

AAPP 114 ACT ACCOUNTING POLICY PAPER ON CONCESSIONAL LOANS

Chief Minister, Treasury and Economic Development Directorate

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1 INTRODUCTION

1.1 APPLICATION

1.1.1 Purpose

This ACT Accounting Policy Paper provides guidance on what a concessional loan is and addresses the accounting for concessional loans. The Paper looks at concessional loans from the perspective of a provider and of a recipient. It provides illustrative examples to outline how concessional loans are recognised and measured, and how the concessional loan discount expense is calculated and unwound periodically, as well as the required journal entries.

This policy is to be read in conjunction with the following:

- AASB 9 Financial Instruments;
- AASB 132 Financial Instruments: Presentation;
- AASB 13 Fair Value;
- AASB 1049 Whole of Government and General Government Sector Financial Reporting;
- ABS Government Finance Statistics (GFS) Manual;
- The Financial Management Act 1996 (FMA);
- The National Consumer Credit Protection Act 2009; and
- The Privacy Act 1988.

There is no intention that the ACT Accounting Policies will replicate the Accounting Standards, the FMA or other legislation. Consequently, agencies should ensure that they have a thorough understanding of the content of the standards and legislation before reading and applying relevant ACT Accounting Policies.

1.1.2 Application Date

This ACT Accounting Policy applies to reporting periods beginning on or after 1 July 2022. For agencies whose financial year ends on 30 June, this policy is applicable to financial years ending on or after 30 June 2023. For agencies whose financial year ends on 31 December, this policy is applicable to financial years ending on or after 31 December 2023.

1.1.3 Agencies Covered by this Policy

This policy applies to ACT Government Agencies, that is directorates and Territory authorities.

1.1.4 Contact

If you have any questions regarding this Policy, contact the Financial Reporting and Framework (FRF) Branch in Treasury to provide further clarification. Contact details are listed on the Accounting in the ACT Government website: <u>https://www.treasury.act.gov.au/accounting</u>.

1.1.5 Application of Policy

Requirements of this policy are included in **bold** text, with un-bolded text being background information/commentary.

2 BACKGROUND

2.1 DEFINITION OF A CONCESSIONAL LOAN

A concessional loan (or concessionary loan) is a loan (i.e. an amount expected to be repaid) provided by the government to:

- businesses;
- private sector not-for-profit entities (eg private schools, religious organisations);
- households; and
- government;
 - for example, loans provided to ACT Government Agencies by the Environment, Planning and Sustainable Development Directorate from the Zero Emissions Government Fund (formally known as the Carbon Neutral Government Fund). Refer to Section 5 and <u>Attachment D</u> for further information;

on more favourable terms and conditions than those that would be available to the borrower in the general lending market. Favourable terms may include:

- a discounted or zero interest rate when determining whether the interest rate has been discounted it is necessary to compare the interest rate provided to the borrower through the concessional loan with the interest rate the borrower could obtain in the marketplace for a similar type of loan. This assessment needs to occur at the time the loan is provided.
- longer repayment periods when determining whether a borrower has received a longer repayment period, it is necessary to compare the repayment period provided to the borrower through the concessional loan with the repayment period the borrower could obtain in the marketplace for a similar type of loan.
- *loan repayments that are income contingent* this is where a borrower does not have to make any loan repayments until they earn a certain amount of income, and that borrower is not able to obtain a similar type of loan with this feature in the marketplace.
 For example, concessional loans could be provided to students to pay for their course fees and textbooks with repayment of the loans only required when the students finish their studies and are earning over a certain predetermined salary.
- deferred repayment terms (without incurring additional charges) when looking at deferred payment terms, it is necessary to determine whether any payment holiday is longer than what could be obtained by that borrower in the marketplace for a similar type of loan.
 For example, commercial providers in the marketplace may require borrowers to start making repayments at the commencement of the loan. If the government does not require borrowers to make any loan repayments for the first 36 months of the loan this would be considered a concessional loan.

A concessional loan scheme may involve one or more of the favourable terms mentioned above and determining whether they exist may require significant judgement.

Concessional loans are provided by the ACT Government to achieve particular policy objectives and there are a number of schemes that have already been implemented, for example for cladding remediation and the purchasing of environmentally sustainable products. The ACT Government will determine the areas in which it is appropriate for agencies to provide concessional loans.

ACT Government agencies providing a concessional loan will be responsible for the framework/policy. This would include features such as the application period, application requirements, eligibility criteria, terms and conditions of the loans as well as establishing an evaluation framework.

Example 1 – 'Concessional Construction Loan Scheme'

Part A

The 'Burley Griffin Agency' will run a 'Concessional Construction Loan Scheme' which will provide interest free loans to Not-for-Profit Non-Government Organisations (NFP NGOs) to achieve the 'Burley Griffin Agency's' strategic policy objectives. Repayments will be made annually commencing in year one. If the NFP NGOs were to obtain a similar loan for the construction of housing accommodation in the commercial market then they would have to pay interest at a rate of 5% pa. As such, these would be considered to be concessional loans.

The 'Burley Griffin Agency' has determined that the contractual terms and conditions of the scheme will be:

- the loan application process will run for a period of 6 months. This will be made up of 2 months for organisations to apply, 3 months for the applications to be assessed and 1 month to let applicants know the outcome of the application process and for the completion of loan documentation;
- applicants must be not-for-profit (NFP) non-government organisations (NGOs) which are recognised providers of housing accommodation;
- applicants must provide a 'Loan Scheme Proposal' outlining the details of their plan and complete a loan application form with all the supporting documents attached;
- applicants must be operating on a going concern basis and have sufficient liquidity to meet their financial obligations. Financial data, including the most recent set of Financial Statements, must be provided as part of the application process to assist 'Burley Griffin Agency' in determining whether the NFP NGOs have sufficient liquidity to repay the loan and to also assess any expected credit loss allowance;
- financial data must also be provided at the end of each financial year to assist 'Burley Griffin Agency' in assessing any change to their expected credit loss allowance;
- loans will run for 20 years;
- no interest will be charged for the duration of the loans;
- funds must be used for the construction of housing accommodation;
- construction of the accommodation cannot take longer than 3 years; and
- the accommodation must be constructed in the ACT.

2.2 CONCESSIONAL LOAN CONSIDERATIONS

Each loan scheme will be subject to contractual terms and conditions, including financial parameters (such as interest rates and security taken against the loan), an application period, application requirements, eligibility criteria, and evaluation plans to ensure the use of the funds align with the scheme's objectives. These conditions will generally be set by the applicable ACT Government Agency with policy responsibility for the scheme. As part of setting up a Concessional Loan Scheme agencies should:

- consider the potential number of applicants, loan values, default rates, interest rates, and demand profile;
- establish effective funding arrangements when providing loan amounts to borrowers that include ensuring timely and accurate payments are made;
- ensure they have robust procedures and policies in place to ensure all funding conditions are met before any payments are made: and
- where a loan administrator is used, agencies will need to decide whether their fee should be paid as a fixed fee upfront (for the delivery of a set number of loans) or as a fee per loan (or could be per application assessed/approved). While an upfront fixed fee approach is simpler to administer, it could be relatively costly if the scheme receives a lower-than-expected number of applications.

2.3 CONCESSIONAL LOANS AND FINANCIAL ASSETS

A financial asset is defined in AASB 132 para 11, see the extract below:

- A financial asset is any asset that is:
 - (a) cash;
 - (b) an equity instrument of another entity;
 - (c) a contractual right:
 - (i) to receive cash or another financial asset from another entity; or
 - *(ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.*

Concessional loans involve a contractual right to receive cash from another party and therefore meets the definition of a financial asset in paragraph 11(c)(i) above. A concessional loan provided by an agency is recognised as a loan receivable where the principal is recovered by an agency over the life of the loan, along with any interest charged.

2.4 STRUCTURE OF CONCESSIONAL LOAN SCHEMES

A concessional loan scheme can be structured in different ways which can have legal and accounting implications.

2.4.1 Legal Considerations

It is strongly advised that Agencies liaise with the ACT Government Solicitor (ACTGS) early in the process of considering the establishment of any Concessional Loan Scheme to ensure they have a clear understanding of the risk and most appropriate legal framework for the loan scheme. The ACTGS (or an external legal firm) will need to provide the necessary legal advice before finalising the design of the Concessional Loan Scheme.

It is important to note that loan schemes offered by the Territory can be impacted by the provisions of the FMA, the *National Consumer Credit Protection Act 2009* (including the National Credit Code established under that Act) and the *Privacy Act 1988*. The National Credit Code places onerous obligations on lenders who make loans that come within the code and the Agency would need to ensure it was able to meet those obligations efficiently and effectively if it were to consider offering loans directly, rather than via a 'External Third-Party Loan Administrator'. The Privacy Act places restrictions on the Territory's ability to access credit reporting information, which would likely impact the Territory's ability to undertake credit assessments as part of any loans it sought to offer directly to individuals.

In addition, when structuring a Concessional Loan Scheme, it may be necessary to consider whether there is a need for specific legislation for the loan scheme or to establish a fully securitised loan structure with a third-party trustee. Where the Territory is providing the capital funds for the loan scheme to an 'External Third Party Loan Administrator', careful consideration needs to be given to the security arrangements for the Territory's capital funds held by that 'External Third Party Loan Administrator' (including the use of a fully securitised loan structure with a third party trustee) noting these loan providers will often be non-bank private lenders that are not subject to the same level of regulation and oversight as banks.

2.4.2 Accounting Considerations

The structure of the scheme will determine its accounting treatment and therefore the strategic finance areas within agencies need to understand the structure of the Concessional Loan Scheme. Notwithstanding the requirement for agencies to seek legal advice on the appropriate structure, this policy provides some indication of various accounting treatments using examples of structures:

- 'Concessional Loan Schemes that result in Concessional Loans' (Category 1); and
- schemes which have similar Characteristic as Concessional Loan Schemes but are <u>not</u> accounted for as Concessional Loans' (Category 2).

Category 1 – Examples of Concessional Loan Schemes that Result in Concessional Loans being Provided by an ACT Government Agency

 Example 1 – All Aspects of the Concessional Loan Scheme are Undertaken by an ACT Government Agency¹

Under this scenario, an ACT Government Agency:

 designs the loan scheme and determines the policies under the scheme, including the purpose, eligibility criteria, term and the interest rate of the loans etc;

¹ Agencies should be aware that providing loans direct to borrowers would likely be a significant and costly task in establishing the necessary systems, policies, procedures and staff to offer and administer the loans in its own right in accordance with the Credit Code. In addition, under the *Privacy Act 1988* it is unlikely that an Agency would be able to access credit information in relation to individuals in order to assess the credit worthiness of those individuals.

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- receives government appropriation (where approved through the budget process) given it is responsible for funding the concessional loans and issuing those loans directly to borrowers;
- recovers principal repayments and interest payments (where applicable) directly from borrowers over the life of the loan;
- o assumes all the risk of default in relation to the loans; and
- administers and manages the concessional loan scheme on a day-to-day basis using their own staff.

Typically this arrangement would result in a loan receivable being taken up by the Agency, and measured on a discounted cash flow basis as outlined in Section 4.1.4 below.

Where an agency has received capital injections to fund these concessional loans to third parties, and the agency receives principal and interest (where applicable) repayments from the borrowers over the life of the loan, then these repayments must be returned to the Territory Banking Account by the agency. For further information refer to Section 2.5 below.

• Example 2 – The Territory directly engages an 'External Third Party Loan Administrator' (eg a Bank) to provide loans directly to borrowers, with the loans funded by the ACT Government Agency

Under this scenario, an ACT Government Agency:

- designs the loan scheme and determines the policies under the scheme, including the purpose, eligibility criteria, term and interest rate of the loans etc;
- receives government appropriation (where approved through the budget process) given it is responsible for providing the capital for the loans by way of a loan to the 'External Third-Party Loan Administrator'; and
- o assumes all the risk of default in relation to the loans.

The 'External Third-Party Loan Administrator':

- o provides loans directly to borrowers;
- recovers principal repayments and interest payments (where applicable and in accordance with any Territory requirements) directly from borrowers over the life of the loan; and
- o administers and manages the loan scheme on a day-to-day basis.

Typically, this arrangement would result in a loan receivable being taken up by the Agency and measured on a discounted cash flow basis as outlined in Section 4.1.4 below.

Where an agency has received capital injection to fund these concessional loans to third parties, and the agency receives principal and interest (where applicable) repayments from the 'External Third-Party Loan Administrator' over the life of the loan, then these repayments must be returned to the Territory Banking Account by the agency. For further information refer to Section 2.5 below.

- Example 3 The Territory utilises a Securitised Loan Structure for the Provision of the Loans. Under this scenario, an ACT Government Agency:
 - designs the loan scheme and determines the policies under the scheme, including the purpose, eligibility criteria, term and interest rate of the loans etc;
 - receives government appropriation (where approved through the budget process) as the agency is responsible for providing the funds required for provision of the loans to the trustee of a securitised trust in accordance with the terms of a promissory note. The funds are generally provided to the trustee as the trustee approves loans to the applicants. Note, however, that where the total amount of the funds expected to be used in the loan scheme are provided to the trustee all in one go at the commencement of the scheme (i.e. before loans are approved) this may result in a different accounting treatment to where they are provided as each loan is approved.

The trustee is then bound to repay the loan to the Territory, with interest (if applicable); and

 \circ is responsible for payment of fees to the trustee for the provision of their services.

The trustee:

- enters into agreements with the 'External Third-Party Loan Administrator' to issue and administer the scheme loans in accordance with the terms of the scheme as determined by the Territory; and
- $\circ~$ is the beneficial owner of the loans issued by the 'External Third-Party Loan Administrator'.

The 'External Third-Party Loan Administrator':

 collects capital and interest payments (as applicable) and those funds are paid to the trustee who then utilises those funds to meet its repayment obligations to the Territory under the promissory note. This arrangement provides the Territory with the maximum security for the capital it provides for the loans.

Where an agency has received capital injections to fund these concessional loans to third parties, and the agency receives principal and interest (where applicable) repayments from the trustee over the life of the loan, then these repayments must be returned to the Territory Banking Account by the agency. For further information refer to Section 2.5 below.

Where a securitised loan structure is used, agencies should discuss the arrangement with the FRF Branch to determine how to account for the arrangement.

Category 2 – Examples of Schemes which have similar Characteristic as Concessional Loan Schemes but who's Loans are <u>not</u> Accounted for as Concessional Loans

• Example 4 - An 'External Third-Party Loan Administrator' (e.g. a bank) Funds and Provides Loans Directly to Borrowers

Under this scenario, an ACT Government Agency:

 designs the loan scheme and determines the policies under the scheme, including the purpose, eligibility criteria, term and interest rate of the loans etc;

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- pays the difference between the market interest rate and the concessional interest rate to the 'External Third-Party Loan Administrator' for each loan;
- pays any administration fees levied by the 'External Third-Party Loan Administrator' for providing their services; and
- may provide a financial guarantee for defaults in relation to the loans.

The 'External Third-Party Loan Administrator':

- is responsible for funding the concessional loans;
- o provides loans directly to borrowers;
- recovers principal repayments and interest payments (where applicable) directly from borrowers over the life of the loan in accordance with the Territory scheme; and
- o administers and manages the concessional loan scheme on a day-to-day basis.

Typically, this arrangement is more akin to an Interest Subsidy Scheme rather than a Concessional Loan Scheme and as such would not result in a loan receivable being recognised by the Agency. Instead, the Agency would recognise a financial liability for the interest rate difference payable to the 'External Third-Party Loan Administrator' measured on a discounted cash flow basis.

• Example 5 – Concessional Loan Scheme Undertaken by an ACT Government Agency where the Repayment of the Loans are Voluntary

Under this scenario, an ACT Government Agency:

- designs the loan scheme and determines the policies under the scheme, including the purpose, eligibility criteria, term and interest rate of the loans etc;
- is responsible for funding the concessional loans and issuing those loans directly to borrowers;
- $\circ\;$ collect the funds, where principal repayments (and interest payments where applicable) are made; and
- o administer and manage the concessional loan scheme on a day to day basis.

Given the repayment of the loan is voluntary, the ACT Government Agency does not have to enforce repayment by the borrowers.

This arrangement is more akin to a Grant Program rather than a Concessional Loan Scheme and as such it would not result in a loan receivable being recognised by the Agency instead the payment should be recognised as a grant expense.

Where some of this funding is repaid it is recorded as income when the recovery is received.

Where an agency has received capital injection to fund these concessional loans to third parties, and the agency receives principal and interest (where applicable) repayments from the borrowers over the life of the loan, then these repayments must be returned to the Territory Banking Account by the agency. For further information refer to Section 2.5 below.

| Characteristic | Category 1 - Concessional LoanCatSchemes that Result in Concessional LoansSchemesLoansSimilar as a C Loan SLoansCatExampleExampleExampleExampleExampleExample | | | Catego Schem Similar Cha as a Con Loan Scho do not F Concessio Example | Category 2 – Schemes with milar Characteristic as a Concessional oan Schemes that do not Result in concessional Loans kample Example | |
|---|--|--------------------|-----------------------|---|---|--|
| | 1 | 2 | 3 | 4 | 5 | |
| ACT Government Designs and Sets Loan Policies | \checkmark | \checkmark | \checkmark | \checkmark | \checkmark | |
| ACT Government Responsible for Funding | \checkmark | \checkmark | \checkmark | x | \checkmark | |
| ACT Government Issues Loans Directly to Borrowers and Directly Recovers Repayments | \checkmark | × | × | × | \checkmark | |
| Repayment of the Loan is Voluntary (i.e. it is not compulsory under the Loan Scheme that repayment of the Principal is made) | x | x | x | × | \checkmark | |
| ACT Government Administers Scheme on a Day-to-Day Basis | \checkmark | x | x | x | \checkmark | |
| ACT Government Bears Risk of Default | \checkmark | \checkmark | \checkmark | √/× | \checkmark | |
| A Securitised Trust is used with the Trustee being the beneficial owner of the loans issued by the 'External Third-Party Loan Administrator' | × | × | \checkmark | × | × | |
| Accounting | Loan Receivable | Loan Receivable | Contact FRF Branch | Financial Liability | Grant Expense | |

Table 1 – Summary of Characteristics of Differently Structured Concessional Loan Schemes

Example 1 – 'Concessional Construction Loan Scheme' – Continued

Part B

'Burley Griffin Agency' has structured the 'Concessional Construction Loan Scheme' so that it is responsible for funding the concessional loans. 'Burley Griffin Agency' funds the capital for the concessional loans by way of a loan to the 'Example Bank'. 'Example Bank' then provides loans directly to borrowers and recovers principal repayments directly from borrowers over the life of the loan. Therefore 'Example Bank' will manage the issue and collection of concessional loans on a day to day basis on behalf of the Agency.

Even though 'Example Bank' is administering the loans, 'Burley Griffin Agency' will require two staff to assist in coordinating and reporting on the Concessional Loan Scheme.

'Burley Griffin Agency' has assumed all the risk of default in relation to the loans.

2.5 FUNDING OF CONCESSIONAL LOANS

Where funding for a concessional loan scheme is being sought through the budget process:

• in almost all cases the amount required for the concessional loans themselves will be appropriated as Capital Injection funding.

Capital Injection funding should be appropriated from the Territory Banking Account (TBA) to an agency for the provision of concessional loans. This is because the definition of capital injection in the FMA states that it is an appropriation that should be provided to agencies for the purchase of assets to be held or owned by the agency. In the case of concessional loans, once the amount of the loan is provided to the borrower it will most likely become a financial asset of the agency.

The agency receiving the appropriation will then provide that funding as concessional loans to a third party (ie borrowers/an 'External Third-Party Loan Administrator'/a trustee) under an enforceable loan agreement. The agency will be responsible for all the concessional loan accounting for the loans being provided to the third party (eg borrower). When the agency then receives principal and interest (where applicable) repayments from the third party (eg borrower) over the life of the concessional loan, this money must be returned to the TBA in the form of a capital distribution to owner (i.e. distribution to government). This distribution back to the TBA which will include both the principal and interest received by the agency is to be accounted for as equity. This is shown in the diagram below.





There may be rare cases where there is a formal Government decision to appropriate a repayable capital injection (instead of a capital injection) that results in a formal loan agreement between the Government (TBA) and the agency where all the appropriation must be repaid to the TBA Where this is the case given the repayable capital injection is provided on more favourable terms than those available to the agency in the general lending market, it should be accounted for by both the TBA and the agency as a concessional loan rather than as equity. This is shown in the diagram below.





• the amount for 'External Third-Party Loan Administrator' Fees and 'Staffing Costs', where applicable, should be appropriated as Controlled Recurrent Payment funding.

Controlled Recurrent Payment funding should be appropriated for the ongoing operational costs of a concessional loan scheme. This is because the definition of controlled recurrent payments in the FMA states that this appropriation should be provided to agencies for the delivery of goods and services provided by them or a person providing goods and services on behalf of them.

Example 1 – 'Concessional Construction Loan Scheme' – Continued

Part C

As part of the 20X0-X1 Budget Process, 'Burley Griffin Agency' has submitted a Business Case requesting capital injection funding of \$30 million for the total value of loans which it anticipates providing under the 'Concessional Construction Loan Scheme'. In addition, 'Burley Griffin Agency' has requested \$0.5 million per year in Controlled Recurrent Payment funding for the amount payable to 'Example Bank' for administering the loan scheme on behalf of the Agency. 'Burley Griffin Agency' also requested \$0.25 million in Controlled Recurrent Payment funding for the two staff that will coordinate and report on the Concessional Loan Scheme each year. 'Burley Griffin Agency's' Business Case was successful with all funding being approved.

When preparing a business case for budget funding for a concessional loan scheme agencies should undertake:

- a cost-benefit analysis to determine the economic benefits of providing the scheme;
- appropriate modelling to estimate the potential demand for the scheme; and
- risk analysis to understand the risks to Territory capital, scheme implementation and achievement of outcomes.

3 RECOGNITION OF A CONCESSIONAL LOAN

AASB 9 para 3.1.1 requires that agencies shall recognise a financial asset in their statement of financial position when they become a party to the contractual provisions of the instrument.

Concessional Loan Receivables are recognised as assets when the agency becomes a party to the contract and, as a consequence, has a legal right to receive cash. Generally, once the loan agreements are signed and the funding is provided to the borrower, the concessional loans can be recognised as a loan receivable (i.e. a financial asset).

As outlined in Section 2.4.2 Example 2, in some cases a Concessional Loan Scheme can be administered by a 'External Third-Party Loan Administrator' who provides loans directly to borrowers and recovers principal repayments and interest payments. Where this is the case, ACT Government agencies should generally recognise the concessional loans on their books as a Loan Receivable and account for the scheme in accordance with the requirements outlined in Section 4 below. This is because the substance of the arrangement is that the loans are being provided by the ACT Government Agency to borrowers and the 'External Third-Party Loan Administrator' is just facilitating the scheme between the two parties (i.e. they are just acting as a mailbox).

The payment of loan funds may or may not occur when the loan is approved. Where there is an extended lag between the inception of the loan and payment of loan funds, the recognition of a liability will be required.

Example 1 – 'Concessional Construction Loan Scheme' – Continued

Part D

The 'Burley Griffin Agency' received 50 applications for concessional loans under the scheme. Once all the applications were assessed by 'Example Bank', the 'Burley Griffin Agency' approved 10 applications with a total value of \$30 million. All the successful applicants were notified and agreed to enter into the loans. Once the contracts were signed and the funding provided, the 'Burley Griffin Agency' recognised these concessional loans on their balance sheet as loans receivable.

4 MEASUREMENT OF A CONCESSIONAL LOAN WHERE AN AGENCY IS PROVIDING THAT LOAN

4.1 INITIAL MEASUREMENT OF A CONCESSIONAL LOAN

Upon initial recognition, Concessional loans (i.e. loans receivable) are generally measured at fair value plus transaction costs (see AASB 9 para 5.1.1). Transaction costs are those costs that are directly attributable to the acquisition or issue of the concessional loans (for further information regarding transaction costs see Section 4.1.2 below).

Concessional loans will initially be measured at fair value plus transaction costs given that these loans are generally categorised as being measured at 'amortised cost' subsequent to initial recognition (see Section 4.2 below). Note, however, that in the rare case that concessional loans are categorised at 'Fair Value through the Profit and Loss' subsequent to initial recognition, then the loans fair value at initial recognition should be at fair value with transaction costs being immediately expensed.

4.1.1 Fair Value

Fair value is the price that would be received to sell an asset or pay to transfer a liability in an orderly transaction between market participants.

Fair value is a market-based measurement, used to estimate the price at which an orderly transaction to sell the asset would take place between market participants at the measurement date under current market conditions (i.e. an exit price).

Concessional loans should be measured under the 'income based approach' using a discounted cash flow model where future cash receipts are discounted at the prevailing market interest rate for a similar financial asset.

Given that concessional loans are provided at a below market interest rate, ACT Government Agencies will have to review publicly available commercial loan information or seek independent expert valuation advice to estimate an appropriate prevailing market interest rate.

The difference between the present value calculated using the concessional rate (face value) and the present value calculated using the market rate (fair value) is the discount implicit in the loan. This discount is recognised as a loss in accordance with AASB 9 para B5.1.2A(a). The loss is referred to as a 'Concessional Loan Discount Expense' and classified as a grant expense (see Section 6 for further information regarding classification).

Table 2 – Formula for Calculating the Discount Implicit in the Loan (loss recognised as a grant expense)

| Present value using Present value using the concessional rate <i>less</i> market rate (face value) (fair value) | equals | Discount implicit in the Loan (loss recognised as a grant expense) |
|---|--------|--|
|---|--------|--|

It is important to note that a loan that is repayable on demand is recognised at face value without discounting as the face value approximates fair value. This will result in a grant expense of zero.

4.1.2 Transaction Costs

Transaction costs are incremental costs that would not have been incurred if the ACT Government Agency had not acquired the financial asset. Examples of transaction costs that are directly attributable to the acquisition of a financial asset include:

- fees and commissions to agents, advisers, brokers and dealers (except those paid to 'External Third-Party Loan Administrators' see below);
- levies by regulatory agencies; and
- transfer taxes and duties.

Transaction costs do not include debt premiums or discounts, financing costs, or internal administrative or holding costs.

The fees paid to an 'External Third-Party Loan Administrator' for administering a Concessional Loan Scheme on behalf of an Agency are not considered a transaction cost, regardless of whether these fees are paid as a fixed fee upfront (for the delivery of a set number of loans) or as a fee per loan, since these costs are for providing a service rather than for the purchase of the asset.

4.1.3 Materiality Consideration

Where the nominal amount of Concessional Loans Receivable provided by an ACT Government Agency under a Concessional Loan Scheme are immaterial, then that Agency is encouraged, but not required, to calculate and recognise those loans at fair value plus transaction costs. In these cases, where an Agency chooses not to measure loans at their fair value plus transaction costs, they should be measured at their nominal value.

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Where an agency provides loans under a Concessional Loan Scheme, materiality should be determined on a Scheme basis. That is, based on the total amount of all individual concessional loans outstanding within a Concessional Loan Scheme(s).

4.1.4 Calculation using the Discounted Cash Flow Model

The discounted cash flow calculation will depend on how ACT Government Agencies structure their concessional loan scheme. The loan scheme may involve the borrower making:

- equal repayments throughout the loan with the breakdown between interest and principal varying ('equal repayments') – the repayments will comprise a higher proportion of interest at the commencement of the loan; or
- varying repayments decreasing over the life of the loan with the breakdown being varying interest and fixed principal ('varying repayments') the repayments will comprise a higher amount of interest at the commencement of the loan.

Where the interest rate for a concessional loan scheme is zero, there will not be any difference between these two methods. However, if interest is charged then these two methods will produce different results. The table below demonstrates this difference when a concessional interest rate of 2% is used.

Table 3 – The Value of the Loan Receivable and Discount Expense Using Two Different Calculation Methods

| Account | 'Equal Repayments' | 'Varying Repayments' |
|--|--------------------|-------------------------|
| Present Value of the Loan at the Concessional Rate | \$15,000,000 | \$15,000,000 |
| Loan Receivable on Initial Recognition | \$12,146,321 | \$12,219,165 |
| Concessional Loan Discount Expense (Grant Expense) | \$2,853,679 | \$2,780,835 |

For further details in relation to the two different calculations in the table above as well as the unwinding of the Concessional Loan Discount Expense for both calculations, refer to <u>Attachment A.1</u> for the 'Equal Repayments' and <u>Attachment B.1</u> for the 'Varying Repayments'.

Note that the examples used in the rest of the Paper are based on 'equal repayment' loans.

Borrower Required to Make 'Equal Repayments'

The first step is to calculate the annual payment of principal and interest associated with the loan (Step 1). The next steps are to calculate the present value of the annual payment at the market interest rate (Step 2) and at the concessional interest rate (Step 3). Note that the fair value of the Concessional Loan Receivable is the annual payment calculated using the market interest rate. The final step is to subtract the present value calculated using the concessional interest rate from the present value calculated using the market interest rate from the present value (Step 4).



Flow Chart 1 – Steps in Calculating the Concessional Loan Discount Expense

Part E

Loans are being provided under the 'Concessional Construction Loan Scheme' to NFP NGOs under the following conditions:

- Total loan amount is \$30,000,000;
- Loan Term is 20 years;
- Market Rate is 5%;
- Concessional Rate 0%;
- payment frequency is annually; and
- repayments commence at the end of year one.

Note in this example the repayment frequency is annually, however in situations where payments are made more frequently than annually (e.g. quarterly or monthly) then Column A in Table 5 below needs to be adjusted to reflect this. For example, if the 20 year loan was paid quarterly then Column A would need to include 80 periods.

Part E – Continued

Workings

Step 1

This step involves calculating the annual payment of principal and interest associated with the loan. This calculation is as follows:



* In order for the formula to return a result where the concessional rate is zero, a very small interest rate needs to be used. In this example a rate of 0.00000001% has been used.

The annual repayment of \$1,500,000 is included in Column B in Table 5 below.

Step 2

This step involves calculating the Present Value of the Loan using the Market Interest Rate. Refer to 'Table 5 – Calculation of Concessional Loan Receivable and the Loan Discount' Column C for the calculation of this step.

Step 3

This step involves calculating the Present Value of the Loan using the Concessional Interest Rate. Refer to *'Table 5 – Calculation of Concessional Loan Receivable and the Loan Discount'* Column D for the calculation of this step.

Step 4

This step involves calculating the 'Concessional Loan Discount Expense'. Refer to 'Table 5 – Calculation of Concessional Loan Receivable and the Loan Discount' Column E for the calculation of this step.

'Table 4 – Details of the Loan'

| Principal | Market Rate | Concessional Rate | Payment Frequency | Loan Term |
|--------------|-------------|-------------------|-------------------|-----------|
| (PR) | (MR) | (CR) | (PF) | (LT) |
| \$30,000,000 | 5.00% | 0.00% | 1 per year | 20 years |

| Capital Injection Appropriation (CI) | Controlled Recurrent Payment Appropriation (CRP) | Employee Expense (EE) | Administration Fee to 'Example Bank' (AF) |
|---|--|--------------------------|---|
| \$30,000,000 | \$350,000 per year | \$250,000 per year | \$100,000 per year |

Part E – Continued

| Α | В | С | D | E |
|----------|----------------------|---------------------------|------------------------------|--------------------------|
| Period | Annual Payment | Present Value at Market | Present Value at | Difference Between PV |
| (Annual) | (AP) | Rate per Annum (5.00%) | Concessional Rate per | at Concessional Rate and |
| | | | Annum (0.00%) | PV at Market Rate |
| | AP = (PR x (CR/PF))/ | C = B/(1+MR) ^A | D = B/(1+CR) ^A | E = D - C |
| | (1-(1+ CR/PF)^-LT | | | |
| 1 | 1,500,000 | 1,428,571 | 1,500,000 | 71,429 |
| 2 | 1,500,000 | 1,360,544 | 1,500,000 | 139,456 |
| 3 | 1,500,000 | 1,295,756 | 1,500,000 | 204,244 |
| 4 | 1,500,000 | 1,234,054 | 1,500,000 | 265,946 |
| 5 | 1,500,000 | 1,175,289 | 1,500,000 | 324,711 |
| 6 | 1,500,000 | 1,119,323 | 1,500,000 | 380,677 |
| 7 | 1,500,000 | 1,066,022 | 1,500,000 | 433,978 |
| 8 | 1,500,000 | 1,015,259 | 1,500,000 | 484,741 |
| 9 | 1,500,000 | 966,913 | 1,500,000 | 533,087 |
| 10 | 1,500,000 | 920,870 | 1,500,000 | 579,130 |
| 11 | 1,500,000 | 877,019 | 1,500,000 | 622,981 |
| 12 | 1,500,000 | 835,256 | 1,500,000 | 664,744 |
| 13 | 1,500,000 | 795,482 | 1,500,000 | 704,518 |
| 14 | 1,500,000 | 757,602 | 1,500,000 | 742,398 |
| 15 | 1,500,000 | 721,526 | 1,500,000 | 778,474 |
| 16 | 1,500,000 | 687,167 | 1,500,000 | 812,833 |
| 17 | 1,500,000 | 654,445 | 1,500,000 | 845,555 |
| 18 | 1,500,000 | 623,281 | 1,500,000 | 876,719 |
| 19 | 1,500,000 | 593,601 | 1,500,000 | 906,399 |
| 20 | 1,500,000 | 565,334 | 1,500,000 | 934,666 |
| TOTAL | 30,000,000 | 18,693,314 | 30,000,000 | 11,306,686 |

This results in:

- The total Annual Payments being \$30 million. This is the total amount that will be repaid to the 'Burley Griffin Agency' over the life of the loan scheme.
- Total Present Value of the Loan calculated using the Market Interest Rate is \$18.693 million. This is the amount initially taken up as the Concessional Loan Receivable.
- The total Difference Between Present Value at Market Rate and Present Value at Discount Rate is \$11.307 million. This is the amount initially taken up as the Concessional Loan Discount Expense (Grant Expense).

Journal Required on Initial Recognition

| DR/CR | Account Name | Amount |
|-------|--|------------|
| DR | Concessional Loan Discount Expense (Grant Expense) | 11,306,686 |
| DR | Loan Receivable (Concessional Loan) | 18,693,314 |
| CR | Cash | 30,000,000 |

4.2 MEASUREMENT OF A CONCESSIONAL LOAN SUBSEQUENT TO INITIAL RECOGNITION

4.2.1 Measurement of the Loan Receivable Subsequent to Initial Recognition

Subsequent to initial recognition, concessional loans are measured at either:

• Amortised Cost

Concessional loans are measured at amortised cost where they are held to collect contractual cash flows and the payments are solely principal and interest on specified dates (AASB 9 para 4.1.2).

Concessional loans held by ACT Government Agencies will generally meet the criteria for classification as financial assets measured at amortised cost. Refer to the 'Assessment' heading below (in this section);

- Fair Value through Other Comprehensive Income (FVOCI) Concessional loans are measured at FVOCI where they are held both to collect contractual cash flows and to sell financial assets, and the contractual terms only provide payments of principal and interest on specified dates (AASB 9 para 4.1.2A); or
- Fair Value through Profit or Loss (FVTPL) Concessional loans are measured at FVTPL where they do not meet the classification criteria for either held at amortised cost or FVOCI (AASB 9 para 4.1.4).

An agency shall subsequently measure financial assets at amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both:

- (a) the agency's business model for managing the financial assets; and
- (b) the contractual cash flow characteristics of the financial asset (AASB 9 para 4.1.1).

Agency's Business Model

This criterion relates to whether the objective of an agency's business model is to hold financial assets to collect contractual cash flows.

An agency's business model reflects how it manages its financial assets to generate cash flows and is reflected in the activities undertaken to achieve its objectives.

An agency's business model is determined at a level that reflects how groups of financial assets are managed and does not depend on management's intentions for an individual instrument. It is determined on a higher level of aggregation. However, a single agency may have more than one business model for managing its financial instruments. For example, an agency may hold a portfolio of investments that it manages to collect contractual cash flows and another portfolio of investments that it manages in order to trade to realise fair value changes. Consequently, classification need not be determined at the reporting agency level.

Agencies will need to use judgement in assessing its business model for managing financial assets. Agencies are encouraged to review Section 4.1 in Appendix B of AASB 9 for further guidance.

Contractual Cash Flow Characteristics

This criterion relates to whether the concessional loans are held solely for payments of principal and interest (SPPI) on specified dates, consistent with a basic lending arrangement. Principal is the fair value of the financial asset at the time of initial recognition and interest typically represents consideration for the time value of money and for the credit and other basic lending risks.

Contractual cash flows that are SPPI on the principal amount outstanding are consistent with a basic lending arrangement. In a basic lending arrangement, consideration for the time value of money (see paragraphs AASB 9 para B4.1.9A – B4.1.9E) and credit risk are typically the most significant elements of interest (AASB 9 para B4.1.7A).

Even though concessional loans can be interest free, the AASB 9 Basis of Conclusion allows such loans to meet the requirements of cash flows being the payment of solely principal and interest (SPPI), and as such, that these loans meet the requirement of cash flows being consistent with payments of solely principal and interest.

<u>Assessment</u>

Concessional loans held by ACT Government Agencies will generally meet the criteria for classification as financial assets measured at amortised cost. This is because:

- most ACT Government agencies have a business model whose objective is to hold financial assets to collect contractual cash flows. That is, they do not plan to sell their financial assets to recover their value; and
- ACT Government agencies generally hold concessional loans solely for payment of principal and interest. That is, concessional loans in the ACT Government generally have cash flows that are consistent with a 'basic lending arrangement'.

However, agencies are required to assess their Business Model and the contractual terms of the concessional loans to confirm that their concessional loans should be measured at amortised cost.

Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, invalidate the condition of SPPI on the principal amount outstanding.

Measuring the concessional loan at amortised cost subsequent to initial recognition will result in the discount applied in the calculation of the fair value being unwound over the life of the loan and recorded as an increase in the concessional loan receivable and increase in interest revenue (see Section 4.2.2, Example 1, Part F, *'Table 7 – Calculation of Amortised Cost'*).

4.2.2 Using Amortised Cost Subsequent to Initial Recognition

When measuring the concessional loan receivable using the amortised cost method, agencies should use the formula set out in Step 5 below.

Flow Chart 2 – Step Involved in Calculating the Concessional Loan Discount Receivable at the End of the Financial Year

| STEP 5 | |
|---|---|
| Amortised Cost Calculation | on |
| Concessional Loan Receivable at the End of the | Concessional Loan Receivable at the Beginning of the Financial Year + Income calculated using the effective interest rate method – Annual Payment – Expected Credit |
| Financial Year = | Loss Allowance |

Concessional Loan Receivable at the Beginning of the Financial Year

The initial balance of the concessional loan receivable at the commencement of the loan is calculated in STEP 2 in Section 4.1.4 above. After that, the concessional loan receivable at the beginning of the financial year will be the concessional loan receivable at the end of the previous financial year.

Revenue Calculated using the Effective Interest Rate Method

The Effective Interest Rate Method is a method of calculating the amortised cost of a financial asset and allocating the interest revenue over the relevant period using the effective interest rate. The effective interest rate is the rate that discounts the contracted principal and interest receipts over the expected life of the concessional loan back to the loan's gross carrying amount for loans that have not become credit impaired.

Concessional Lan revenue calculated using the effective interest rate method should be disclosed as 'Interest Revenue from Concessional Loans' in an agency's financial statements (refer to the ACT Model Financial Statements Note 7 'Investment and Interest Revenue' on the <u>Accounting in the ACT</u> <u>Government Website</u>).

The following calculation is provided to assist agencies in determining the amount of 'Interest Revenue from Concessional Loans' that they need to recognise and disclose. This calculation has been broken down into two elements as follows:

1. Interest Revenue Received

Interest Revenue Received is the amount of revenue an ACT Government Agency receives from the borrower, that is, it is the amount of interest the borrower must pay based on the concessional interest rate being charged under the concessional loan scheme.

The 'Interest Revenue Received' is calculated by starting with the 'Annual Payment' and subtracting the 'Principal Repayment'.

- For the calculation of the 'Annual Payment' refer to STEP 1 in Section 4.1.4 above.
- The 'Principal Repayment' is calculated by starting with the 'Balance at the Beginning of the Year based on the Concessional Rate' and subtracting the 'Balance at the End of the Year based on the Concessional Rate' (for calculation see Example 1, Part F, 'Table 7 – Calculation of Amortised Cost', Column S).

- For the calculation of the 'Balance at the Beginning of the Year based on the Concessional Rate' refer to Example 1, Part F, 'Table 7 – Calculation of Amortised Cost', Column Q.
- The 'Balance at the End of the Year based on the Concessional Rate' is calculated using the following formula where the concessional interest rate is greater than zero:

Formula 1 – Formula for the Calculation of the 'Balance at the End of the Year based on the Concessional Rate' where the Concessional Interest Rate is greater than Zero

'Balance at the End of the Year based on the Concessional Rate' = ('Balance at the Beginning of the Year based on the Concessional Rate' x (1 + 'Concessional Rate') ^ 'Payment Frequency') – 'Annual Payment' x (((1 + 'Concessional Rate') ^ 'Payment Frequency' - 1) / 'Concessional Rate')

For an example of the calculation see Attachment A Example A.1 Column R.

However, where the concessional rate is zero the above formula will not return a result, so agencies can simply use the following formula to calculate the 'Balance at the End of the Year based on the Concessional Rate':

Formula 2 – Formula for the Calculation of the 'Balance at the End of the Year based on the Concessional Rate' where the Concessional Interest Rate is Zero

'Balance at the End of the Year based on the Concessional Rate' = 'Balance at the Beginning of the Year based on the Concessional Rate' - 'Annual Payment'

For an example of the calculation see Example 1, Part F, 'Table 7 – Calculation of Amortised Cost', Column R.

2. Revenue from the Unwinding of Concessional Loan Discount Expense

Under amortised cost accounting, the Concessional Loan Discount Expense (Grant Expense) is unwound over the life of the Ioan. The unwinding of the expense should be recorded by ACT Government Agencies as an increase in the concessional Ioan asset and interest revenue (ie 'Revenue from the Unwinding of Concessional Loan Discount Expense').

The concessional loan discount expense (grant expense) was calculated by discounting the nominal amount of the loan, in the fair value calculation at initial recognition (see Section 4.1.4 above).

The 'Revenue from the Unwinding of Concessional Loan Discount Expense' is calculated by taking the value of the 'Revenue Calculated using the Effective Interest Rate Method' and subtracting the 'Interest Revenue Received'. For an example of the calculation see Example 1, Part F, 'Table 6 – Calculation of Loan Discount', Column J.

Annual Payment

For the calculation of the 'Annual Payment' refer to STEP 1 in Section 4.1.4 above.

Expected Credit Loss Allowance

For information about the 'Expected Credit Loss Allowance' refer to Section 4.3 below. For the methodology to calculate the '*Expected Credit Loss Allowance*' refer to <u>Attachment C</u> below.

Example 1 – 'Concessional Construction Loan Scheme' – Continued

Part F

Workings

Step 5

This step involves calculating the value of the concessional loan receivable subsequent to initial recognition using the amortised cost method.

| F | G | Н | I | J | К |
|----------|-----------------------|------------------|---------------|-------------------|-----------------|
| Period | Remaining Loan | Revenue | Interest | Revenue from the | Remaining Loan |
| (Annual) | Discount at the | Calculated using | Revenue | Unwinding of | Discount at the |
| | Beginning of the Year | the Effective | Received | Concessional Loan | End of the Year |
| | | Interest Rate | | Discount Expense | |
| | | Method | | | |
| | From Column E Total | From Column N | From Column T | J = H - I | K = G - J |
| | (Table 5) for Year 1 | (Table 7) | (Table 7) | | |
| | and Column K for | | | | |
| | Year 2 onwards | | | | |
| | | | | | |
| 1 | 11,306,686 | 934,666 | 0 | 934,666 | 10,372,020 |
| 2 | 10,372,020 | 906,399 | 0 | 906,399 | 9,465,621 |
| 3 | 9,465,621 | 876,719 | 0 | 876,719 | 8,588,902 |
| 4 | 8,588,902 | 845,555 | 0 | 845,555 | 7,743,347 |
| 5 | 7,743,347 | 812,833 | 0 | 812,833 | 6,930,514 |
| 6 | 6,930,514 | 778,474 | 0 | 778,474 | 6,152,040 |
| 7 | 6,152,040 | 742,398 | 0 | 742,398 | 5,409,642 |
| 8 | 5,409,642 | 704,518 | 0 | 704,518 | 4,705,124 |
| 9 | 4,705,124 | 664,744 | 0 | 664,744 | 4,040,380 |
| 10 | 4,040,380 | 622,981 | 0 | 622,981 | 3,417,399 |
| 11 | 3,417,399 | 579,130 | 0 | 579,130 | 2,838,269 |
| 12 | 2,838,269 | 533,087 | 0 | 533,087 | 2,305,182 |
| 13 | 2,305,182 | 484,741 | 0 | 484,741 | 1,820,441 |
| 14 | 1,820,441 | 433,978 | 0 | 433,978 | 1,386,463 |
| 15 | 1,386,463 | 380,677 | 0 | 380,677 | 1,005,786 |
| 16 | 1,005,786 | 324,711 | 0 | 324,711 | 681,075 |
| 17 | 681,075 | 265,946 | 0 | 265,946 | 415,129 |
| 18 | 415,129 | 204,244 | 0 | 204,244 | 210,885 |
| 19 | 210,885 | 139,456 | 0 | 139,456 | 71,429 |
| 20 | 71,429 | 71,429 | 0 | 71,429 | 0 |
| TOTAL | | 11,306,686 | 0 | 11,306,686 | |

'Table 6 – Calculation of Loan Discount'

This results in:

- The 'Remaining Loan Discount at the End of the Year' at the end of the concessional loan term is zero. This is because the loan needs to be fully repaid over the life of the loan.
- Total 'Interest Revenue Received' is \$0. This is because in this example the actual interest charged (concessional rate) is zero.
- The 'Revenue from the Unwinding of Concessional Loan Discount Expense' is \$11.307 million. This is the unwinding of the amount initially taken up as the Concessional Loan Discount Expense (Grant Expense).

Part F – Continued

Workings – Continued

'Table 7 – Calculation of Amortised Cost'

| L | М | N | 0 | Р | Q | R | S | Т |
|----------|-----------------------|---------------------|---------------|-------------------------|------------------|--------------------------|---------------------|------------------|
| Period | Concessional Loan | Revenue Calculated | Annual | Concessional Loan | Balance at the | Balance at the End | Principal Repayment | Interest Revenue |
| (Annual) | Receivable at the | using the Effective | Payment (AP) | Receivable at the End | Beginning of the | of the Year based | | Received |
| | Beginning of the Year | Interest Rate | | of the Year (calculated | Year based on | on the | | |
| | (calculated using the | Method | | using the market | the Concessional | Concessional Rate | | |
| | market interest rate) | | | interest rate) | Rate | | | |
| | From Column C Total | N = M x MR | From Column B | P = M + N - O | PR for Year 1 | R = Q - O | S = Q - R | T = O - S |
| | (Table 5) for Year 1 | | (Table 5) | | and Column R | | | |
| | and Column P for | | . , | | for Year 2 | | | |
| | Year 2 onwards | | | | onwards | | | |
| 1 | 18,693,314 | 934,666 | 1,500,000 | 18,127,980 | 30,000,000 | 28,500,000 | 1,500,000 | 0 |
| 2 | 18,127,980 | 906,399 | 1,500,000 | 17,534,379 | 28,500,000 | 27,000,000 | 1,500,000 | 0 |
| 3 | 17,534,379 | 876,719 | 1,500,000 | 16,911,098 | 27,000,000 | 25,500,000 | 1,500,000 | 0 |
| 4 | 16,911,098 | 845,555 | 1,500,000 | 16,256,653 | 25,500,000 | 24,000,000 | 1,500,000 | 0 |
| 5 | 16,256,653 | 812,833 | 1,500,000 | 15,569,486 | 24,000,000 | 22,500,000 | 1,500,000 | 0 |
| 6 | 15,569,486 | 778,474 | 1,500,000 | 14,847,960 | 22,500,000 | 21,000,000 | 1,500,000 | 0 |
| 7 | 14,847,960 | 742,398 | 1,500,000 | 14,090,358 | 21,000,000 | 19,500,000 | 1,500,000 | 0 |
| 8 | 14,090,358 | 704,518 | 1,500,000 | 13,294,876 | 19,500,000 | 18,000,000 | 1,500,000 | 0 |
| 9 | 13,294,876 | 664,744 | 1,500,000 | 12,459,620 | 18,000,000 | 16,500,000 | 1,500,000 | 0 |
| 10 | 12,459,620 | 622,981 | 1,500,000 | 11,582,601 | 16,500,000 | 15,000,000 | 1,500,000 | 0 |
| 11 | 11,582,601 | 579,130 | 1,500,000 | 10,661,731 | 15,000,000 | 13,500,000 | 1,500,000 | 0 |
| 12 | 10,661,731 | 533,087 | 1,500,000 | 9,694,818 | 13,500,000 | 12,000,000 | 1,500,000 | 0 |
| 13 | 9,694,818 | 484,741 | 1,500,000 | 8,679,559 | 12,000,000 | 10,500,000 | 1,500,000 | 0 |
| 14 | 8,679,559 | 433,978 | 1,500,000 | 7,613,537 | 10,500,000 | 9,000,000 | 1,500,000 | 0 |
| 15 | 7,613,537 | 380,677 | 1,500,000 | 6,494,214 | 9,000,000 | 7,500,000 | 1,500,000 | 0 |
| 16 | 6,494,214 | 324,711 | 1,500,000 | 5,318,925 | 7,500,000 | 6,000,000 | 1,500,000 | 0 |
| 17 | 5,318,925 | 265,946 | 1,500,000 | 4,084,871 | 6,000,000 | 4,500,000 | 1,500,000 | 0 |
| 18 | 4,084,871 | 204,244 | 1,500,000 | 2,789,115 | 4,500,000 | 3,000,000 | 1,500,000 | 0 |
| 19 | 2,789,115 | 139,456 | 1,500,000 | 1,428,571 | 3,000,000 | 1,500,000 | 1,500,000 | 0 |
| 20 | 1,428,571 | 71,429 | 1,500,000 | 0 | 1,500,000 | 0 | 1,500,000 | 0 |
| TOTAL | | 11,306,686 | 30,000,000 | | | | 30,000,000 | 0 |

Part F – Continued

<u>Journals</u>

| | <u>.</u> | | | | | | | | | | | | |
|------|--|-----------------|------------------|-----------------|-----------------|----------------|----------------|--------------|-------------|-----------|-----------|-----------|-----------|
| | Accounts | Column | | | | | | Year | | | | | |
| | | Reference | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| | | in Above | | | | | | | | | | | |
| | | Workings | | | | | | | | | | | |
| DR | Cash | | 30,000,000 | | | | | | | | | | |
| CR | Capital Injection Appropriation | CI | 30,000,000 | | | | | | | | | | |
| Jour | rnal to recognise the amount of Capital Ir | njection Appro | priation receive | ed at the com | mencement o | f the Concessi | onal Loan Sch | neme. | | | | | |
| | | | 44 200 000 | | | | | | | | | | |
| DR | Concessional Loan Discount Expense | E | 11,306,686 | | | | | | | | | | |
| DR | Loan Receivable (Concessional Loan) | С | 18,693,314 | | | | | | | | | | |
| CR | Cash | | 30,000,000 | | | | | | | | | | |
| Jour | rnal to recognise the concessional loan re | eceivable and t | the concessiona | Il loan discour | nt expense at t | he commenc | ement of the | Concessional | Loan Scheme | | | | |
| DR | Cash | | | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 |
| CR | CRP Appropriation | CRP | | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 |
| Jour | rnal to recognise the amount of Controlle | ed Recurrent P | ayment Approp | riation receiv | ed each year | of the Conces | sional Loan Sc | heme. | | | | | |
| | Cash | | | 1 500 000 | 1 500 000 | 1 500 000 | 1 500 000 | 1 500 000 | 1 500 000 | 1 500 000 | 1 500 000 | 1 500 000 | 1 500 000 |
| | Cash | c | | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 |
| CR | Loan Receivable (Concessional Loan) | 5 | | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 |
| CR | Interest Revenue Received | Т | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Jour | rnal to recognise the payment of principa | al and interest | received at the | end of each f | inancial year o | of the Concess | sional Loan Sc | heme. | | | | | |
| DR | Loan Receivable (Concessional Loan) | J | | 934,666 | 906,399 | 876,719 | 845,555 | 812,833 | 778,474 | 742,398 | 704,518 | 664,744 | 622,981 |
| CR | Revenue from the Unwinding of | J | | 934,666 | 906,399 | 876,719 | 845,555 | 812,833 | 778,474 | 742,398 | 704,518 | 664,744 | 622,981 |
| | Concessional Loan Discount Expense | | | | | | | | | | | | |
| Jour | rnal to recognise the increase in the Loan | n Receivable ea | ach year due to | the unwindin | g of the Conce | essional Loans | | | | | | | |
| | Freedower Freedower | | | 250.000 | 250.000 | 250.000 | 250.000 | 250.000 | 250.000 | 250.000 | 250.000 | 250.000 | 250.000 |
| | Administration Footo (Evenuelo Donk) | EE | | 250,000 | 250,000 | 250,000 | 250,000 | 250,000 | 250,000 | 250,000 | 250,000 | 250,000 | 250,000 |
| | Auministration Fee to Example Bank | AF | | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 |
| | Casn | | | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 |
| Jour | rnal to recognise the payment to employ | ees and to the | 'Example Bank | each year fo | r administerin | g the Concess | ional Loan Scl | heme. | | | | | |
| | | | | | | | | | | | | | |

Part F – Continued

<u>Journals</u>

| | Accounts | Column | Year | | | | | | | | | |
|--------|--|-----------------|-----------------|----------------|-----------------|----------------|-----------------|-----------|-----------|-----------|-----------|-----------|
| | | Reference | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 |
| | | in Above | | | | | | | | | | |
| | | Workings | | | | | | | | | | |
| DR | Cash | | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 |
| CR | CRP Appropriation | CRP | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 |
| Journa | al to recognise the amount of Controlled | Recurrent Pay | ment Approp | riation receiv | ed each year (| of the Conces | sional Loan Sc | heme. | | | | |
| | J. J | | | | , | | | | | | | |
| DR | Cash | | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 |
| CR | Loan Receivable (Concessional Loan) | S | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 |
| CR | Interest Revenue Received | т | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Journa | al to recognise the payment of principal a | and interest re | ceived at the | end of each fi | inancial year o | of the Concess | sional Loan Scl | neme. | | | | |
| | | | | | | | | | | | | |
| DR | Loan Receivable (Concessional Loan) | J | 579,130 | 533,087 | 484,741 | 433,978 | 380,677 | 324,711 | 265,946 | 204,244 | 139,456 | 71,429 |
| CR | Revenue from the Unwinding of | J | 579,130 | 533,087 | 484,741 | 433,978 | 380,677 | 324,711 | 265,946 | 204,244 | 139,456 | 71,429 |
| | Concessional Loan Discount Expense | | | | | | | | | | | |
| Journa | al to recognise the increase in the Loan R | eceivable eacl | h year due to t | the unwinding | g of the Conce | essional Loans | | | | | | |
| | | | | | - | | | | | | | |
| DR | Employee Expenses | EE | 250,000 | 250,000 | 250,000 | 250,000 | 250,000 | 250,000 | 250,000 | 250,000 | 250,000 | 250,000 |
| DR | Administration Fee to 'Example Bank' | AF | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 |
| CR | Cash | | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 |
| Journa | al to recognise the payment to employee | s and to the 'E | Example Bank' | each year for | r administerin | g the Concess | ional Loan Scl | neme. | | | | |
| | | | | | | | | | | | | |
| | | | | | | | | | | | | |

4.2.3 Subsequent Adjustments to the Carrying Amount of Concessional Loans

Where the timing of the principal repayments differs to those assumed in the initial recognition calculation (see section 4.1.4 above for initial calculation), an adjustment to the carrying amount of the financial asset will be required, where material. Any changes arising from a re-estimation of principal repayment cashflows are recorded through interest revenue or interest expense.

4.2.4 Using Fair Value Through Profit and Loss Subsequent to Initial Recognition

Loans classified at 'Fair Value through Profit and Loss' should be remeasured to fair value at each reporting date, with any adjustment recognised as a gain or loss.

4.3 IMPAIRMENT OF CONCESSIONAL LOANS

4.3.1 Debtor Management of Concessional Loans

Concessional loan arrangements, by their nature, are generally riskier than other types of Loans Receivable and as such are more likely to become impaired. Therefore, it is important for agencies to undertake a credit assessment of applicants and establish a debt management process consistent with the ACT Government Debtor Management Policy (<u>ACT Government Publication Debtor Management Policy</u>).

The portfolio of concessional loans should be reviewed on a regular basis to identify early signs of impairment. Significant levels of credit impairment of the loan portfolio can impact the availability of funding for future government expenditure priorities, given the repayment of concessional loans received by an agency must be returned to government. As such, it will be important for agencies to have up-to-date information on the extent of impairment to inform further planning and early interventions.

4.3.2 Inter-Agency Debtor Management

Directorates and Territory authorities consolidated into the whole-of-Government financial statements do not have to recognise any expected credit loss allowance for loans receivable from other ACT Government agencies also consolidated into the whole-of-government financial statements.

This is because inter-agency loans between ACT Government agencies are expected to have low credit risk. Inter-agency loans receivable should be assessed individually and confirmed with the relevant agency to ensure agreement between the agencies on the underlying amount of the loans receivable.

Where agencies have agreed to the deferral of repayments of a concessional loan refer to Section 4.2.3 above for the relevant requirements.

4.3.3 Frequency of an Expected Credit Loss Assessment

An assessment of concessional loans must be undertaken annually for expected credit losses, where concessional loans are measured at amortised cost or Fair Value through Other Comprehensive Income.

Financial assets held at Fair Value through Profit or Loss are not required to be assessed for impairment annually.

4.3.4 Approach to use for Impairment

ACT Government agencies will apply the 'general approach' when calculating the expected credit losses for concessional loans.

There are two approaches to impairment under AASB 9 which are the 'simplified approach' and the 'general approach'. However, only the 'general approach' can be used when measuring the expected credit loss for concessional loans.

General Approach

Under the 'general approach', the expected credit loss allowance is measured at an amount equal to 12 months expected credit losses, unless there has been a significant increase in credit risk since initial recognition. Where there has been a significant increase in credit risk since initial recognition, an amount equal to the lifetime expected credit losses must be used to determine the expected credit loss allowance.

Assessing Increases in Credit Risk

When assessing whether credit risk has increased, agencies need to focus on whether the risk of default has changed, rather than whether the amount of the loss has changed. AASB 9 para B5.5.15-21 contains guidance on whether the credit risk of a financial asset has increased significantly since initial recognition. For this purpose, agencies may assume that:

- credit risk has increased significantly if the financial asset is more than 30 days past due (a rebuttable presumption see below) (AASB 9 para 5.5.11); and
- credit risk has not increased significantly if the financial asset is determined to have low credit risk at the reporting date (AASB 9 para 5.5.10).

Regardless of the way in which an agency assesses significant increases in credit risk, there is a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due. An agency can rebut this presumption if the agency has reasonable and supportable information that is available without undue cost or effort, that demonstrates that the credit risk has not increased significantly since initial recognition even though the contractual payments are more than 30 days past due. For example, this could be when:

- non-payment was an administrative oversight, instead of resulting from financial difficulty of the borrower; or
- the agency has access to historical evidence that demonstrates that there is no correlation between significant increases in the risk of a default occurring and financial assets on which payments are more than 30 days past due, but that evidence does identify such a correlation when payments are more than 60 days past due. (AASB 9 para B5.5.20).

When an agency determines that there have been significant increases in credit risk before contractual payments are more than 30 days past due, the rebuttable presumption does not apply (AASB 9 para 5.5.11).

The credit risk on a financial instrument is considered low if:

- the financial instrument has a low risk of default;
- the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; and
- adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations (AASB 9 para B5.5.22).

Agencies should not consider the existence of any collateral when assessing whether credit risk has increased significantly.

When determining whether the recognition of lifetime expected credit losses is required, agencies should consider reasonable and supportable information that is available without undue cost or effort that may affect the credit risk on a financial instrument. Agencies need not undertake an exhaustive search for information when determining whether credit risk has increased significantly since initial recognition. However, they may need to implement new internal processes to identify changes in credit risk of their financial assets.

12 Month Credit Losses Approach

The 12 month expected credit losses approach result from default events that are possible within 12 months after the reporting date. Agencies can determine a 12 month 'expected credit loss rate' by assessing the probability of default occurring within the next 12 months and the loss to the agency if that were to occur. This is calculated using the following formula:

Formula 3 – Formula for the Calculation of the 12 Month Expected Credit Loss Rate

Probability of a default event occurring in the next 12 months (Probability of Default) X total expected credit loss from that event (Loss Given Default)

Lifetime Credit Losses Approach

Lifetime expected credit losses result from default events that are possible over the expected life of the financial instrument. The lifetime credit losses approach simplifies the application of the impairment model as it removes the need for an agency to consider whether the credit quality of their financial assets has deteriorated significantly since initial recognition. It may, however, result in a more sizeable loss allowance recognised on 'day one' than for the same receivables had they been measured under the 12 month expected credit losses approach.

The measurement of Expected Credit Losses on concessional loans should be undertaken in a way that reflects:

- 1. an unbiased evaluation of a range of possible outcomes and their probabilities of occurrence;
- 2. the time value of money; and

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3. reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions (AASB 9.5.5.17).

When measuring expected credit losses, AASB 9 allows an agency to use practical expedients (where these practical expedients reflect the three principles above). An example of a practical expedient, provided in AASB 9 para B5.5.35, is the use of a provision matrix to calculate the expected losses on trade receivables. In the case where an agency has a large number of loans receivable provided as part of a concessional loan scheme and the agency issues invoices to borrowers for the payment of their loan instalments, the use of a provision matrix would also be appropriate.

There is no 'one size fits all' approach, each agency will need to consider its own circumstances, including the materiality of expected losses and the data available (without undue cost or effort). In devising a provision matrix, an agency may use its historical credit loss experience, if available, (modified to reflect current as well as forecast economic conditions) for loans receivables to estimate expected credit losses (AASB 9 para B5.5.52).

Part G

The 'Expected Credit Loss Allowance' should be calculated at the commencement of the Concessional Loan Scheme using the 'General Approach' meaning expected credit losses should be measured based on the probability of default occurring over the next 12 months. Credit risks subsequent to the commencement of the Loan Scheme are not expected to increase significantly over the life of the loan. Therefore, expected credit losses are estimated at the beginning of each financial year based on the probability of credit default occurring in the next 12 months.

In addition, the 'Burley Griffin Agency' assessed the loans individually in calculating the Expected Credit Loss (refer to Attachment C Section C.1 *Assessing Loans Receivable Individually using an 'Explicit Probability of Default' Approach*).

Workings

At the beginning of each financial year, the expected credit loss needs to be estimated and the table below can assist agencies with this calculation. Credit risks subsequent to initial recognition of the Loan Scheme is estimated based on the probability of default occurring in the next 12 months, where the default is not expected to increase significantly over the life of the loan scheme.

| U | V | W | X |
|-----------------|--|---|---|
| Period (Annual) | Opening Expected Credit Loss Allowance | Reduction/Increase in Expected Credit Loss Allowance for the Year | Closing Expected Credit Loss Allowance |
| | Year 1 is the Expected Credit Loss Calculation and Year 2 onwards is Column X | Estimate | X = V - W |
| 1 | | | |
| 2 | | | |
| 3 | | | |
| 4 | | | |
| 5 | | | |
| 6 | | | |
| 7 | | | |
| 8 | | | |
| 9 | | | |
| 10 | | | |
| 11 | | | |
| 12 | | | |
| 13 | | | |
| 14 | | | |
| 15 | | | |
| Etc | | | |
| TOTAL | | | |

'Table 9 – Expected Credit Loss Allowance Calculation'

Part G – Continued

<u>Journals</u>

| | Accounts | Column | | | | | | Voor | | | | | |
|-------|--|----------------|---------------|---------------|----------------|------------|------|------|------|------|------|------|------|
| | Accounts | Column | | | | | | Tear | | | | | |
| | | Reference | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| | | in Above | | | | | | | | | | | |
| | | Workings | | | | | | | | | | | |
| DR | Loans Receivable - Expected Credit Loss Expense | V | XXXX | | | | | | | | | | |
| CR | Loans Receivable - Expected Credit Loss Allowance | V | XXXX | | | | | | | | | | |
| Initi | al recognition of the Expected Credit I | Loss Allowance | at the beginn | ing of the co | oncessional lo | oan scheme | | | | | | | |
| DR | Loans Receivable - Expected Credit Loss Allowance | W | | XXXX | XXXX | XXXX | XXXX | XXXX | XXXX | XXXX | XXXX | XXXX | хххх |
| CR | Loans Receivable - Expected Credit Loss Expense | W | | XXXX | XXXX | XXXX | XXXX | XXXX | XXXX | XXXX | XXXX | XXXX | XXXX |

Subsequent recognition of the annual adjustment to the expected credit loss allowance. Note this journal could be reversed depending on the direction of the annual adjustment.

| Accounts | | Column | Year | | | | | | | |
|----------|---|-----------|------|------|------|------|------|-----|--|--|
| | | Reference | 11 | 12 | 13 | 14 | 15 | etc | | |
| | | in Above | | | | | | | | |
| | | Workings | | | | | | | | |
| DR | Loans Receivable - Expected Credit Loss Allowance | W | хххх | XXXX | XXXX | XXXX | XXXX | | | |
| CR | Loans Receivable - Expected Credit Loss Expense | W | XXXX | XXXX | XXXX | XXXX | XXXX | | | |
| the d | Subsequent recognition of the annual adjustment to the expected credit loss allowance. Note this journal could be reversed depending on the direction of the annual adjustment. | | | | | | | | | |
5 ACCOUNTING FOR A CONCESSIONAL LOAN AS A RECIPIENT

5.1 BACKGROUND

There may be circumstances where ACT Government agencies receive, rather than provide, concessional loans. An agency may receive a concessional loan from other parties such as another ACT Government Agency, from the Commonwealth Government or from the private sector.

An example of a concessional loan scheme that is provide by an ACT Government Agency to other ACT Government Agencies is the Zero Emissions Government Fund (previously referred to as the Carbon Neutral Government Fund). This loan scheme is provided by the Environment, Planning and Sustainable Development Directorate to other ACT Government agencies that undertake larger scale energy and resource efficiency projects to reduce greenhouse gas emissions and to reduce the impacts of rising utility costs.

5.2 RECOGNITION

AASB 9 para 3.1.1 requires that agencies shall recognise a financial liability in their statement of financial position when they become a party to the contractual provisions of the instrument.

Concessional Loans Payable are recognised as a liability when the agency becomes a party to the contract and, as a consequence, has a legal right to pay cash. Generally, once the concessional loan agreement is signed and the loan amount is provided, they can be recognised as a loan payable (i.e. a financial liability that should be classified as 'borrowings' by ACT Government Agencies).

5.3 MEASUREMENT

5.3.1 Initial Measurement of the Loan Payable

Upon initial recognition, concessional loans (i.e. loans payable) are generally measured at fair value plus transaction costs (see AASB 9 para 5.1.1).

Concessional loans payable will be initially measured at fair value plus transaction costs given that these loans are generally categorised as being measured at 'amortised cost' subsequent to initial recognition.

Fair value is the price that would be received to sell an asset or pay to transfer a liability in an orderly transaction between market participants.

Under the fair value framework contained in AASB 13, concessional loans payable should be measured at present value under the 'income based approach' using a discounted cash flow model. The difference between the present value calculated using the concessional rate (face value) and the present value calculated using the market rate (fair value) is the discount implicit in the loan. This discount is required to be recognised as a gain in accordance with AASB 9 para B5.1.2A(a). The income is referred to as 'Concessional Loan Discount Income' and is classified as a 'Grants and Contributions Revenue' in an agency's financial statements.

When initially measuring a concessional loan payable using fair value, agencies should look at the guidance included in Section 4.1.1 for Concessional Loans Receivable given this guidance is also applicable to Concessional Loan Payables.

Transaction costs are those costs that are directly attributable to the acquisition or issue of the concessional loans.

When initially measuring a concessional loan payable, agencies should look at the transaction cost guidance included in Section 4.1.2 for Concessional Loan Receivable given this guidance is also applicable to Concessional Loans Payable.

Where the nominal amount of a Concessional Loan Payable received by an ACT Government Agency is immaterial, then that ACT Government Agency is not required to calculate and recognise that loan at its present value.

Where an agency has received more than one concessional loan either within the same loan scheme or through different loan schemes, materiality should be determined based on the total amount of all individual concessional loans that an agency has outstanding.

5.3.2 Initial Calculation using the Discounted Cash Flow Model

The discounted cash flow calculation will depend on how ACT Government Agencies are required to repay their loan under the Concessional Loan Scheme. In some cases, the loan scheme may require the agency to make 'Equal Repayments'. In other cases, loan schemes may involve agencies having to make 'Varying Repayments' with the amount of interest varying each year, resulting in each repayment of principal and interest varying over the term of the loan.

In the case of the Zero Emissions Government Fund the concessional loans are interest free with agencies being required in some cases to make varying repayments of principal, while in other cases the repayment of principal is the same for each payment.

The process for calculating the value of a Concessional Loan Payable (financial liability) and the 'Concessional Loan Discount Income' is the same as that for calculating the Concessional Loan Receivable (financial asset) and 'Concessional Loan Discount Expense' where an ACT Government Agency is running a Concessional Loan Scheme. Therefore, agencies calculating their Concessional Loan Payable and the 'Concessional Loan Discount Income' can refer to the guidance in Section 4.1.4 above. The calculation outlined in Section 4.1.4 Example 1 Part E above could equally apply to the situation where an agency is receiving a concessional loan. Where this is the case, the calculation would be the same, but the journal taken up would differ. The journal is as follows:

| DR/CR | Account Name | Amount |
|-------|--|------------|
| DR | Cash | 30,000,000 |
| CR | Loan Payable (Concessional Loan) | 18,693,314 |
| CR | Concessional Loan Discount Income (Grant Income) | 11,306,686 |

Journal Required on Initial Recognition of a Concessional Loan Payable

5.3.3 Subsequent Measurement of the Loan Payable

Subsequent to initial recognition Concessional Loans Payable are measured at Amortised Cost.

For ACT Government agencies, amortised cost for financial liabilities will be calculated by taking the carrying amount of the Concessional Loan payable at the beginning of the financial year and adding the 'Expense from the Unwinding of Concessional Loan Discount Income' and then taking off the annual repayment made by the agency.

5.3.4 Concessional Loan Payable Example

For an example of accounting for a concessional loan payable see <u>Attachment D</u> below.

6 PRESENTATION AND DISCLOSURE

The Model Financial Statements contains example disclosure requirements for concessional loans.

6.1 DISCLOSURES FOR AGENCIES THAT ARE PROVIDING CONCESSIONAL LOANS

For agencies that are providing Concessional Loans the following disclosures are included in the Model Financial Statements:

- 'Concessional Loans Receivable' are included as a Loans Receivable in the 'Receivables' Note;
- 'Concessional Loan Discount Expense' is disclosed in the 'Grant and Purchased Services' Note;
- 'Revenue from the Unwinding of Concessional Loan Discount Expense' and 'Interest Received from Borrowers' are both included in the 'Interest Revenue from Concessional Loans' line item disclosed in the 'Investment and Interest Revenue' Note; and
- The expected credit losses relating to loans receivable are disclosed in the 'Other Expenses' Note.

6.2 DISCLOSURES FOR AGENCIES THAT ARE RECEIVING CONCESSIONAL LOANS

Where agencies are the recipient of Concessional Loans the following disclosures are included in the Model Financial Statements:

- 'Concessional Loans Payable' are included as 'ACT Government Borrowings' where the loan is
 received from another ACT Government Agency and is disclosed in the 'Borrowings' Note.
 However, where the loan is received from a Commonwealth Government Agency or from a
 private sector entity then the loan should be classified as 'Commonwealth Borrowings' or
 'Other Borrowings' respectively, and disclosed in the 'Borrowings' Note;
- 'Concessional Loan Discount Income' is included in the 'Grants and Contributions Revenue' Note; and
- 'Expense from the Unwinding of Concessional Loan Discount Income' and 'Interest Expense on Borrowings' are included in the 'Borrowing Costs' Note.

The Model Financial Statements can be found on the Accounting in the ACT Government website: <u>https://www.treasury.act.gov.au/accounting/</u>.

7 DEALING WITH ERRORS

Where an agency has discovered an error in accounting for an existing concessional loan scheme as a provider, or an existing concessional loan as a recipient after applying the requirements of this policy, it must first be determined whether the error is material.

Where it is determined that an error relating to a concessional loan scheme or a concessional loan is material the agency must:

• Account for the error retrospective, except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error.

When it is impracticable to determine the period-specific effects or the cumulative effect of an error on comparative information the agency shall restate the opening balances of assets, liabilities and equity for the earliest period for which retrospective restatement is practicable; and

• Include a 'Change in Accounting Policy and Accounting Estimates, and Correction of a Prior Period Error' Note in their finanical statements.

Where it is determined that an error relating to a concessional loan scheme or a concessional loan is immaterial the agency should:

- account for the error prospectively; and
- include an explanation in the effected notes of the finanical statements explaining the details
 of the error (eg what the error is, how many years have been impacted etc) and that the
 comparative figures have not been adjusted. <u>Note</u> it is recommended that the most recent
 comparative year in the agency's financial statements be adjusted on the face of the
 statements and in the notes for the error, however this is not mandatory.

For guidance in relation to errors and in determining whether an error is material, agencies should refer to AADP 301 *ACT Accounting Disclosure Paper on Accounting for Changes in Accounting Policy and Accounting Estimates and Correction of Prior Period Errors*. This paper can be found on the Accounting in the ACT Government website: <u>https://www.treasury.act.gov.au/accounting</u>.

ATTACHMENT A – DETAILED EXAMPLES OF HOW TO ACCOUNT FOR A CONCESSIONAL LOAN SCHEME – BASED ON 'EQUAL REPAYMENTS'

A.1 THE 'BURLEY GRIFFIN AGENCY' PROVIDES LOW INTEREST RATE CONCESSIONAL LOANS TO BORROWERS THROUGH AN EXTERNAL THIRD PARTY

Background Information

The 'Burley Griffin Agency' will run a concessional loan scheme that provides loans to members of the public to assist them in purchasing an Electric Vehicle (EV). The purpose of the loans is to assist with a higher uptake of EVs in order to lower greenhouse gas emissions in the ACT (i.e. purpose of the Scheme is for environment benefits). Therefore, it is not the intention of 'Burley Griffin Agency' to sell these loans to recover the principal, but to recover the value of the loans through the collection of the underlying cash flows.

Each loan will be up to \$100,000 and the total size of the scheme is \$15 million, which will result in at least 150 loans being provided as part of the scheme. 'Burley Griffin Agency' is providing capital/funding for the concessional loans which was obtained from the ACT Government as Capital Injection appropriation through a successful business case. The concessional loans under the concessional loan scheme will all be issued at the commencement of the scheme with the scheme running for 10 years.

The 'Burley Griffin Agency' entered into a contract with a third party motor vehicle finance company for them to provide the loans to borrowers. Under the contract, the intention is for 'Burley Griffin Agency' to provide capital/funding to the third party motor vehicle finance company to finance the concessional loans and to pay them a fee of \$200,000 per annum to administer the arrangement on behalf of the Territory. The loan agreements themselves will be between the borrower and the third party motor vehicle finance company, rather than between the borrowers and 'Burley Griffin Agency'. For each loan the third party motor vehicle finance company has with a borrower, the 'Burley Griffin Agency' has an agreement to back this loan with the 'motor vehicle finance company'. The 'Burley Griffin Agency' has one staff working full time to administer the scheme at a cost of \$100,000 per year. Controlled Recurrent Payment appropriation was received as part of the successful business case to fund the third party motor vehicle finance company administration fee and for the one administration staff position.

The loan contracts are signed at the date that the loan funds are provided. 'Burley Griffin Agency' is providing the loans to borrowers under the scheme at a concessional interest rate of 2%. However, it has been estimated that if the borrowers were to seek this type of loan through a financial institution on a commercial basis then the rate they would have to pay is 6.25%. 'Equal Repayments' are made by the borrower at the end of each financial year. The loan is not repayable on demand. There were no transaction costs incurred which were directly attributable to the issue of the concessional loan. The 'Burley Griffin Agency' bears the cost of any defaults by borrowers. However, it is currently estimated that all loan amounts will be repaid over the life of the scheme.

The 'Burley Griffin Agency' determines the policy for the 'concessional loan scheme', that includes things like the purpose of the loans, eligibility criteria for the loans, the length of the loans, the interest rate to be charged etc.

It is assumed that the loans will be provided to borrowers at the start of the first year of the concessional loan scheme.

Accounting Treatment

The loans are classified as a financial asset measured at amortised cost as they are held only to collect contractual cash flows and these cash flows are payments of principal and interest on specified dates. As the loan agreements were signed at the date the funds were provided, no payable will be initially recognised.

The following needs to be account for:

- discounted cash flow analysis;
- amortisation schedule for the market-based loans; and
- calculation of the discount unwinding.

Upon initial recognition the loans receivable are measured at fair value plus transaction costs. To determine fair value, a discounted cash flow analysis has been undertaken.

| Capital Injections Appropriation | Controlled Recurrent Payment Appropriation |
|----------------------------------|--|
| (CI) | (CRP) |
| \$15,000,000 | \$300,000 per year |

| Principal | Market | Concessional | Payment | Loan | Employee | Administration |
|--------------|--------|--------------|----------------|----------|--------------|----------------|
| (PR) | Rate | Rate | Frequency Term | | Expenses | Fee |
| | (MR) | (CR) | (PF) | (LT) | (EE) | (AF) |
| \$15,000,000 | 6.25% | 2.00% | 1 per year | 10 years | \$100,000 pa | \$200,000 pa |

| А | В | С | D | E | |
|--------------------|---|--|---------------------------|---|--|
| Period (Annual) | Annual Payment (AP) | Present Value at Market Rate (6.25%) (2.00%) | | Difference Between PV at Concessional Rate and PV at Market Rate | |
| | AP = (PR x (CR/PF))/ (1-(1+ CR/PF)^-LT | C = B/(1+MR) ^A | D = B/(1+CR) ^A | E = D - C | |
| 1 | 1,669,898 | 1,571,669 | 1,637,155 | 65,486 | |
| 2 | 1,669,898 | 1,479,218 | 1,605,054 | 125,836 | |
| 3 | 1,669,898 | 1,392,205 | 1,573,582 | 181,377 | |
| 4 | 1,669,898 | 1,310,310 | 1,542,728 | 232,417 | |
| 5 | 1,669,898 | 1,233,233 | 1,512,478 | 279,245 | |
| 6 | 1,669,898 | 1,160,690 | 1,482,822 | 322,131 | |
| 7 | 1,669,898 | 1,092,414 | 1,453,747 | 361,332 | |
| 8 | 1,669,898 | 1,028,155 | 1,425,242 | 397,087 | |

| 9 | 1,669,898 | 967,675 | 1,397,296 | 429,621 |
|-------|-----------|-------------------|------------|-----------|
| 10 | 1,669,898 | 910,753 1,369,898 | | 459,145 |
| Total | | 12,146,321 | 15,000,000 | 2,853,679 |

At initial recognition, the present value of the Concessional Loans at the market rate of 6.25% is \$12,146,321 compared to the present value of the Concessional Loans at the concessional rate of 2% of \$15,000,000. The fair value of the loans is less than the concessional value of the loans, because the rate being charged is below the standard market rate that a scheme participant would pay for a similar loan in the market. The difference between the two of \$2,853,679 is taken up as a 'Concessional Loan Discount Expense'.

F G Н L J Κ Period **Remaining Loan** Revenue Interest **Revenue from** Remaining (Annual) Discount at the **Calculated using** Revenue the Loan Discount at the End of Beginning of the the **Effective** Received Unwinding of Year **Interest Rate** Concessional the Year Method Loan Discount Expense **Total from Column E From Column N** From J = H - I K = G - J for year 1 and Column T Column K for year 2 onwards 2,853,679 759,145 300,000 459,145 2,394,534 1 2 2,394,534 702,223 272,603 429,621 1,964,913 3 1,964,913 641,743 244,657 397,087 1,567,826 4 361,332 1,567,826 577,484 216,151 1,206,493 5 509,208 1,206,493 187,076 322,131 884,362 279,245 6 884,362 436,665 157,420 605,117 7 605,117 359,588 232,417 372,700 127,170 8 372,700 277,693 96,316 181,377 191,322 9 191,322 190,680 64,844 125,836 65,486 10 65,486 98,229 32,743 65,486 0 Total 1,698,980 2,853,679

The discount component is unwound over the expected life of the loan as follows:

The amortisation of present value of the Concessional Loans at the market rate, discounted through the expected life of the loans by the Effective Interest Rate Method is as follows:

| L | М | N | 0 | Р | Q | R | S | Т |
|----------|--|---------------|-------------|---------------|--|---|------------|-----------|
| Period | Concessional Loan | Revenue | Annual | Loan | Balance at the | Balance at the End | Principal | Interest |
| (Annual) | Receivable at the | Calculated | Payment | Receivable at | Beginning of | of the Year based on | Repayment | Revenue |
| | Year (calculated | Effective | | Year | on Concessional | concessional nate | | Received |
| | using the market | Interest Rate | | | Rate | | | |
| | interest rate) | Method | | | | | | |
| | Total from Column C for Year 1 and Column | N = M x MR | From Column | P = M + N - O | PR for Year 1 and Column R for Year | $R = (Q \times (1 + CR)^{PF}) - Q \times (((1 + CR)^{PF}) + ((1 + CR)^{PF}))$ | S = Q - R | T = O - S |
| | P for Year 2 onwards | | D | | 2 onwards | | | |
| 1 | 12,146,321 | 759,145 | 1,669,898 | 11,235,568 | 15,000,000 | 13,630,102 | 1,369,898 | 300,000 |
| 2 | 11 235 568 | 702 223 | 1 669 898 | 10 267 893 | 13 630 102 | 12 232 806 | 1 397 295 | 272 603 |
| | 11,233,300 | 702,225 | 1,005,050 | 10,207,033 | 13,030,102 | 12,232,000 | 1,557,255 | 272,003 |
| 3 | 10,267,893 | 641,743 | 1,669,898 | 9,239,739 | 12,232,806 | 10,807,564 | 1,425,241 | 244,657 |
| 4 | 9,239,739 | 577,484 | 1,669,898 | 8,147,325 | 10,807,564 | 9,353,818 | 1,453,747 | 216,151 |
| 5 | 8,147,325 | 509,208 | 1,669,898 | 6,986,635 | 9,353,818 | 7,870,996 | 1,482,822 | 187,076 |
| 6 | 6,986,635 | 436,665 | 1,669,898 | 5,753,401 | 7,870,996 | 6,358,518 | 1,512,478 | 157,420 |
| 7 | 5,753,401 | 359,588 | 1,669,898 | 4,443,091 | 6,358,518 | 4,815,791 | 1,542,728 | 127,170 |
| 8 | 4,443,091 | 277,693 | 1,669,898 | 3,050,886 | 4,815,791 | 3,242,209 | 1,573,582 | 96,316 |
| 9 | 3,050,886 | 190,680 | 1,669,898 | 1,571,669 | 3,242,209 | 1,637,155 | 1,605,054 | 64,844 |
| 10 | 1,571,669 | 98,229 | 1,669,898 | 0 | 1,637,155 | 0 | 1,637,155 | 32,743 |
| Total | | | | | | | 15,000,000 | 1,698,980 |

<u>Journals</u>

From the information above, the total concessional loans of \$15,000,000 is comprised of the present value of concessional loans at the market interest rate of \$12,146,321 and concessional loan discount of \$2,853,679 (\$15,000,000 - \$12,146,321).

The journals that need to be taken up on initial recognition as well as the journals that need to be taken up subsequent to initial recognition are below. Journals for Leave Entitlements have not been considered in this example.

| | Accounts | Column | | | | | | Year | | | | | |
|------|--|----------------------|--------------------|-----------------|----------------|----------------|---------------|---------------|-----------------|---------------|-------------|-----------|-----------|
| | | Reference | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| | | in Above | | | | | | | | | | | |
| | | Workings | | | | | | | | | | | |
| DR | Cash | | 15,000,000 | | | | | | | | | | |
| CR | Capital Injection Appropriation | CI | 15,000,000 | | | | | | | | | | |
| Jou | rnal to recognise the amount of Capital Inject | ion Appropriati | on received at th | ne commence | ment of the C | oncessional L | oan Scheme. | | | | | | |
| DR | Concessional Loan Discount Expense | Е | 2.853.679 | | | | | | | | | | |
| DR | Loan Receivable (Concessional Loan) | С | 12.146.321 | | | | | | | | | | |
| CR | Cash | | 15,000,000 | | | | | | | | | | |
| Jou | rnal to recognise the concessional loan receiv | able and the co | ncessional loan | discount expe | nse at the co | mmencement | of the Conces | sional Loan S | cheme. | | | | |
| DD | Cash | | | 200.000 | 200.000 | 200.000 | 200,000 | 200.000 | 200.000 | 200.000 | 200.000 | 200.000 | 200.000 |
| | CdSII | CPD | | 200,000 | 200,000 | 200,000 | 200,000 | 200,000 | 200,000 | 200,000 | 200,000 | 300,000 | 300,000 |
| | controlled Br | Chr Curront Poymo | nt Appropriation | SUU,UUU | 500,000 | SUU,UUU | SUU,UUU | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 |
| Jour | that to recognise the amount of controlled Re | ecurrent Fayine | | i i eceiveu eac | ii year or the | Concessional | Luan Scheme. | | | | | | |
| DR | Cash | В | | 1,669,898 | 1,669,898 | 1,669,898 | 1,669,898 | 1,669,898 | 1,669,898 | 1,669,898 | 1,669,898 | 1,669,898 | 1,669,898 |
| CR | Loan Receivable (Concessional Loan) | S | | 1,369,898 | 1,397,295 | 1,425,241 | 1,453,747 | 1,482,822 | 1,512,478 | 1,542,728 | 1,573,582 | 1,605,054 | 1,637,155 |
| CR | Interest Revenue Received | т | | 300,000 | 272,603 | 244,657 | 216,151 | 187,076 | 157,420 | 127,170 | 96,316 | 64,844 | 32,743 |
| Jou | rnal to recognise the payment of principal and | d interest receiv | ved at the end of | f each financia | l year of the | Concessional I | oan Scheme. | | | | | | |
| DR | Loan Receivable (Concessional Loan) | J | | 459,145 | 429,621 | 397,087 | 361,332 | 322,131 | 279,245 | 232,417 | 181,377 | 125,836 | 65,486 |
| CR | Revenue from the Unwinding of | J | | 459,145 | 429,621 | 397,087 | 361,332 | 322,131 | 279,245 | 232,417 | 181,377 | 125,836 | 65,486 |
| | Concessional Loan Discount Expense | | | | | | | | | | | | |
| Jou | rnal to recognise the increase in the Loan Rec | eivable each ye | ar due to the un | winding of the | e Concessiona | al Loans. | | | | | | | |
| DR | Employee Expenses | FF | | 100 000 | 100 000 | 100 000 | 100 000 | 100 000 | 100 000 | 100 000 | 100 000 | 100 000 | 100.000 |
| | Administration Fee to 'Third Party Motor | ΔE | | 200,000 | 200,000 | 200,000 | 200,000 | 200,000 | 200,000 | 200,000 | 200,000 | 200,000 | 200,000 |
| DI | Vehicle Finance Company' | | | 200,000 | 200,000 | 200,000 | 200,000 | 200,000 | 200,000 | 200,000 | 200,000 | 200,000 | 200,000 |
| CB | Cash | | | 300.000 | 300.000 | 300.000 | 300.000 | 300.000 | 300.000 | 300.000 | 300.000 | 300.000 | 300.000 |
| Jour | rnal to recognise the payment to employees a | and the Adminis | stration Fee to th | ne 'Third Party | Motor Vehic | le Finance Co | mpany' each y | ear for admir | nistering the C | oncessional L | oan Scheme. | 000,000 | 200,000 |

A.2 THE 'BURLEY GRIFFIN AGENCY' PROVIDES INTEREST FREE CONCESSIONAL LOANS TO BORROWERS THROUGH AN EXTERNAL THIRD PARTY

Background Information

The background information is the same as that outlined in <u>Attachment A.1</u> above, except that the loans will be provided to borrowers under the scheme interest free (i.e. at a concessional interest rate of 0%).

Accounting Treatment

The loans are classified as a financial asset measured at amortised cost as they are held only to collect contractual cash flows and these cash flows are payments of principal and interest on specified dates. As the loan agreements were signed at the date the funds were provided, no payable will be initially recognised.

The following needs to be account for:

- discounted cash flow analysis;
- amortisation schedule for the market-based loans; and
- calculation of the discount unwinding.

Upon initial recognition the loans receivable are measured at fair value plus transaction costs. To determine fair value, a discounted cash flow analysis has been undertaken.

| Capital Injections Appropriation | Controlled Recurrent Payment Appropriation |
|----------------------------------|--|
| (CI) | (CRP) |
| \$15,000,000 | \$300,000 per year |

| Principal | Market | Concessional | Payment | Loan | Employee | Administration |
|--------------|--------|--------------|------------|----------|-----------|----------------|
| (PR) | Rate | Rate | Frequency | Term | Expenses | Fee |
| . , | (MR) | (CR) | (PF) | (LT) | (EE) | (AF) |
| \$15,000,000 | 6.25% | 0.00% | 1 per year | 10 years | \$100,000 | \$200,000 |

| Α | В | С | D | E | |
|--------------------|--|---------------------------|--|--|--|
| Period (Annual) | Annual Payment Present Value at (AP) Market Rate (6.25%) | | Present Value at Concessional Rate (0.00%) | Difference Between PV at Concessional Rate and PV at Market Rate | |
| | AP = (PR x (CR/PF))/ | C = B/(1+MR) ^A | D = B/(1+CR) ^A | E = D - C | |
| | (1-(1+ CR/PF)^- ^{LT} | | | | |
| 1 | 1,500,000 | 1,411,765 | 1,500,000 | 88,235 | |
| 2 | 1,500,000 | 1,328,720 | 1,500,000 | 171,280 | |
| 3 | 1,500,000 | 1,250,560 | 1,500,000 | 249,440 | |
| 4 | 1,500,000 | 1,176,997 | 1,500,000 | 323,003 | |
| 5 | 1,500,000 | 1,107,762 | 1,500,000 | 392,238 | |

| 6 | 1,500,000 | 1,042,600 | 1,500,000 | 457,400 |
|-------|------------|------------|------------|-----------|
| 7 | 1,500,000 | 981,270 | 1,500,000 | 518,730 |
| 8 | 1,500,000 | 923,549 | 1,500,000 | 576,451 |
| 9 | 1,500,000 | 869,222 | 1,500,000 | 630,778 |
| 10 | 1,500,000 | 818,091 | 1,500,000 | 681,909 |
| Total | 15,000,000 | 10,910,536 | 15,000,000 | 4,089,464 |

At initial recognition, the present value of the Concessional Loans at the market rate of 6.25% is \$10,910,536 compared to the present value of the Concessional Loan at the concessional rate of 0% of \$15,000,000. The fair value of the loans is less than the concessional value of the loans, because the rate being charged is below the standard market rate that a scheme participate would pay for a similar loan in the market. The difference between the two of \$4,089,464 is taken up as a 'Concessional Loan Discount Expense'.

The discount component is unwound over the expected life of the loans as follows:

| F | G | н | I | J | К |
|--------------------|---|--|---------------------------------|--|---|
| Period (Annual) | Remaining Loan Discount at the Beginning of the Year | Income Calculated using the Effective Interest Rate Method | Interest Revenue Received | Revenue from the Unwinding of Concessional Loan Discount Expense | Remaining Loan Discount at the End of the Year |
| | From Column E for year 1 and Column K for year 2 onwards | From Column N | From Column T | J = H - I | K = G - J |
| 1 | 4,089,464 | 681,909 | 0 | 681,909 | 3,407,555 |
| 2 | 3,407,555 | 630,778 | 0 | 630,778 | 2,776,777 |
| 3 | 2,776,777 | 576,451 | 0 | 576,451 | 2,200,326 |
| 4 | 2,200,326 | 518,730 | 0 | 518,730 | 1,681,596 |
| 5 | 1,681,596 | 457,400 | 0 | 457,400 | 1,224,196 |
| 6 | 1,224,196 | 392,238 | 0 | 392,238 | 831,958 |
| 7 | 831,958 | 323,003 | 0 | 323,003 | 508,955 |
| 8 | 508,955 | 249,440 | 0 | 249,440 | 259,515 |
| 9 | 259,515 | 171,280 | 0 | 171,280 | 88,235 |
| 10 | 88,235 | 88,235 | 0 | 88,235 | 0 |
| Total | | 4,089,464 | 0 | 4,089,464 | |

The amortisation of present value of the Concessional Loans at the market rate, discounted through the expected life of the loans by the Effective Interest Rate Method is as follows:

| L | М | Ν | 0 | Р | Q | R | S | Т |
|--------------------|---|----------------------|-------------------|-----------------------|------------------------------------|-----------------------------------|------------------------|---------------------|
| Period (Annual) | Concessional Loan Receivable at the | Income Calculated | Annual Payment | Loan Receivable at | Balance at the Beginning of the | Balance at the End of the Year | Principal Repayment | Interest Revenue |
| | Beginning of the | using the | (AP) | the End of the | Year based on | based on | | Received |
| | using the market | Interest Rate | | Teal | Rate | Rate | | |
| | interest rate) | Method | | | | | | |
| | From Column C for Year 1 and Column P for Year | N = M x MR | From Column | P = M + N - O | PR for Year 1 and | R = Q - O | S = Q - R | T = O - S |
| | 2 onwards | | U | | 2 onwards | | | |
| 1 | 10,910,536 | 681,909 | 1,500,000 | 10,092,445 | 15,000,000 | 13,500,000 | 1,500,000 | 0 |
| 2 | 10,092,445 | 630,778 | 1,500,000 | 9,223,223 | 13,500,000 | 12,000,000 | 1,500,000 | 0 |
| 3 | 9,223,223 | 576,451 | 1,500,000 | 8,299,674 | 12,000,000 | 10,500,000 | 1,500,000 | 0 |
| 4 | 8,299,674 | 518,730 | 1,500,000 | 7,318,404 | 10,500,000 | 9,000,000 | 1,500,000 | 0 |
| 5 | 7,318,404 | 457,400 | 1,500,000 | 6,275,804 | 9,000,000 | 7,500,000 | 1,500,000 | 0 |
| 6 | 6,275,804 | 392,238 | 1,500,000 | 5,168,042 | 7,500,000 | 6,000,000 | 1,500,000 | 0 |
| 7 | 5,168,042 | 323,003 | 1,500,000 | 3,991,045 | 6,000,000 | 4,500,000 | 1,500,000 | 0 |
| 8 | 3,991,045 | 249,440 | 1,500,000 | 2,740,485 | 4,500,000 | 3,000,000 | 1,500,000 | 0 |
| 9 | 2,740,485 | 171,280 | 1,500,000 | 1,411,765 | 3,000,000 | 1,500,000 | 1,500,000 | 0 |
| 10 | 1,411,765 | 88,235 | 1,500,000 | 0 | 1,500,000 | 0 | 1,500,000 | 0 |
| Total | | 4,089,464 | 15,000,000 | | | | 15,000,000 | 0 |

<u>Journals</u>

From the information above, the total concessional loans of \$15,000,000 is comprised of present value of the concessional loans at the market interest rate of \$10,910,536 and concessional loan discount of \$4,089,464 (\$15,000,000 - \$10,910,536).

The journals that need to be taken up on initial recognition as well as the journals that need to be taken up subsequent to initial recognition are below. Journals for Leave Entitlements have not been considered in this example.

| | Accounts | Column | | Year | | | | | | | | | |
|------------------------|---|-----------------------------------|---|---|---|--|---|--------------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | | Reference in Above Workings | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| DR CR Jour DR | Cash Capital Injection Appropriation mal to recognise the amount of Capital II Concessional Loan Discount Expense | CI njection Appro E | 15,000,000 15,000,000 priation receive 4,089,464 | d at the comr | nencement of | the Concessi | onal Loan Sch | eme. | | | | | |
| CR Jour | Cash rnal to recognise the concessional loan re | eceivable and t | 15,000,000 the concessional | loan discoun | t expense at t | he commence | ement of the | Concessional I | Loan Scheme. | | | | |
| DR CR Jour | Cash CRP Appropriation mal to recognise the amount of Controlle | CRP ed Recurrent P | ayment Approp | 300,000 300,000 riation receive | 300,000 300,000 ed each year o | 300,000 300,000 of the Concess | 300,000 300,000 sional Loan Sc | 300,000 300,000 heme. | 300,000 300,000 | 300,000 300,000 | 300,000 300,000 | 300,000 300,000 | 300,000 300,000 |
| DR CR CR Jour | Cash Loan Receivable (Concessional Loan) Interest Revenue Received mal to recognise the payment of principa | B S T al and interest | received at the | 1,500,000 1,500,000 0 end of each fi | 1,500,000 1,500,000 0 nancial year c | 1,500,000 1,500,000 0 f the Concess | 1,500,000 1,500,000 0 ional Loan Scl | 1,500,000 1,500,000 0 heme. | 1,500,000 1,500,000 0 | 1,500,000 1,500,000 0 | 1,500,000 1,500,000 0 | 1,500,000 1,500,000 0 | 1,500,000 1,500,000 0 |
| DR CR Jour | Loan Receivable (Concessional Loan) Revenue from the Unwinding of Concessional Loan Discount Expense mal to recognise the increase in the Loar | J J n Receivable ea | ach year due to t | 681,909 681,909 he unwinding | 630,778 630,778 g of the Conce | 576,451 576,451 ssional Loans | 518,730 518,730 | 457,400 457,400 | 392,238 392,238 | 323,003 323,003 | 249,440 249,440 | 171,280 171,280 | 88,235 88,235 |
| DR DR CR | Employee Expenses Administration Fee to 'Third Party Motor Vehicle Finance Company' Cash | EE AF | (Third Darty Ma | 100,000 200,000 300,000 | 100,000 200,000 300,000 | 100,000 200,000 300,000 | 100,000 200,000 300,000 | 100,000 200,000 300,000 | 100,000 200,000 300,000 | 100,000 200,000 300,000 | 100,000 200,000 300,000 | 100,000 200,000 300,000 | 100,000 200,000 300,000 |
| Jour | nui to recognise the payment to employ | | | | nunce compa | ny cuch year | ior duministe | ing the conc | | Seneme. | | | |

ATTACHMENT B – DETAILED EXAMPLE OF HOW TO ACCOUNT FOR A CONCESSIONAL LOAN SCHEME – BASED ON 'VARYING REPAYMENTS'

B.1 THE 'BURLEY GRIFFIN AGENCY' PROVIDES LOW INTEREST RATE CONCESSIONAL LOAN TO BORROWERS THROUGH AN EXTERNAL THIRD PARTY

Background Information

The background information is the same as that outlined in <u>Attachment A.1</u> above, except that 'Varying Repayments' (i.e. equal repayments of principal with varying amounts of interest) are made by the borrower at the end of each year with interest being charged on the opening balance of the loan receivable (i.e. the interest will decrease each year).

Accounting Treatment

The loans are classified as a financial asset measured at amortised cost as they are held only to collect contractual cash flows and these cash flows are payments of principal and interest on specified dates. As the loan agreements were signed at the date the funds were provided, no payable will be initially recognised.

The following needs to be account for:

- discounted cash flow analysis;
- amortisation schedule for the market-based loans; and
- calculation of the discount unwinding.

Upon initial recognition the loans receivable are measured at fair value plus transaction costs. To determine fair value a discounted cash flow analysis has been undertaken.

| Capital Injections Appropriation | Controlled Recurrent Payment Appropriation |
|----------------------------------|--|
| (CI) | (CRP) |
| \$15,000,000 | \$300,000 per year |

| Principal (PR) | Market Rate (MR) | Concessional Rate (CR) | Payment Frequency (PF) | Loan Term (LT) | Employee Expenses (EE) | Administration Fee (AF) |
|-------------------|------------------------|------------------------------|------------------------------|-------------------|------------------------------|-------------------------------|
| \$15,000,000 | 6.25% | 2.00% | 1 per year | 10 years | \$100,000 pa | \$200,000 pa |

| А | В | С | D | E | F | G | н |
|--------------------|---------------------------------------|----------------------------------|--|---------------------------|--|---|--|
| Period (Annual) | Reduction of the Loan Amount | Equal Principal Repayments | Interest Payment at Concessional Interest Rate (2.00%) | Annual Payment (AP) | Present Value at Market Rate (6.25%) | Present Value at Concessional Rate (2.00%) | Difference Between PV at Concessional Rate and PV at Market Rate |
| | In year 1 B = PR | C = PR / LT | D = B x CR | E = C + D | F = F/(1+MR) ^A | G = F/(1+CR) ^A | H = G - F |
| | In year 2 | | | | _, (_ · · · · · , | _,(_ :, | |
| | onwards B = B - C | | | | | | |
| 1 | 15,000,000 | 1,500,000 | 300,000 | 1,800,000 | 1,694,118 | 1,764,705 | 70,587 |
| 2 | 13,500,000 | 1,500,000 | 270,000 | 1,770,000 | 1,567,889 | 1,701,269 | 133,380 |
| 3 | 12,000,000 | 1,500,000 | 240,000 | 1,740,000 | 1,450,649 | 1,639,641 | 188,992 |
| 4 | 10,500,000 | 1,500,000 | 210,000 | 1,710,000 | 1,341,777 | 1,579,776 | 237,999 |
| 5 | 9,000,000 | 1,500,000 | 180,000 | 1,680,000 | 1,240,694 | 1,521,628 | 280,934 |
| 6 | 7,500,000 | 1,500,000 | 150,000 | 1,650,000 | 1,146,860 | 1,465,153 | 318,293 |
| 7 | 6,000,000 | 1,500,000 | 120,000 | 1,620,000 | 1,059,772 | 1,410,307 | 350,535 |
| 8 | 4,500,000 | 1,500,000 | 90,000 | 1,590,000 | 978,962 | 1,357,050 | 378,088 |
| 9 | 3,000,000 | 1,500,000 | 60,000 | 1,560,000 | 903,991 | 1,305,338 | 401,347 |
| 10 | 1,500,000 | 1,500,000 | 30,000 | 1,530,000 | 834,453 | 1,255,133 | 420,680 |
| Total | | 15,000,000 | 1,650,000 | 16,650,000 | 12,219,165 | 15,000,000 | 2,780,835 |

At initial recognition, the present value of the Concessional Loans at the market rate of 6.25% is \$12,219,165 compared to the present value of the Concessional Loans at the concessional rate of 2% of \$15,000,000. The fair value of the loans is less than the concessional value of the loans, because the rate being charged is below the standard market rate that a scheme participate would pay for a similar loan in the market. The difference between the two of \$2,780,835 is taken up as a 'Concessional Loan Discount Expense'.

| I | J | К | L | М |
|--------------------|---|---------------------------------------|--------------------------|--|
| Period (Annual) | Loan Receivable at the Beginning of the Year | Revenue - Unwinding of Discount | Annual Repayment (AP) | Loan Receivable at the End of the Year |
| | Year 1 is Total From Column F | K = J * MR | Figures from Column E | M = J + K - L |
| | Year 2 Onwards From Column M | | | |
| 1 | 12,219,165 | 763,697 | 1,800,000 | 11,182,862 |
| 2 | 11,182,862 | 698,929 | 1,770,000 | 10,111,791 |
| 3 | 10,111,791 | 631,987 | 1,740,000 | 9,003,778 |
| 4 | 9,003,778 | 562,736 | 1,710,000 | 7,856,514 |
| 5 | 7,856,514 | 491,032 | 1,680,000 | 6,667,546 |
| 6 | 6,667,546 | 416,722 | 1,650,000 | 5,434,268 |

| Total | | 4,430,835 | 16,650,000 | |
|-------|-----------|-----------|------------|-----------|
| 10 | 1,440,000 | 90,000 | 1,530,000 | 0 |
| 9 | 2,823,529 | 176,471 | 1,560,000 | 1,440,000 |
| 8 | 4,153,910 | 259,619 | 1,590,000 | 2,823,529 |
| 7 | 5,434,268 | 339,642 | 1,620,000 | 4,153,910 |

| N | 0 | Р | Q | R | S |
|--------------------|---|---------------------------------------|--|--|--|
| Period (Annual) | Remaining Loan Discount at the Beginning of the Year | Revenue - Unwinding of Discount | Interest Payment at Concessional Interest Rate (2.00%) | Revenue from the Unwinding of Concessional Loan Discount Expense | Remaining Loan Discount at the End of the Year |
| | Year 1 is Total | Figures from | Figures from | R = P - Q | S = O - R |
| | From Column H | Column K | Column D | | |
| | Year 2 Onwards | | | | |
| | From Column S | | | | |
| 1 | 2,780,835 | 763,697 | 300,000 | 463,697 | 2,317,138 |
| 2 | 2,317,138 | 698,929 | 270,000 | 428,929 | 1,888,209 |
| 3 | 1,888,209 | 631,987 | 240,000 | 391,987 | 1,496,222 |
| 4 | 1,496,222 | 562,736 | 210,000 | 352,736 | 1,143,486 |
| 5 | 1,143,486 | 491,032 | 180,000 | 311,032 | 832,454 |
| 6 | 832,454 | 416,722 | 150,000 | 266,722 | 565,732 |
| 7 | 565,732 | 339,642 | 120,000 | 219,642 | 346,090 |
| 8 | 346,090 | 259,619 | 90,000 | 169,619 | 176,471 |
| 9 | 176,471 | 176,471 | 60,000 | 116,471 | 60,000 |
| 10 | 60,000 | 90,000 | 30,000 | 60,000 | 0 |
| Total | | 4,430,835 | 1,650,000 | 2,780,835 | |

<u>Journals</u>

From the information above, the total concessional loans of \$15,000,000 is comprised of present value of the concessional loans at the market interest rate of \$12,219,165 and concessional loan discount of \$2,780,835 (\$15,000,000 - \$12,219,165).

The journals that need to be taken up on initial recognition as well as the journals that need to be taken up subsequent to initial recognition are below. Journals for Leave Entitlements have not been considered in this example.

| | Accounts | Column | Year | | | | | | | | | | |
|------|--|------------------|-------------------|-----------------|----------------|----------------|--------------|----------------|-----------------|----------------|-------------|-----------|-----------|
| | | Reference | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| | | in Above | | | | | | | | | | | |
| | | Workings | | | | | | | | | | | |
| DR | Cash | | 15,000,000 | | | | | | | | | | |
| CR | Capital Injection Appropriation | CI | 15,000,000 | | | | | | | | | | |
| Jour | nal to recognise the amount of Capital Injection | on Appropriation | on received at th | he commence | ment of the C | Concessional L | oan Scheme. | | | | | | |
| DR | Concessional Loan Discount Expense | н | 2,780,835 | | | | | | | | | | |
| DR | Loan Receivable (Concessional Loan) | F | 12,219,165 | | | | | | | | | | |
| CR | Cash | | 15,000,000 | | | | | | | | | | |
| Jour | nal to recognise the concessional loan receiva | able and the co | ncessional loan | discount expe | ense at the co | mmencement | of the Conce | ssional Loan S | cheme. | | | | |
| DD | Cash | | | 200 000 | 200 000 | 200.000 | 200.000 | 200 000 | 200 000 | 200.000 | 200 000 | 200 000 | 200,000 |
| | | CRD | | 300,000 | 300,000 | 300,000 | 300,000 | 300,000 | 300,000 | 300,000 | 300,000 | 300,000 | 300,000 |
| | nal to recognise the amount of Controlled Re | current Payme | nt Appropriation | n received eac | h year of the | Concessional | Loan Scheme | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 | 300,000 |
| Jour | har to recognise the amount of controlled he | current r dynie | | | an year of the | concessional | Louin Scheme | • | | | | | |
| DR | Cash | | | 1,800,000 | 1,770,000 | 1,740,000 | 1,710,000 | 1,680,000 | 1,650,000 | 1,620,000 | 1,590,000 | 1,560,000 | 1,530,000 |
| CR | Loan Receivable (Concessional Loan) | С | | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 |
| CR | Interest Revenue Received | D | | 300,000 | 270,000 | 240,000 | 210,000 | 180,000 | 150,000 | 120,000 | 90,000 | 60,000 | 30,000 |
| Jour | nal to recognise the payment of principal and | interest receiv | red at the end of | f each financia | al year of the | Concessional | Loan Scheme. | | | | | | |
| DR | Loan Receivable (Concessional Loan) | К | | 763,697 | 698,929 | 631,987 | 562,736 | 491,032 | 416,722 | 339,642 | 259,619 | 176,471 | 90,000 |
| CR | Revenue from the Unwinding of | к | | 763,697 | 698,929 | 631,987 | 562,736 | 491,032 | 416,722 | 339,642 | 259,619 | 176,471 | 90,000 |
| | Concessional Loan Discount Expense | | | | | | | | | | | | |
| Jour | nal to recognise the increase in the Loan Rece | eivable each ye | ar due to the un | winding of th | e Concessiona | al Loans. | | | | | | | |
| DR | Employee Expenses | FF | | 100.000 | 100.000 | 100.000 | 100.000 | 100.000 | 100.000 | 100.000 | 100.000 | 100.000 | 100.000 |
| DR | Administration Fee to 'Third Party Motor | AF | | 200.000 | 200.000 | 200.000 | 200.000 | 200.000 | 200.000 | 200.000 | 200.000 | 200.000 | 200.000 |
| | Vehicle Finance Company' | | | , | , | , | | , | , | | , | ,, | , |
| CR | Cash | | | 300,000 | 300,000 | 300,000 | 300,000 | 300,000 | 300,000 | 300,000 | 300,000 | 300,000 | 300,000 |
| Jour | nal to recognise the payment to employees a | nd the Adminis | tration Fee to th | ne 'Third Party | y Motor Vehic | le Finance Co | mpany' each | year for admir | nistering the C | Concessional L | oan Scheme. | | |

ATTACHMENT C – EXPECTED CREDIT LOSS CALCULATION

Depending on the size and complexity of the 'concessional loan scheme', ACT Government agencies can use various methods when calculating expected credit losses relating to loans receivable, included an 'Explicit Probability of Default' approach, 'Loss Rate' Approach and a 'Provision Matrix' Approach. Three examples that agencies can use are outlined below and include assessing concessional loans individually using an 'Explicit Probability of Default' Approach, using a 'Loss Rate' Approach or using a Provision Matrix Approach. As a rule, smaller less complex 'concessional loan schemes' can be assessed on an individual loan's receivable basis. Where the 'concessional loan scheme' is larger and more complex than a using a 'Loss Rate' Approach or a 'Provision Matrix' Approach can be developed.

C.1 ASSESSING LOANS RECEIVABLE INDIVIDUALLY USING AN 'EXPLICIT PROBABILITY OF DEFAULT' APPROACH

This approach can be used for smaller Concessional Loan Schemes with fewer loans.

Example C.1 - based on the Information contained in Example 1 Part D above

The 'Burley Griffin Agency' approved 10 applications with a total value of \$30 million. Once the contracts were signed and the loan amounts provided, the 'Burley Griffin Agency' recognised these concessional loans on its balance sheet as loans receivable. The Agency then undertook an expected credit loss calculation based on the financial data that the borrowers provided as part of the loan applications received. This is because the 'Concessional Construction Loan Scheme' has not been run previously and the 'Burley Griffin Agency' does not have any credit history in relation to these borrowers. The 'General Approach' was used to calculate the 'Expected Credit Loss Allowance' meaning that it is initially measured as 12 month expected credit losses. The calculation involves the outstanding value of the loan (including 12 months of interest receivable) at the commencement of the loan multiplied by the Present Value Percentage (PVP) (see table C.1.1 below for the calculation of the PVP) to get the present value of the loan. The outstanding present value of the loan is then multiplied by the 'Probability of Default' and then by the 'Loss Given Default'. The 'Probability of Default' is the likelihood that the borrower will default on the loan. The 'Loss Given Default' is the amount of the Loan Receivable that is lost if a borrower defaults, so represents the lenders total exposure if the borrower cannot repay the loan. This assessment takes into account whether the loans are secured. That is, the 'Loss Given Default' should be net of expected collateral recoveries. The 'Loss Given Default' can be expressed by the following formula:

Formula 4 – Formula Representing the 'Loss Given Default Percentage'

Loss Given Default Percentage = 1 - (Any Expected Recovery / Outstanding Loan)

In this example, the 'Loss Given Default' has been determined based on the amount that the 'Burley Griffin Agency' expects it can recover from the borrower to cover the outstanding value of the loan.

Table C.1.1 - Present Value Percentage Calculation

| Present Value Percentage (PVP) = | Total of the Present Value at Market Rate per annum |
|----------------------------------|---|
| | Total Annual Payment |
| Present Value Percentage (PVP) | \$18,693,314 ¹ / \$30,000,000 ² = 62.31105% |

1 \$18,693,314 is the total contained in Column C from 'Table 5 – Calculation of Concessional Loan Receivable and the Loan Discount'

2 \$30,000,000 is the total contained in Column B from 'Table 5 – Calculation of Concessional Loan Receivable and the Loan Discount'

Table C.1.2 – Expected Credit Loss Calculation

| Α | В | С | D | E | F | G |
|----------|-------------------------------|--|---------------------------|--------------------------|--|---|
| Borrower | Outstanding Loan Amount | Present Value of the Outstanding Loan Amount (C = B x PVP) | Probability of default | Loss given default | Expected Credit Loss Allowance F = (C x D x E) | Comments |
| A | \$5,000,000 | \$3,115,553 | 2% | 50% | \$31,156 | Borrower A has a strong balance sheet with a: current ratio of 2.0 which is double 1 and is well above the industry average of 1.5. debt ratio of 0.25 is very good and better than the industry average of 0.5. Borrower A has strong cash inflows which are not expected to change over the foreseeable future. Further, Borrower A has a very good cash flow coverage ratio of 9.25 which is above the industry average of 5 and given the ratio is significantly larger than one indicates that they are not in any danger of default. If Borrower A defaults on the loan it is expected that the 'Burley Griffin Agency' will be able to recover \$0.50 in the dollar. This is because even though the loan is unsecured, it is considered that some of the outstanding loan amount could be recovered given Borrower A is a large entity and has a stronger financial position. |
| В | \$2,500,000 | \$1,557,776 | 8% | 100% | \$124,622 | Borrower B has a weaker balance sheet with a: current ratio of 1.25 which is over 1 but is below the industry average of 1.5. Debt Ratio of 0.55 is ok but above the industry average of 0.5. |

| А | В | С | D | E | F | G |
|----------|-------------------------------|--|---------------------------|--------------------------|--|---|
| Borrower | Outstanding Loan Amount | Present Value of the Outstanding Loan Amount (C = B x PVP) | Probability of default | Loss given default | Expected Credit Loss Allowance F = (C x D x E) | Comments |
| | | | | | | Borrower B has weaker cash inflows which are not expected to change over the foreseeable future. Further Borrower B has a reasonable cash flow coverage ratio of 4.25 which is below the industry average of 5 but larger than one which indicates that a default is possible but not likely. If Borrower B defaults on the loan it is not expected that the 'Burley Griffin Agency' will be able to recover any of the outstanding loan. This is because the loan is unsecured and it is unlikely that pursuing the Not-for-Profit Non-Government Organisation for the outstanding loan amount would result in the recovery of any money given the financial position of this entity. |
| С | \$3,000,000 | \$1,869,332 | 5% | 75% | \$70,100 | Borrower C has a good balance sheet with a: current ratio of 1.45 which is over 1 but just under the industry average of 1.5. Debt Ratio of 0.5 is ok and is the same as the industry average of 0.5. Given Borrower C is a medium sized entity, it is considered that if it defaults on the loan the amount recoverable will be \$0.25 in the dollar. Borrower C has good cash inflows which are not expected to change over the foreseeable future. Further Borrower C has a good cash flow coverage ratio of 7.05 which is above the industry average of 5 and given the ratio is much larger than one indicates that they are not in any danger of default. |

| Α | В | С | D | E | F | G |
|----------|-------------------------------|---|---------------------------|--------------------------|--|--|
| Borrower | Outstanding Loan Amount | Present Value of the Outstanding Loan Amount | Probability of default | Loss given default | Expected Credit Loss Allowance F = (C x D x E) | Comments |
| | | (C = B x PVP) | | | | |
| | | | | | | If Borrower C defaults on the loan it is expected that the 'Burley Griffin Agency' will be able to recover \$0.25 in the dollar. This is because even though the loan is unsecured, it is considered that some of the outstanding loan amount could be recovered given the Not-for-Profit Non-Government Organisation is a medium sized entity in a reasonable financial position. |
| D | \$1,000,000 | \$623,111 | 5% | 100% | \$31,156 | Borrower D has a good balance sheet with a: |
| | | | | | | current ratio of 1.5 which is above 1 but the same as the industry average of 1.5. |
| | | | | | | Debt Ratio of 0.5 which is ok and the same above the industry average of 0.5 |
| | | | | | | Borrower D has reasonable cash which are not expected to change over the |
| | | | | | | ratio of 6.5 which is above the industry average of 5 and given the ratio is much larger than one indicates that they are not in any danger of default. |
| | | | | | | If Borrower D defaults on the loan it is not expected that the 'Burley Griffin Agency' will be able to recover any of the outstanding loan. This is because the loan is unsecured and it is unlikely that pursuing the Not-for-Profit Non- Government Organisation for any outstanding loan amount would result in the recovery of any money given the small size and weaker financial position of this entity. |

| Α | В | С | D | E | F | G |
|----------|-------------------------------|--|---------------------------|--------------------------|--|---|
| Borrower | Outstanding Loan Amount | Present Value of the Outstanding Loan Amount (C = B x PVP) | Probability of default | Loss given default | Expected Credit Loss Allowance F = (C x D x E) | Comments |
| E | \$1,500,000 | \$934,666 | 10% | 100% | \$93,467 | Given Borrower E has a weaker balance sheet with a: current ratio of 1.1 which is only just over 1 but is below the industry average of 1.5. Debt Ratio of 0.6 which is weak but above the industry average of 0.5. Borrower E has weaker cash inflows which are not expected to change over the foreseeable future. Further, Borrower E has a reasonable cash flow coverage ratio of 3.25 which is below the industry average of 5 but larger than one which indicates that a default is possible but not likely. If Borrower E defaults on the loan it is not expected that the 'Burley Griffin Agency' will be able to recover any of the outstanding loan. This is because the loan is unsecured and it is unlikely that pursuing the Not-for-Profit Non-Government Organisation for any outstanding loan amount would result in the recovery of any money given the small size and weaker financial position of this entity. |

| A | В | С | D | E | F | G |
|----------|-------------------------------|--|---------------------------|--------------------------|--|--|
| Borrower | Outstanding Loan Amount | Present Value of the Outstanding Loan Amount (C = B x PVP) | Probability of default | Loss given default | Expected Credit Loss Allowance F = (C x D x E) | Comments |
| F | \$750,000 | \$467,333 | 10% | 100% | \$46,733 | Borrower F has a weaker balance sheet with a: current ratio of 0.8 which is lower than 1 and is below the industry average of 1.5. Debt Ratio of 0.65 which is weak and above the industry average of 0.5 Borrower F has weaker cash inflows which are not expected to change over the foreseeable future. Further Borrower F has a reasonable cash flow coverage ratio of 3.05 which is below the industry average of 5 but larger than one which indicates that a default is possible but not likely. If Borrower F defaults on the loan it is not expected that the 'Burley Griffin Agency' will be able to recover any of the outstanding loan. This is because the loan is unsecured and it is unlikely that pursuing the Not-for-Profit Non-Government Organisation for any outstanding loan amount would result in the recovery of any money given the small size and weaker financial position of this entity. |

| A | В | С | D | E | F | G |
|----------|-------------------------------|--|---------------------------|--------------------------|--|---|
| Borrower | Outstanding Loan Amount | Present Value of the Outstanding Loan Amount (C = B x PVP) | Probability of default | Loss given default | Expected Credit Loss Allowance F = (C x D x E) | Comments |
| G | 2,750,000 | \$1,713,554 | 8% | 100% | \$137,084 | Borrower G has a weaker balance sheet with a: current ratio of 1.4 which is over 1 but is below the industry average of 1.5. Debt Ratio of 0.5 is ok and the same as the industry average of 0.5. Borrower G has weaker cash inflows which are not expected to change over the foreseeable future. Further Borrower G has a reasonable cash flow coverage ratio of 4.75 which is below the industry average of 5 but larger than one which indicates that a default is not likely. If Borrower G defaults on the loan it is not expected that the 'Burley Griffin Agency' will be able to recover any of the outstanding loan. This is because the loan is unsecured and it is unlikely that pursuing the Not-for-Profit Non-Government Organisation for any outstanding loan amount would result in the recovery of any money given the small size and weaker financial position of this entity. |
| Н | 4,500,000 | \$2,803,998 | 2% | 50% | \$28,040 | Borrower H has a strong balance sheet with a: current ratio of 1.75 which is over 1 and is above the industry average of 1.5. Debt Ratio of 0.3 is very good and better than the industry average of 0.5. Borrower H has strong cash inflows which are not expected to change over the foreseeable future. Further Borrower H has a very good cash flow coverage ratio |

| Α | В | С | D | E | F | G |
|----------|-------------------------------|--|---------------------------|--------------------------|--|--|
| Borrower | Outstanding Loan Amount | Present Value of the Outstanding Loan Amount (C = B x PVP) | Probability of default | Loss given default | Expected Credit Loss Allowance F = (C x D x E) | Comments |
| | | | | | | of 9.15 which is above the industry average of 5 and given the ratio is significantly larger than one indicates that they are not in any danger of default. If Borrower H defaults on the loan it is expected that the 'Burley Griffin Agency' will be able to recover \$0.50 in the dollar. This is because even though the loan is unsecured, it is considered that some of the outstanding loan amount could be recovered given Borrower H is a large entity and has a stronger financial position. |
| Ι | 3,000,000 | \$1,869,332 | 5% | 75% | \$70,100 | Borrower I has a good balance sheet with a: current ratio of 1.55 which is over 1 and is above the industry average of 1.5. Debt Ratio of 0.55 is ok and just higher than the industry average of 0.5. Given Borrower I is a medium sized entity, it is considered that if it defaults on the loan the amount recoverable will be \$0.25 in the dollar. Borrower I has good cash inflows which are not expected to change over the foreseeable future. Further, Borrower I has a good cash flow coverage ratio of 7.35 which is above the industry average of 5 and given the ratio is much larger than one indicates that they are not in any danger of default. If Borrower I defaults on the loan it is expected that the 'Burley Griffin Agency' will be able to recover \$0.25 in the dollar. This is because even though the loan is unsecured, it is considered that some of the outstanding loan amount could |

| А | В | С | D | E | F | G |
|----------|-------------------------------|--|---------------------------|--------------------------|--|--|
| Borrower | Outstanding Loan Amount | Present Value of the Outstanding Loan Amount (C = B x PVP) | Probability of default | Loss given default | Expected Credit Loss Allowance F = (C x D x E) | Comments |
| | | | | | | be recovered given the Not-for-Profit Non-Government Organisation is a medium sized entity in a reasonable financial position. |
| J | 6,000,000 | \$3,738,663 | 5% | 50% | \$93 <i>,</i> 467 | Borrower J has a strong balance sheet with a: current ratio of 1.9 which is well over 1 and is above the industry average of 1.5. Debt Ratio of 0.3 is very good and better than the industry average of 0.5. Borrower J has strong cash inflows which are not expected to change over the foreseeable future. Further, Borrower J has a very good cash flow coverage ratio of 8.95 which is above the industry average of 5 and given the ratio is significantly larger than one indicates that they are not in any danger of default. If Borrower J defaults on the loan it is expected that the 'Burley Griffin Agency' will be able to recover \$0.50 in the dollar. This is because even though the loan is unsecured, it is considered that some of the outstanding loan amount could be recovered given Borrower A is a large entity and has a stronger financial position. |
| Total | \$30,000,000 | \$18,693,318 | | | \$725,924 | |

C.2 ASSESSING LOANS RECEIVABLE USING A 'LOSS RATE' APPROACH

Agencies can use a 'Loss Rate' Approach when assessing whether the credit risk on a concessional loan has increased significantly since initial recognition or when measuring expected credit losses. A 'Loss Rate' Approach does not explicitly include a probability of default as an input. In using this approach Agencies need to be able to separate the changes in the risk of a default occurring from changes in other drivers of expected credit losses, such as collateral, and considers the following when making the assessment:

- the change in the risk of a default occurring since initial recognition;
- the expected life of the financial instrument; and
- reasonable and supportable information that is available without undue cost or effort that may affect credit risk.

When developing loss rates, Agencies need to assess their historical default and loss experience for the same or similar types of loans, where this information is available. An agency should consider its historical default and loss experience over a two-to-five-year period. However, agencies are encouraged to use more data to calculation their loss rate where it is available.

Once the historical default and loss experience has been determined, Agencies then need to adjust this for forward-looking information like current and forecasted future economic conditions.

Example C.2 - based on the Information contained in Attachment A.1

'Burley Griffin Agency' is planning on running a Concessional Loan Scheme which provides loans to members of the public to assist them in purchasing an Electric Vehicle (EV). Each loan will be up to \$100,000 and the total size of the scheme is \$15 million, which will result in at least 150 loans being provided as part of the scheme.

Previously, the 'Burley Griffin Agency' ran a similar 'concessional loan scheme' for solar panels. Historically, based on a similar 'concessional loan scheme' for solar panels, the loss rate was 1.01 per cent, based on 19 defaults and a total number of 1,200. Details of the previously 'concessional loan scheme' for solar panels is outlined in the two tables below.

| Principal (PR) | Market Rate (MR) | Concessional Rate (CR) | Forward Looking Adjustment (FLA) | Loan Term (LT) |
|-------------------|---------------------|---------------------------|--|-------------------|
| \$18,000,000 | 5.75% | 2.00% | 3% | 8 years |

| Α | В | С | D | E | F | G |
|------------------------|---|---|---|------------------|--------------------------------------|-----------|
| Number of Borrowers | Estimated per Borrower Gross Carrying Amount | Total Estimated Gross Carrying Amount | Historic per Annum Average Defaults | Observed Loss | Present value of observed loss | Loss rate |
| | | C = A x B | | E = B x D | F = E/(1+MR)^LT | G = F / C |
| 1,200 | \$15,000 | \$18,000,000 | 19 | \$285,000 | \$182,222 | 1.01% |

It was assessed that the risk profile of borrowers in the solar panel concessional loan scheme is similar to the new concessional loan scheme for EVs. As such, 'Burley Griffin Agency' has determined that it is appropriate to use the loss rate of 1.01% from the solar panels scheme for the new EV scheme.

| н | I | J | К | L |
|---|---------------|----------------------------------|-----------------------|-----------------------------------|
| Total Estimated Gross Carrying Amount | Loss rate | Forward Looking Adjustment | Adjusted Loss rate | Expected Credit Loss Allowance |
| | From Column G | From Column FLA | K = I x (1 + J) | L = H x K |
| \$15,000,000 | 1.01% | 3.00% | 1.04% | \$156,000 |

A slightly higher loss rate is expected based on forward looking estimates, so the historical loss rate has been adjusted upwards (3% in this example) to take this into account. Therefore, the Expected Credit Loss allowance for the new concessional loan scheme for EVs is \$156,000.

C.3 DEVELOPING A PROVISION MATRIX

A provision matrix assigns expected loss percentages to different ageing bands of loans receivable to estimate the expected credit loss for the whole portfolio. This method is particularly useful where agencies issue invoices to borrowers for the payment of their loan instalments. The percentages are calculated based on historical credit experience, adjusted by current conditions and forward-looking data. Where a new 'concessional loan scheme' is being established, and as a result there is no historical loss data available, then historical data from a similar loan scheme that the agency has run in the past could be used. Where the agency has not run a similar loan scheme in the past, then similar schemes run by other ACT Government agencies or other state or territory government agencies could be used.

In assessing whether a previously run loan scheme is similar to the loan scheme being considered, an agency should look at the composition of the borrowers. For example, a previous loan scheme and a proposed new loan scheme both involve loans for the purchase of energy-efficient products. However, the previous loan scheme lent to small business and the proposed new loan scheme is lending to

individuals. In this case, given these schemes have a different composition of borrowers and therefore a different loss profile, it would be inappropriate to use the previous loan scheme's loss data to calculate the expected credit loss allowance for the proposed new loan scheme.

Agencies need to consider whether certain groups of borrowers exhibit different loss patterns and estimate loss rates separately for the different 'borrower' groups.

When determining historical credit loss rates, agencies are encouraged to use as much historical data as is reasonably available in a cost-effective manner. Judgement is needed to determine the period over which reliable historical data can be obtained that is relevant to the future period over which loan receivables will be collected. In general, the period should be realistic – not an unrealistically short or long period of time. In practice, the period could span two to five years. However, agencies are encouraged to use more data to calculation their expected credit loss where it is available.

Example C.3 – Calculation of a Provision Matrix

Below is an example to show how the impairment calculation would be developed to make an impairment allowance under AASB 9.

Step 1 – Identify debtor groups with similar loss patterns

Agencies may need to separately identify loss rates for the different revenue streams.

Step 2 – Obtain historical data

Agencies need to collect historical data on all debts issued and the subsequent collection and or non-collection of those debts.

| All loan payments issued in the last 3 years | \$10,000,000 |
|---|--------------|
| Loan payments collected by due date | \$9,170,000 |
| Loan payments collected between 1-30 days past due | \$620,000 |
| Loan payments collected between 31-60 days past due | \$100,000 |
| Loan payments collected between 61-90 days past due | \$60,000 |
| Loan payments collected after 90 days overdue | \$35,000 |
| Loan payments that were eventually uncollected | \$15,000 |

Step 3 – Calculate historical loss rates

Using this data, agencies can calculate the historical loss rates for each ageing band by dividing the uncollectable debts by the total of debts that had cumulatively fallen within each ageing category.

| Ageing Band | Classification | Outstanding Balance | Historical Loss Rate |
|-------------|--|------------------------|----------------------------|
| Current | All loan payments issued in the past 3 years | \$10,000,000 | 0.15% (\$15k/\$10m) |
| 1-30 days | Loan payments that had become overdue | \$830,000 | 1.81% (\$15k/\$0.830m) |
| 31-60 days | Loan payments that had become > 30 days overdue | \$210,000 | 7.14% (\$15k/\$0.210m) |
| 61-90 days | Loan payments that had become > 60 days overdue | \$110,000 | 13.64% (\$15k/\$0.110m) |
| 90+ days | Loan payments that had become > 90 days overdue | \$50,000 | 30.00% (\$15k/\$50k) |
| | Loan payments that were eventually uncollected | \$15,000 | |

Monies are considered uncollectable and therefore written off when it is considered impossible or uneconomical to recover moneys owing to an agency. However, a write-off of debts does not preclude recovery of the debt at a later date. If the debtor's circumstances change in future, the debt can be pursued. The decision to write-off a debt must be made by an authorised delegate.

Step 4 – Apply an Adjustment for forward looking estimates

Agencies then need to consider forecasts of macroeconomic conditions such as unemployment rates and interest rates and their expected impacts on the default rates of loans receivable. In the forwardlooking example below, a slightly higher loss rate is expected and historical loss rates are adjusted upwards (3% in this example) to take this into account.

| | Current | 1-30 days Past Due | 31-60 Days Past Due | 61-90 Days Past Due | More Than 90 Days Past due |
|------|--------------|-----------------------|------------------------|------------------------|-------------------------------|
| Loss | 0.15% x 1.03 | 1.81% x 1.03 | 7.14% x 1.03 | 13.64% x 1.03 | 30.00% x 1.03 |
| Rate | = 0.16% | = 1.86% | = 7.35% | = 14.05% | = 30.90% |

Step 5 – Calculate the Loss Allowance

Finally, agencies apply the adjusted loss percentages to the gross carrying amount of its borrowers within each ageing band to calculate the total 12 month expected losses for this revenue stream of borrowers.

| | Borrower Gross Carrying amount | Adjusted Loss | 12 Month Expected Credit Losses |
|----------------|-----------------------------------|---------------|------------------------------------|
| | \$ | % | \$ |
| Current | 1,000,000 | 0.16% | 1,600 |
| 1-30 days | 100,000 | 1.86% | 1,860 |
| 31-60 days | 50,000 | 7.35% | 3,675 |
| 61-90 days | 20,000 | 14.05% | 2,810 |
| 90+ days | 3,000 | 30.90% | 927 |
| Loss Allowance | | | 10,872 |

The forward looking adjustment, as applied in step 4 above can be an increase, nil, or a decrease depending upon the future economic conditions compared with the period represented by the agency's historical data.

ATTACHMENT D - DETAILED EXAMPLES OF A CONCESSIONAL LOAN PAYABLE

Background Information

The Zero Emissions Government Fund (formally known as the Carbon Neutral Government Fund) was announced in the 2012-13 ACT Government Budget with the purpose of providing loans to ACT Government Agencies to undertake larger scale energy and resource efficient projects to reduce greenhouse gas emissions and address the impact of rising utility costs. The fund demonstrates that the ACT Government is taking a positive step towards reducing emissions as well as directly supporting the ACT Government's goal of achieving carbon neutrality. The fund is administered by the 'Environment, Planning and Sustainable Development Directorate' (EPSDD). It is not the intention of EPSDD to sell these loans to recover the principal, but to recover the value of the loans through the collection of the underlying cash flows. Given the borrowers under the scheme are all ACT Government Agencies, in accordance with ACT Government Policy, EPSDD has not recognised any expected credit losses for these loans.

EPSDD and 'Burley Griffin Agency' entered into a memorandum of understanding on 1 July 2021 for a Concessional Loan of \$3,500,000 (GST Exclusive) from the Zero Emissions Government Fund. There were no transaction costs incurred which were directly attributable to the issue of the concessional loan. The purpose of the concessional loan is for the 'Burley Griffin Agency' to install solar photovoltaic pv panels, battery storage, generator back-up systems and upgrading to LED lights at all the buildings owned by the Agency. The concessional loan is interest free and if 'Burley Griffin Agency' were to borrow the funds would pay an interest rate of 2.75 per cent².

The amount of the concessional loan will be repaid over the next 8 years so that the loan will be fully repaid by 30 June 2029. The repayment of the loan will be made in equal annual principal repayments in accordance with the schedule contained in the memorandum of understanding as follows:

| Repayment Schedule | Payment Date | Amount (\$, excl GST) | |
|--------------------|--------------|-----------------------|--|
| Payment 1 | 30 June 2022 | 437,500 | |
| Payment 2 | 30 June 2023 | 437,500 | |
| Payment 3 | 30 June 2024 | 437,500 | |
| Payment 4 | 30 June 2025 | 437,500 | |
| Payment 5 | 30 June 2026 | 437,500 | |
| Payment 6 | 30 June 2027 | 437,500 | |
| Payment 7 | 30 June 2028 | 437,500 | |
| Payment 8 | 30 June 2029 | 437,500 | |

If the project achieves a faster payback on investment than anticipated in the application, the 'Burley Griffin Agency' may consider an earlier repayment schedule than that included in the table above. The loan is not repayable on demand.

² Note that 2.75% has been used as an example only. Agencies should determine an appropriate rate at the time the loan is being entered into. Agencies can use the appropriate Incremental Borrowing Rate published on the Accounting in the ACT Government website: <u>https://www.treasury.act.gov.au/accounting</u>.

The 'Burley Griffin Agency' will provide data that establishes the pre investment position and post investment performance of assets funded through the loan. In addition, 'Burley Griffin Agency' will provide quarterly status reports in relation to progress made with the loan funds and an annual progress report on the energy savings achieved by the project.

Accounting Treatment

The loan is classified as a financial asset for EPSDD and a financial liability for 'Burley Griffin Agency' measured at amortised cost as it is held only to collect contractual cash flows and these cash flows are repayments of principal on specified dates. As the loan agreement was signed at the date the funds were provided, no payable will be initially recognised.

The following needs to be account for:

- discounted cash flow analysis;
- amortisation schedule for the market-based loan; and
- calculation of the discount unwinding.

Upon initial recognition the loan receivable for EPSDD and the Loan Payable for 'Burley Griffin Agency' are measured at fair value plus transaction costs. To determine fair value, a discounted cash flow analysis has been undertaken.

| Principal (PR) | Market Rate (MR) | Concessional Rate (CR) | Payment Frequency (PF) | Loan Term (LT) |
|-------------------|---------------------|------------------------------|------------------------------|-------------------|
| 3,500,000 | 2.75% | 0.00% | 1 per year | 8 years |

| А | В | С | D | E | F |
|--------------------|---------------------------------|------------------------|--|--|---|
| Period (Annual) | Reduction of the Loan Amount | Annual Payment (AP) | Present Value at Market Rate (2.75%) | Present Value at Concessional Rate (0.00%) | Difference Between PV at Discount Rate and PV at Market Rate |
| | In year 1 | Payments are | D = C/(1+MR) ^A | E = C/(1+CR) ^A | F = E - D |
| | B = PR | from the MOU | | | |
| | In year 2 onwards | with EPSDD | | | |
| | B = B - C | | | | |
| 1 | 3,500,000 | 437,500 | 425,791 | 437,500 | 11,709 |
| 2 | 3,062,500 | 437,500 | 414,395 | 437,500 | 23,105 |
| 3 | 2,625,000 | 437,500 | 403,304 | 437,500 | 34,196 |
| 4 | 2,187,500 | 437,500 | 392,510 | 437,500 | 44,990 |
| 5 | 1,750,000 | 437,500 | 382,005 | 437,500 | 55,495 |
| 6 | 1,312,500 | 437,500 | 371,781 | 437,500 | 65,719 |
| 7 | 875,000 | 437,500 | 361,831 | 437,500 | 75,669 |
| 8 | 437,500 | 437,500 | 352,147 | 437,500 | 85,353 |
| Total | | 3,500,000 | 3,103,764 | 3,500,000 | 396,236 |

At initial recognition, the present value of the Concessional Loan at the market rate of 2.75% is \$3,103,764 compared to the present value of the Concessional Loan at the concessional rate of 0% of \$3,500,000. The fair value of the loan is less than the concessional value of the loan, because the rate being charged is below the standard market rate that a scheme participate would pay for a similar loan in the market. The difference between the two of \$396,236 is taken up as a Concessional Loan Discount Expense by EPSDD and as Concessional Loan Discount Income by 'Burley Griffin Agency'.

| G | Н | I | J | К |
|--------------------|---|------------------------------------|--------------------------|---|
| Period (Annual) | Loan Receivable at the Beginning of the Year | Revenue - Unwinding of Discount | Annual Repayment (AP) | Loan Receivable at the End of the Year |
| | First Year from the Total | I = H * MR | Figures from Column C | K = H + I - J |
| | in Column F | | | |
| | Subsequent years from | | | |
| | Column K | | | |
| 1 | 3,103,764 | 85,353 | 437,500 | 2,751,617 |
| 2 | 2,751,617 | 75,669 | 437,500 | 2,389,786 |
| 3 | 2,389,786 | 65,719 | 437,500 | 2,018,005 |
| 4 | 2,018,005 | 55,495 | 437,500 | 1,636,000 |
| 5 | 1,636,000 | 44,990 | 437,500 | 1,243,490 |
| 6 | 1,243,490 | 34,196 | 437,500 | 840,186 |
| 7 | 840,186 | 23,105 | 437,500 | 425,791 |
| 8 | 425,791 | 11,709 | 437,500 | 0 |
| Total | | 396,236 | 3,500,000 | |

| L | Μ | Ν | 0 | Р | Q |
|--------------------|--|---------------------------------------|---|--|--|
| Period (Annual) | Remaining Loan Discount at the Beginning of the Year | Revenue - Unwinding of Discount | Interest Payment at Concessional Interest Rate (0.00%) | Revenue from the Unwinding of Concessional Loan Discount Expense | Remaining Loan Discount at the End of the Year |
| | First Year from the | Figures from | O = B x CR | P = N - O | Q = M - P |
| | Total in Column F | Column I | | | |
| | Subsequent years | | | | |
| | from Column Q | | | | |
| 1 | 396,236 | 85,353 | 0 | 85,353 | 310,883 |
| 2 | 310,883 | 75,669 | 0 | 75,669 | 235,214 |
| 3 | 235,214 | 65,719 | 0 | 65,719 | 169,495 |
| 4 | 169,495 | 55,495 | 0 | 55,495 | 114,000 |
| 5 | 114,000 | 44,990 | 0 | 44,990 | 69,010 |
| 6 | 69,010 | 34,196 | 0 | 34,196 | 34,814 |
| 7 | 34,814 | 23,105 | 0 | 23,105 | 11,709 |
| 8 | 11,709 | 11,709 | 0 | 11,709 | 0 |
| Total | | 396,236 | 0 | 396,236 | |
<u>Journals</u>

| | Accounts | Column Ref | Year | | | | | | | | |
|--|---|-------------------|----------------|--------------|-----------|---------|---------|---------|---------|---------|---------|
| | | in Above | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| | | Workings | | | | | | | | | |
| EPSE | DD (Provider) | | | | | | | | | | |
| DR | Concessional Loan Discount Expense | F | 396,236 | | | | | | | | |
| DR | Loan Receivable | D | 3,103,764 | | | | | | | | |
| CR | Cash at Bank | | 3,500,000 | | | | | | | | |
| Journal to recognise the concessional loan receivable and the concessional loan discount expense at the commencement of the Concessional Loan. | | | | | | | | | | | |
| | | | | | | | | | | | |
| Bur | ley Griffin Agency' (Borrower/Recipient) | | 2 5 0 0 0 0 0 | | | | | | | | |
| DR | Cash at Bank | _ | 3,500,000 | | | | | | | | |
| CR | Loan Payable (Concessional Loan) | D | 3,103,764 | | | | | | | | |
| CR | Concessional Loan Discount Income | F | 396,236 | | | | | | | | |
| Journal to recognise the concessional loan payable and the concessional loan discount income at the commencement of the Concessional Loan. | | | | | | | | | | | |
| EPS | DD (Provider) | | | | | | | | | | |
| DR | Cash | | | 437,500 | 437,500 | 437,500 | 437,500 | 437,500 | 437,500 | 437,500 | 437,500 |
| CR | Loan Receivable (Concessional Loan) | С | | 437,500 | 437,500 | 437,500 | 437,500 | 437,500 | 437,500 | 437,500 | 437,500 |
| CR | Interest Revenue Received | 0 | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Journal to recognise the payment of principal and interest received at the end of each financial year from the Concessional Loan. | | | | | | | | | | | |
| | Leen Dessivelle (Conservingel Leen) | | | 05 252 | 75.000 | CE 710 | | 44.000 | 24.400 | 22.405 | 11 700 |
| DR | Loan Receivable (Concessional Loan) | 1 | | 85,353 | 75,669 | 65,719 | 55,495 | 44,990 | 34,196 | 23,105 | 11,709 |
| CR | Revenue from the Unwinding of Concessional Loan | I | | 85,353 | /5,669 | 65,719 | 55,495 | 44,990 | 34,196 | 23,105 | 11,709 |
| | Discount Expense | | | . . | | | | | | | |
| Jour | nal to recognise the increase in the Loan Receivable each ye | ear due to the ur | winding of the | e Concession | al Loans. | | | | | | |
| 'Burley Griffin Agency' (Borrower/Recipient) | | | | | | | | | | | |
| DR | Interest Expense | 0 | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| DR | Loan Pavable (Concessional Loan) | C | | 437.500 | 437,500 | 437.500 | 437.500 | 437.500 | 437.500 | 437.500 | 437.500 |
| CR | Cash | - | | 437.500 | 437.500 | 437.500 | 437.500 | 437.500 | 437.500 | 437.500 | 437.500 |
| Journal to recognise the payment of principal and interest provided at the end of each financial year from the Concessional Loan. | | | | | | | | | | | |
| | С | | | , | | | | | | | |
| DR | Expense from the Unwinding of Concessional Loan | I | | 85,353 | 75,669 | 65,719 | 55,495 | 44,990 | 34,196 | 23,105 | 11,709 |
| | Discount Income | | | | | | | | | | |
| CR | Loan Payable (Concessional Loan) | I | | 85,353 | 75,669 | 65,719 | 55,495 | 44,990 | 34,196 | 23,105 | 11,709 |
| Jour | Journal to recognise the increase in the Loan Payable each year due to the unwinding of the Concessional Loans. | | | | | | | | | | |

| Version | Date | Author | Revision notes |
|---------|------------|--|---|
| 1.0 | April 2023 | Financial Reporting and Framework Branch | First release |
| 2.0 | April 2023 | Financial Reporting and Framework Branch | Amendment to 2.5 Funding of Concessional Loans – Diagram 2 |



Chief Minister, Treasury and Economic Development Directorate

April 2023