

Wayne Upton
IFRS Interpretations Committee
30 Cannon Street
London
EC4M 6XH
United Kingdom

Ref: The IFRS Interpretations Committee's tentative agenda decisions on IAS 20 – Accounting for recoverable cash payments

Dear Mr Upton,

The European Securities and Markets Authority (ESMA) thanks you for the opportunity to respond to the IFRS Interpretations Committee's (IFRS IC) publication in the November 2015 IFRIC Update of the tentative agenda decision related to the application of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*. We are pleased to provide you with the following comments with the aim of improving the consistent application and enforceability of IFRSs.

ESMA has considered the IFRS IC's tentative decision not to add to its agenda the request for clarification¹ it received whether cash payments made by a government to help an entity finance a research and development project should be accounted for as a liability (on the basis that it is a forgivable loan as defined in IAS 20) or recognised in profit or loss when received (on the basis that it is a government grant as defined in IAS 20).

ESMA notes that the IFRS IC observed that the arrangement described in the submission would give rise to a financial liability and that many members of the IFRS IC thought that the arrangement would also meet the definition of a forgivable loan.

ESMA agrees that arrangements described in the submission give rise to a financial liability, but considers that an analysis of the fact pattern, as described in the submission, should include the assessment whether there is a benefit of a government loan at a belowmarket rate as also suggested in the the staff paper's draft agenda decision:

¹ Letter to the IFRS IC: Agenda Item Request: Recoverable cash advances, 17 August 2015, ESMA/2015/1258

- The entity should first assess whether the cash payments by the government have favourable terms and are similar to a loan from the government at belowmarket rate. According to paragraph 10A of IAS 20 the benefit from a government loan at a belowmarket interest rate has to be treated as a government grant. The favourability in many of the arrangements similar to those described in the submission, is primarily related to the fact that the loans are forgivable, whereas the interest rate charged is a market-interest rate for a non-forgivable loan. Considering that the market-interest rate of a loan with similar terms and conditions and uncertainties for the lender could normally be expected to be higher than for a non-forgivable loan (especially because in the arrangements under examination the loan is not reimbursable at the discretion of the borrower), it could be argued that these arrangements seem to be similar to government loans at a belowmarket rate of interest.
- The remaining portion of the cash payment that is not a benefit is a forgivable loan. As the IFRS IC observed in its tentative decision agenda, judgment is required in making the assessment whether the loan will be forgiven.

ESMA has concerns that the interplay between paragraphs 10 and 10A of IAS 20 is not entirely clear. On the one hand, according to paragraph 10, the forgivable loan is only treated as a government grant once there is reasonable assurance for forgiveness. On the other hand, for the reasons above, it could be argued that forgivable loans, as described in the submission, are loans from government at belowmarket rate of interest for which, according to paragraph 10A of IAS 20, the benefit would have to be recognised already when the recoverable cash payments are received.

Therefore, ESMA recommends to amend the analysis in the agenda decision and urges the IFRS IC to complement the agenda decision in order to clarify whether the benefit provided by the government's recoverable cash payments (i.e. not reimbursable based on a borrower's decision to abandon a project) compared to a financing arrangement from other sources with similar terms and conditions (but without the forgivable character) should be accounted for as a government grant in accordance with IAS 20 (i.e. whether the forgivable character of the loan should be taken into account when determining the fair value of the loan at initial recognition).

We would be happy to discuss these issues further with you.

Yours sincerely,

A handwritten signature in blue ink, appearing to be 'S. Majoor', written over a horizontal line.

Steven Majoor