discharge existing financial liabilities or spend on future operations. Such transactions are in the nature of grants, and should be accounted for as expenses in accordance with GOVERNMENT TRANSFERS, Section PS 3410. [Former paragraph PS 3050.12, amended by FINANCIAL STATEMENT PRESENTATION, Section PS 1202, retained in Archived Pronouncements.]

.13 A direct relationship would exist if the government assists the borrower to repay the loan through:

(a) specific repayment grants; or

(b) increases in existing government assistance as a result of the loan.

There may be other financing arrangements that, in substance, result in a direct relationship between the repayment of a loan and the government's assistance to the borrower.

.14 Financial dependence alone may not be sufficient evidence that a direct relationship exists between the repayment of a 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, the government will get back funds from the borrower, through repayment of the loan, that it would not have received otherwise. The borrower would manage its loan repayments within the funding it received before the loan from the government existed. In such circumstances, the loan transaction could be recorded as a financial asset.

.15 If the government assistance provided to a borrower is consistent with that provided to similar organizations which have not received government loans, this may be evidence that a direct relationship does not exist and that the loan is a financial asset.

.16 To ensure that expenses are not overstated in future years, repayments received on loans or portions of loans, which have been treated as grants, should be offset against the related expenses.

FORGIVABLE LOANS

.17 *When an amount is advanced with forgivable conditions, it should be accounted for as a grant unless it meets the definition of a loan receivable and there is sufficient evidence of a reasonable expectation of its recovery.* [APRIL 1993]

.18 A forgivable loan is one which includes, in the terms of the loan agreement, conditions under which the principal and any accrued interest would be forgiven. A conditional grant is one that may be recoverable because it has conditions that can trigger repayment. Conditional grants should be accounted for in accordance with GOVERNMENT TRANSFERS, Section PS 3410.

.19 The difference between a forgivable loan and a conditional grant lies in the program objective(s), the expectation of recovery of the funds issued, and the terms of the underlying agreement(s).

(a) The nature and objectives of a particular loan program may give some indication of the government's intentions and expectation of recovery:

(i) If the government expects to be repaid, except under specific conditions, the amounts may be more in the nature of loans. The government has financial assets until the loans are forgiven.

(ii) If, on the other hand, the government advances funds and doesn't expect to be repaid unless certain conditions are not met, the amounts may be more in the nature of grants. The government does not have financial assets unless unexpected future events occur.

The key is whether it is repayment, or forgiveness, that is contingent on a future event.

(b) Evidence that the transaction is operating as a loan in the period before forgiveness would support the government's stated program intentions and expectation of recovery. The terms of the loan program may provide such evidence. If interest is payable on the amounts outstanding, and/or repayments are due, from the date the funds are advanced, the amounts are forgivable loans. If interest and repayments are not due unless recipients fail to meet certain conditions, the transactions are more in the nature of conditional grants.

LOANS WITH SIGNIFICANT CONCESSIONARY TERMS

.20 *When the terms of a loan are so concessionary that the substance of the transaction is that all or a significant part of the loan is more in the nature of a grant, the grant portion of the transaction should be recognized in the statement of operations as an expense when the loan is made.* [APRIL 1993 *]

.21 Loans with significant concessionary terms at the date of issue require particular consideration because of their nature. The terms of the loan may be such that some or all of the amount advanced is more in the nature of a grant. For example, this may be the case when the interest rate on a loan is significantly below the government's average cost of borrowing at the date of issue.

.22 Loans with significant concessionary terms should be accounted for based on the substance of the transaction. If all or a portion of the loan transaction is considered to be more in the nature of a grant, because of concessionary terms given when the loan is made, that grant portion should be accounted for as a grant in accordance with GOVERNMENT TRANSFERS, Section PS 3410. The net remaining balance of the transaction would be accounted for as a discounted loan in accordance with this Section.

.23 Present value techniques would be used to quantify the portion of a loan transaction that is, in substance, a grant. The government's average borrowing rate may be appropriate to use as the discount rate in determining the present value of the loan. The grant portion would be the difference between the face value of the loan and its present value.

.24 *The recorded value of the loan at the date of issue should be its face value discounted by the amount of the grant portion. The amount of the loan discount should be amortized to revenue in a rational and systematic manner over the term of the loan.* [APRIL 1993]

.25 The loan discount is amortized using the effective interest rate method. The amortization of the discount would be recorded as an increase in the loan balance and a credit to revenue. [Former paragraph PS 3050.25 retained in Archived Pronouncements.]

RECOGNITION

.26 *A loan receivable should be recognized on a government's statement of financial position when:*

(a) the government assumes the risks associated with, and acquires the right to receive, repayment of principal and any related payments of interest; and

(b) the amount of the loan can be measured in a way that faithfully represents the transaction.

This normally coincides with the disbursement of funds, exchange of other assets, or assumption of liabilities. [APRIL 1993*] [Former paragraph PS 3050.26, amended by the 2024-2025 Annual Improvements, retained in Archived Pronouncements.]

.27 In most cases, a government assumes the risks 3 and the repayment and interest rights associated with a loan when it disburses the funds to the borrower, or exchanges other assets, or assumes liabilities. At that point, the government has a financial asset because it has the contractual right to receive cash from the borrower at a future date. [Former paragraph PS 3050.27 retained in Archived Pronouncements.]

.28 *A loan receivable should be removed from a government's statement of financial position when it has been repaid, the risks and rewards associated with the loan have been transferred, the right to repayment has expired or been waived, or it is written off.* [APRIL 1993]

.29 A loan is generally extinguished, and removed from the statement of financial position, when the principal is repaid in accordance with the terms of the loan agreement. The risks and rewards could also be transferred in a sale or exchange, or repayment of principal and/or interest could be waived. As well, if the amount of a loss associated with a loan is known with sufficient precision, the loan would be written down or written off. In the case of a forgivable loan, when the borrower meets the forgiveness conditions, the outstanding principal and accrued interest would be removed from the statement of financial position.

VALUATION

.30 *Loans receivable should be initially reported on a government's statement of financial position at cost. Valuation allowances should be used to reflect loans receivable at the lower of cost and net recoverable value.* [APRIL 1993]

.31 The cost of a loan receivable is the cash or value of other assets given up, or liabilities assumed in the loan transaction, except as follows:

(a) The cost of a significantly concessionary loan, when issued, is the discounted value of the loan after the grant portion has been charged to expenses. That cost would be adjusted to reflect the amortization of the discount over the term of the loan.

(b) When it has been established that a portion of a loan will be repaid through future appropriations, the cost of that loan would be the reduced value of the loan transaction after the grant portion has been charged to expenses.

.32 Valuation allowances for loans should be used to reflect collectibility and risk of loss. That assessment can be done on an individual loan basis, or for a particular class of loans. In certain situations, it is not cost-effective to carry out a review of collectibility or risk of loss on a loan-by-loan basis. For example, loans may be assessed collectively because the class of loans consists of a large number of relatively small dollar-value loans. The estimate of potential uncollectibility or risk of loss could be based, for example, on historical experience with similar types of loans, or economic conditions facing the borrowers.

.33 The valuation allowance should also be used to reflect a provision for expected forgiveness of an individual loan or a particular class of loans. For example, if a class of loans carries standard forgiveness conditions, it may be possible to estimate a provision for forgiveness based on experience with that class of loans.

.34 Valuation allowances 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 the preparation of the financial statements. The following factors might be considered in establishing a valuation allowance:

(a) recent collection experience for the loan (principal and interest);

(b) recent financial performance of the borrower;

(c) security held for the loan;

(d) factors known at the time of reporting that are likely to affect the borrower's ability to repay the loan in the future;

(e) economic conditions in the country or region in which the borrower operates; and

(f) conditions in the industry in which the borrower operates.

.35 *Loans receivable should be reported net of their related valuation allowances on a government's statement of financial position. Changes in valuation allowances should be recognized in expenses in the statement of operations.* [SEPT. 1997 *]

.36 The loans receivable balance is the cost of the loans initially recognized, adjusted for repayments received, amortization of loan discounts, write-downs or forgiveness. That balance should be reported net of related valuation allowances on the statement of financial position.

.37 When events or circumstances result in the expectation of a loss, it should be reflected through a valuation provision. A valuation provision is a change in the valuation allowance and is set up through a charge to the statement of operations and a credit to the valuation allowance. If a loan is provided for in a valuation allowance, in part or in total, and recovery of the loan is subsequently assessed as likely, the valuation allowance for the loan may be reduced.

WRITE-OFFS

.38 *When the amount of a loss is known with sufficient precision, and there is no realistic prospect of recovery, the loan receivable should be reduced by the amount of that loss.* [APRIL 1993]

.39 When a loss is considered probable, the loan receivable would be adjusted to the lower of its cost and its estimated net recoverable value through a valuation allowance. When the amount of a loss is known with sufficient precision and there is no realistic prospect of recovery, the loan receivable would be written down or written off to reflect the amount of that loss.

.40 Formal write-downs or write-offs of a loan are generally decisions that require approval through an Order in Council or the Treasury Board, or, in some jurisdictions, through an act, resolution, or by-law, which may take some time to accomplish. However, valuation allowances may not require the same approval process as write-offs.

.41 The net financial position is the same whether a loss is recognized by writing off all or part of the loan or by providing a valuation allowance. The use of the valuation allowance to provide for losses until a loan can be written off is an acceptable compromise to reflect a proper accounting value while adhering to the legislative process.

.42 Once all or a part of a loan has been written off, the write-off should not be reversed.

RECOGNITION OF INTEREST REVENUE

.43 *Interest revenue should be recognized on a loan receivable when earned. Interest revenue should cease to be accrued on a loan when the collectibility of either principal or interest is not reasonably assured.* [APRIL 1993]

.44 Revenues should be accounted for in the period in which the transactions or events occurred that gave rise to the revenues. Interest is earned over the term of a loan according to the terms of the underlying agreement. Therefore, interest revenue should be recognized from the date of initial loan recognition, which is usually the date the funds are disbursed to the borrower (or the date of the exchange of other assets or assumption of liabilities). [Former footnote 4 of paragraph PS 3050.44, deleted by FINANCIAL STATEMENT PRESENTATION, Section PS 1202, retained in Archived Pronouncements.]

.45 The total revenue on significantly concessionary loans is the contractual interest earned plus the amortization of the discount.

.46 Interest revenue should cease to be accrued when the collectibility of either principal or interest is not reasonably assured. Continuing to accrue interest in the financial statements under such circumstances would overstate revenue. Amortization of the loan discount for concessionary loans should also cease if the collectibility of either the principal or interest related to the loan transaction is not reasonably assured.

.47 When collectibility of the principal and interest is not reasonably assured, any previously accrued but uncollected interest, to the extent that its collection is doubtful, should either be provided for through a valuation allowance or written off in the financial statements. Reasonable assurance of collectibility means that there is sufficient and appropriate evidence that the loan will be recovered.

.48 Interest earned on loans recoverable only through future appropriations should be offset against the related expense.

LOAN RESTRUCTURING

.49 A loan agreement may be restructured before the end of its term. A loan restructuring usually involves some cost with respect to principal or interest previously accrued. A loan restructuring may be done when the borrower is having trouble meeting the terms of the original loan agreement. It may involve, for example, the forgiveness of a portion of the principal or interest in arrears, the deferral of interest payments, the extension of the term of the loan, the capitalization of interest, or a reduction in the interest rate with no change in the principal balance.

.50 A loan restructuring is, in substance, an exchange transaction in which the original loan is "settled" and replaced by a new loan agreement. Any related costs should be reflected as expenses in the statement of operations at the time of a loan restructuring so that future accounting periods will not be charged with these costs. A restructured loan should not be recorded on the statement of financial position at an amount exceeding what is reasonably expected to be recovered.

.51 *The costs of concessions in a loan restructuring, if any, relating to principal or interest previously accrued, should be recognized in the statement of operations as expenses at the time of a loan restructuring.* [APRIL 1993 *]

.52 *Interest should not be capitalized on the restructuring of a loan receivable unless its recovery over the term of the loan is reasonably assured.* [APRIL 1993]

DISCLOSURE

.53 DISCLOSURE OF ACCOUNTING POLICIES, paragraphs PS 2100.03 and PS 2100.09, states that a clear and concise description of all significant accounting policies of a government reporting entity that have been selected and applied to significant assets, liabilities, revenues and expenses, should be included as an integral part of its financial statements.

.54 *In describing the accounting policies selected by a government and applied to its loans receivable, governments should disclose:*

- *(a) the basis of initial valuation on the statement of financial position;*
- *(b) the policy with respect to valuation allowances, write-offs and recoveries; and*
- *(c) the policy for the recognition of interest revenue.* [APRIL 1993]

.55 Governments undertake various loan programs and, therefore, hold different classes of loans. The purpose of the additional disclosure requirements below is to provide sufficient information in the financial statements for readers to understand the nature and terms of those diverse classes of loans.

.56 *Government financial statements should disclose the nature and terms of significant classes of loans receivable, including:*

- *(a) the recorded cost, the related valuation allowance and the net recoverable value;*
- *(b) general terms and conditions of the loans receivable, such as:*
  - *(i) repayment terms;*
  - *(ii) interest terms;*
  - *(iii) a description of forgiveness and other conditions attached to the loans; and*
  - *(iv) security held for the class of loans; and*
- *(c) the amount of loans receivable outstanding in foreign currencies, the currencies in which such amounts are receivable, the Canadian dollar equivalents, and the basis of translation.* [APRIL 1993]

.57 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, the earning capacity of, and the costs associated with, a government's loan programs. The level of disclosure would also consider the sensitivity of the information in relation to the government's or the borrower's financial position.

.58 The outstanding loan balance for each significant class of loans receivable, the related valuation allowance and the net recoverable loan balance should be disclosed in the notes or schedules to the financial statements. Some governments might wish to provide this level of detail on the statement of financial position.

.59 Information about repayment terms and interest rates is important. They are indicators of expected interest revenue and cash flows, and indicators of the economic costs, or benefits, of holding loans. If a government holds a significant number of fairly small loans, either ranges of interest rates related to particular types of loans or a weighted composite rate could be disclosed. Whether a composite rate or a range of interest rates is more meaningful disclosure for a particular class of loans will depend on the mix of terms in that individual loan class. A composite rate would be more relevant, the more homogeneous the class of loans.

.60 Disclosure of information about the forgiveness and other conditions of a loan class, in addition to the interest and repayment terms, will assist readers in understanding the economic value and the earning capacity of the government's loans.

.61 In order to assess the government's exposure to currency fluctuations, the amount of loans outstanding in foreign currency should be identified. In addition, the information disclosed should include the currencies in which such amounts are receivable, the Canadian dollar equivalent, and the basis of translation.

EFFECTIVE DATE AND TRANSITIONAL PROVISIONS

.62 This Section applies to all loans receivable held by a government. If application of the Section results in a change of accounting policy, ACCOUNTING CHANGES, Section PS 2120, applies.

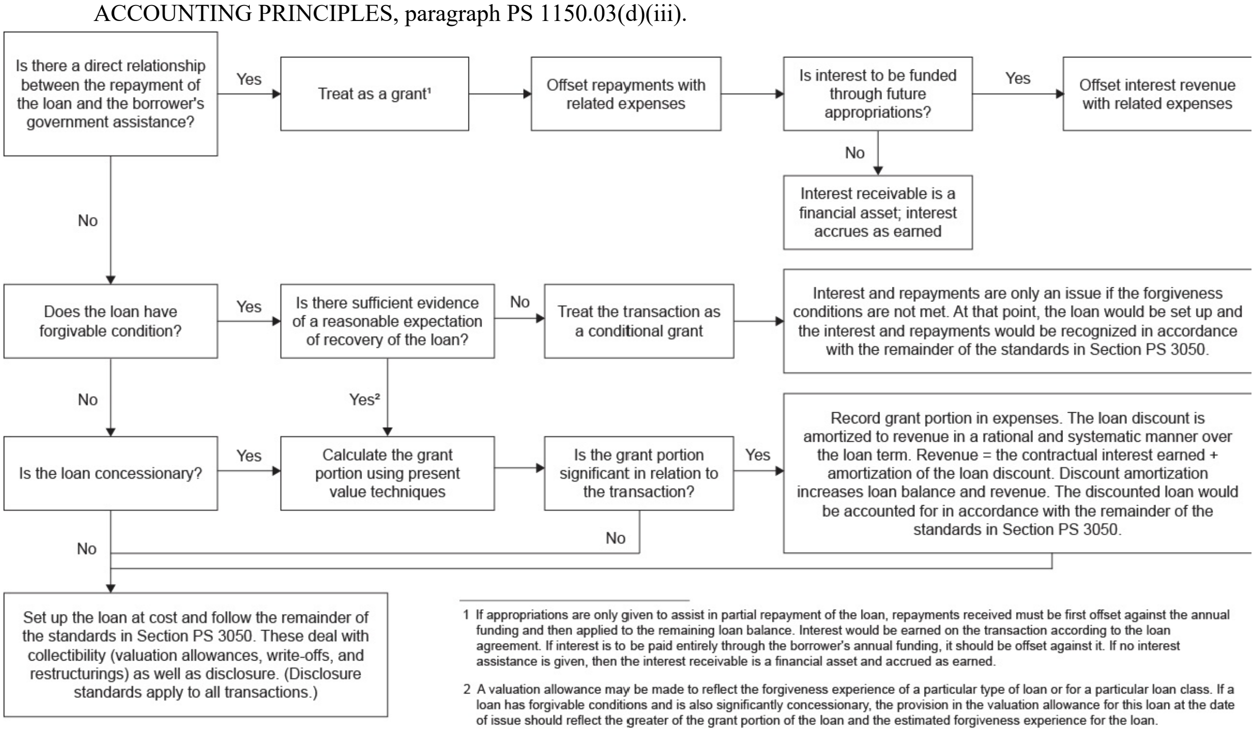
.63 The requirement to apply the effective interest method stated in paragraph PS 3050.25 applies in the period FINANCIAL INSTRUMENTS, Section PS 3450, is adopted.

.64 FINANCIAL STATEMENT PRESENTATION, Section PS 1202, issued in October 2023, amended paragraphs PS 3050.05, PS 3050.12 and PS 3050.44. The amendment is 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.

APPENDIX A

DECISION TREE — LOANS

The following decision tree has been prepared to illustrate the accounting specified in this Section. The decision tree is illustrative only and matters of principle relating to particular situations should be decided in the context of the Section. While illustrative, this Appendix is a primary source of GAAP, as identified in GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, paragraph PS 1150.03(d)(iii).



Footnotes

1. The term "financial statements" refers to the financial reports published by a government that present the financial position and changes in financial position of the government 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. The government reporting entity is defined in GOVERNMENT REPORTING ENTITY, Section PS 1300.

* Editorial change — March 2012.

* Editorial change — March 2012.

* Editorial change – November 2025.

3. The primary risk associated with a loan receivable is credit risk (i.e., the risk that principal and interest payments will not be received in accordance with the terms and conditions of the loan agreement), but there may also be interest rate risk or currency risk, depending on how the loan is structured.

* Editorial change — January 2003.

* Editorial change — March 2012 and June 2015.