



PSAB AT A GLANCE

Section PS 3310 - Loan Guarantees

Section PS 3310 - *Loan Guarantees*

LOAN GUARANTEE

- A loan guarantee is a promise to pay all or a part of the principal and / or interest on a debt obligation in the event of default by the borrower.
- Government loan guarantees must be accounted for and reported as contingent liabilities in the government's financial statements.

PROVIDING FOR LOSSES

- When it is determined that a loss is likely, a provision for losses on loan guarantees must be established and must be accounted for as a liability in the Statement of Financial Position and as an expense in the Statement of Operations.
- Refer to the guidance in paragraph PS 3390.09 for factors that may indicate a loss is likely.

ESTIMATING THE PROVISION FOR LOSSES

- The following must be taken into account in determining the provision for losses on loan guarantees:
 - The principal amount outstanding;
 - Accrued and unpaid interest, if it is guaranteed; and
 - Amounts recoverable from the borrower and from the sale of assets pledged as security.
- The provision for losses on loan guarantees must be determined using the best estimates available in light of past events, current conditions, and all circumstances known at the date of preparation of the financial statements.
- Present value techniques may be used to measure the provision. The average borrowing rate of the government may be an appropriate discount rate.

REMOVAL OF THE PROVISION OF LOSSES FROM THE FINANCIAL STATEMENTS

- When the guaranteed loan has been discharged or the term of the guaranteed loan has expired, the provision for loss on the loan guaranteed must be removed from the government's Statement of Financial Position.
- In the case where the government has made payments under the terms of a guarantee and has recourse to recover amounts paid from the borrower, these amounts must be accounted for in accordance with Section PS 3050, *Loans Receivable*.

GUARANTEED LOANS TO BE REPAYED FROM FUTURE GOVERNMENT ASSISTANCE

- In the period when a direct relationship can be established between the repayment of the loan and the government's funding to the borrower, the amount of the guaranteed loan that is expected to be repaid from future government assistance must be accounted for as a liability in the Statement of Financial Position and as an expense in the Statement of Operations.
 - The portion of the assistance that is used to make principal payments on a guaranteed loan accounted for as described above must be charged against the liability.
 - The portion of the assistance related to interest on the guaranteed loan must be recorded as an expense.



20 Wellington Street East
Suite 500
Toronto ON M5E 1C5
416-865-0111
www.bdo.ca

This publication has been carefully prepared, but it has been written in general terms and should be seen as broad guidance only. The publication cannot be relied upon to cover specific situations and you should not act, or refrain from acting, upon the information contained therein without obtaining specific professional advice. Please contact BDO Canada LLP to discuss these matters in the context of your particular circumstances. BDO Canada LLP, its partners, employees and agents do not accept or assume any liability or duty of care for any loss arising from any action taken or not taken by anyone in reliance on the information in this publication or for any decision based on it.

BDO Canada LLP, a Canadian limited liability partnership, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms.