

Debt concessionality

Summary conclusion

Questions

- (a) Is the approach of defining debt concessionality based on the intention of the creditor to convey a benefit in a noncommercial setting, such as government-to-government loans acceptable?
- (b) Would option d) (following) be an acceptable outcome?
Option (d): to record concessional debt in nominal value but record, as a supplementary item, one-off transfers at the point of loan origination equal to the difference between the nominal value of the debt and its present value using a relevant market discount rate. This option has the advantage of considering all the possible sources of transfers in debt concessionality—maturity period, grace period, frequency of payments as well as the interest rate—and is consistent with nominal valuation of loans.
- (c) Does the AEG consider that further work should be encouraged to obtain better measures of appropriate market equivalent rates to be used as the discount factor, but regard the Commercial interest reference rate (CIRR) as an acceptable proxy in the absence of other information given its wide use in debt reorganization?

Outcomes

- (a) The AEG was concerned that the proposals presented could potentially run counter to some core national accounting principles. The approach needs to be presented further refined and, as an interim step, debt concessionality should be handled via supplementary items and only concern official-to-official lending.
- (b) The AEG was reluctant to make a definitive decision on the preferred option because different options appear to be applicable in different situations. The AEG inclined to prefer option (b) (see following paragraph) until further research is undertaken to set out the characteristics of the different options and the situation(s) in which each may or may not be applicable. In addition, it was noted that option (d) does not provide a comprehensive system of recording. The AEG considered that further research is required.
Option (b): to record concessional debt in nominal value but account for the difference between the market interest rate and the contractual interest rate on the debt as an on-going current transfer. While this option is consistent with nominal valuation of loans, its key weakness is that it uses an interest rate that is likely to be out of line with evolution of market interest rates.
- (c) The AEG agreed that debt concessionality should be put on the long-term research agenda.