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

18 January 2016

Dear Mr Upton

Tentative agenda decision – IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*: Accounting for recoverable cash payments

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the November IFRIC Update of the tentative decision not to take onto the Committee's agenda a request for clarification of whether a cash payment made by government to fund a research project that is repayable only if the entity decides to commercialise the project's output should be characterised as a financial liability or a government grant.

Whilst we agree that the conclusion that the specific instrument described is a financial liability is supportable and that judgement is required in determining whether the definitions in IAS 20 are met, we do not believe that the statement in the tentative agenda decision that "many members of the Interpretations Committee thought that the arrangement also met the definition of a forgivable loan" is helpful as this also implies that some members thought that it did not. We recommend that the tentative agenda decision include only statements upon which the Committee as a whole can reach consensus.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely

Veronica Poole
Global IFRS Leader

MAZARS

Mr. Wayne Upton

IFRS Interpretation Committee
30 Cannon Street
London EC4M 6XH
United Kingdom

Paris, January 29, 2016

RE: IFRS Interpretations Committee tentative agenda decisions, November 2015

Dear Wayne,

MAZARS is pleased to comment on the various IFRS Interpretations Committee tentative agenda decisions published in the September IFRIC Update.

We have gathered all our comments as appendices to this letter. Should you prefer us to prepare separate comment letter for each tentative agenda decision, please let us know.

Should you have any questions regarding our comments, please do not hesitate to contact Michel Barbet-Massin (+33 1 49 97 62 27) or Edouard Fossat (+33 1 49 97 65 92).

Best regards,

Michel Barbet-Massin
Head of Financial Reporting
Technical Support

Edouard Fossat
Deputy Head of Financial Reporting
Technical Support

MAZARS

Appendix 4

IAS 20 Accounting for Government Grants and Disclosure of Government Assistance—Accounting for recoverable cash payments (Agenda Paper 7)

We agree with the IFRS Interpretations Committee's decision not to add this issue onto its agenda, and with the rationale expressed in the tentative agenda decision.

pwc

Mr Wayne Upton
Chairman of the IFRS Interpretation Committee
30 Cannon Street
London
EC4M 6XH

21 January 2016

Dear Mr Upton,

Tentative agenda decision: IAS 20 Accounting for Government Grants and Disclosure of Government Assistance—Accounting for recoverable cash payments (Agenda Paper 7)

We are responding to your invitation to comment on the above tentative agenda decision, published in the November 2015 edition of IFRIC Update, on behalf of PricewaterhouseCoopers. This response summarises the views of member firms that commented on the tentative agenda decision. 'PricewaterhouseCoopers' refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We agree with the Committee's conclusion that this item should not be taken onto the agenda. However, we suggest that the draft agenda decision is revised in several areas.

Firstly, the Committee "observed that diversity in practice appeared to be limited". Our experience is that there are many different types of arrangement in which government or government agencies provide specific support to private entities in exchange for those entities complying with specific conditions. The different structures and objectives of these arrangements might give rise to different accounting. However, we have also observed diversity in the accounting that is applied to arrangements similar to those described in the agenda decision. We suggest the agenda decision is revised to remove the reference to there being limited diversity.

Secondly, the tentative agenda decision notes that the arrangements described are a financial liability within the scope of IFRS 9 *Financial Instruments* but does not explain the basis for this observation. It also implies that it is necessary to first assess whether an arrangement meets the definition of a financial liability before considering the guidance in IAS 20 *Government Grants* to determine whether the arrangement is also a forgivable loan. We do not believe the literature requires one standard to take precedence over the other in the absence of specific scope guidance. We suggest that the agenda decision is revised to describe the basis for the Committee's observations and to explain that an arrangement could meet the definition of both a forgivable loan and a financial liability.

Finally, we agree that judgment is required to determine whether the arrangement meets the definition of a forgivable loan within the scope of IAS 20 and, if it does, when there is reasonable assurance that the loan will be forgiven.

If you have any questions, please contact Paul Fitzsimon, PwC Global Chief Accountant (+1 416 869 2322).

Yours sincerely

PricewaterhouseCoopers

PricewaterhouseCoopers

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Wayne Upton
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Berlin, 19 January 2016

Dear Wayne,

IFRS IC's tentative agenda decisions in its November 2015 meeting

On behalf of the Accounting Standards Committee of Germany (ASCG), I am writing to comment on several tentative agenda decisions taken by the IFRS IC, as published in the November 2015 *IFRIC Update*. Please find our detailed comments in the appendix to this letter.

If you would like to discuss our views further, please do not hesitate to contact Jan-Velten Große or me.

Yours sincerely,

Andreas Barckow
President

Appendix A – Comments on tentative agenda decisions

IAS 39/IFRS 9 – Derecognition of modified financial assets

We consider the decision being inappropriate given that there is an issue in practice. While the IFRS IC take the view that it is not appropriate to progress with the issue "at this time" and that it cannot be resolved "through an interpretation", we point to the fact that there are other means to address an issue, even in case it is a broad one. We suggest the IASB take action and deliberate a clarification as to how and when to derecognise modified financial assets and potentially charge the IFRS IC in developing respective proposals. Otherwise, we clearly see the danger that other parties, esp. out of the regulatory domain, will take the lack of clarity as a reason to develop second level GAAP.

IAS 39/IFRS 9 – Determining hedge effectiveness for net investment hedges

We agree with the decision.

IAS 20 – Accounting for recoverable cash payments

Generally, we are not convinced that the rationale for clarifying whether and how IAS 20 applies, i.e. whether there is a government grant (thus P/L recognition) or a forgivable loan (thus liability recognition), is appropriate. As per the IFRIC Update, many Committee members thought that the definition of a forgivable loan might be fulfilled, while the (full) Interpretations Committee clearly observed that there is a financial liability, which is contradictory in itself. Rather, fulfilling the definition of a forgivable loan is a necessary (but not sufficient) condition for recognising a financial liability.

In particular, we object to the finding that the arrangement described is a financial liability. Taking into account the (few) details given we would have concluded that fulfilling the conditions for a repayment is at the very discretion of the entity having received the cash payment; hence, there is clearly no financial liability.

IAS 32 – Offsetting and cash pooling

We agree with the decision for not taking the issue onto the IFRS IC's agenda, given the many different facts and circumstances existing in practice.

IAS 36 – Recoverable amount and carrying amount of a CGU

We agree with the IFRS IC's view that an answer being derived from the notion of IAS 36.78 provides for sufficiently clear guidance. However, we share the implicit question of whether the requirement of IAS 36.78 is appropriate in nature and whether this leaves room for a potential amendment to IAS 36, e.g. as part of the post-implementation review of the standard already initiated.

European Securities and Markets Authority

The Chair

Date: 25 January 2016
ESMA/2016/92

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 clarification[1] 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,

Steven Maijoor