IAS 20 - *Accounting for Government Grants and Disclosure of Government Assistance* (May 2016)

Accounting for Government Grants and Disclosure of Government Assistance—Accounting for repayable cash receipts

The Interpretations Committee received a request to clarify the accounting for cash received from a government to help an entity finance a research and development project. More specifically, the request asked whether the entity must recognise the cash received as a liability (on the basis that the entity has received a forgivable loan as defined in IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*) or in profit or loss (on the basis that the entity has received a government grant as defined in IAS 20). The cash received from the government is repayable in cash only if the entity decides to exploit and commercialise the results of the research phase of the project. The terms of that repayment can result in the government receiving as much as twice the amount of the original cash proceeds if the project is successful. If the entity decides not to exploit and commercialise the results of the research phase, the cash received is not repayable in cash, but instead the entity must transfer to the government the rights to the research.

The Interpretations Committee noted that, in this arrangement, the entity has obtained financing for its research and development project. The Interpretations Committee observed that the cash receipt described in the submission gives rise to a financial liability (applying paragraph 20(a) of IAS 32 *Financial Instruments: Presentation*) because the entity can avoid a transfer of cash only by settling a non-financial obligation (ie by transferring the rights to the research to the government). The entity accounts for that financial liability applying IFRS 9 *Financial Instruments* (IAS 39 *Financial Instruments: Recognition and Measurement*).

The Interpretations Committee noted that, in the arrangement described in the submission, the cash received from the government does not meet the definition of a forgivable loan in IAS 20. This is because, in this arrangement, the government does not undertake to waive repayment of the loan, but rather to require settlement in cash or by transfer of the rights to the research.

The Interpretations Committee noted that, applying paragraph B5.1.1 of IFRS 9 (paragraph AG64 of IAS 39), the entity assesses at initial recognition whether part of the cash received from the government is for something other than the financial instrument. For example, in the fact pattern described in the submission, part of the cash received (the difference between the cash received and the fair value of the financial liability) may represent a government grant.
If this is the case, the entity accounts for the government grant applying IAS 20.

The Interpretations Committee noted that the requirements in IFRS Standards provide an adequate basis to enable an entity to account for the cash received from the government.

In the light of the existing requirements in IFRS Standards, the Interpretations Committee determined that neither an Interpretation nor an amendment to a Standard was necessary. Consequently, the Interpretations Committee decided not to add this issue to its agenda.