

BALLOT DRAFT OF AMENDING STANDARD
For Consideration at November 2019 AASB Meeting

AASB Standard

AASB 2019-X
[Month] 2019

Amendments to Australian Accounting Standards – Research Grant Examples and Deferral of AASB 15 and AASB 1058 for Not-for-Profit Entities



Australian Government

**Australian Accounting
Standards Board**

**BALLOT DRAFT OF AMENDING STANDARD
For Consideration at November 2019 AASB Meeting**

Obtaining a copy of this Accounting Standard

This Standard is available on the AASB website: www.aasb.gov.au.

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BASIS FOR CONCLUSIONS

Australian Accounting Standard AASB 2019-X *Amendments to Australian Accounting Standards – Research Grant Examples and Deferral of AASB 15 and AASB 1058 for Not-for-Profit Entities* is set out in paragraphs 1 – 14. All the paragraphs have equal authority.

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Preface

Standards amended by AASB 2019-X

This Standard makes amendments to AASB 15 *Revenue from Contracts with Customers* (December 2014), AASB 1058 *Income of Not-for-Profit Entities* (December 2016) and the other Standards and Interpretations listed in paragraph 1 of the Standard.

Main features of this Standard

Main requirements

This Standard amends the mandatory effective date (application date) of AASB 15 and AASB 1058 for not-for-profit entities so that they are required to be applied by such entities for annual reporting periods beginning on or after 1 July 2019 instead of 1 January 2019.

Therefore, this Standard also defers, for not-for-profit entities, the consequential amendments that were originally set out in AASB 2014-5 *Amendments to Australian Accounting Standards arising from AASB 15* and in Appendix D of AASB 1058. This deferral is achieved by restating the effective date of the amendments set out in AASB 2015-8 *Amendments to Australian Accounting Standards – Effective Date of AASB 15* as they apply to not-for-profit entities and in Appendix D of AASB 1058.

This Standard also makes amendments to Illustrative Examples 4A and 4B accompanying AASB 15 to clarify the analysis of how paragraph 35(a) of AASB 15 applies in respect of research grants and the transfer of research findings. The amendments do not change the requirements of AASB 15 or the conclusions of the Illustrative Examples. A further example, Example 4D, is added to illustrate a case with periodic performance obligations.

Paragraph 35(a) addresses whether the customer simultaneously receives and consumes the benefits provided by an entity's performance as the entity performs, as one basis for the entity transferring control of a good or service over time, and therefore satisfying a performance obligation and recognising revenue over time.

Application date

This Standard applies to annual periods beginning on or after 1 January 2019, with earlier application permitted.

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Accounting Standard AASB 2019-X

The Australian Accounting Standards Board makes Accounting Standard AASB 2019-X *Amendments to Australian Accounting Standards – Research Grant Examples and Deferral of AASB 15 and AASB 1058 for Not-for-Profit Entities* under section 334 of the *Corporations Act 2001*.

Dated ... [date]

Kris Peach
Chair – AASB

Accounting Standard AASB 2019-X *Amendments to Australian Accounting Standards – Research Grant Examples and Deferral of AASB 15 and AASB 1058 for Not-for-Profit Entities*

Objective

- 1 This Standard amends the following Standards in order to defer the effective date of AASB 15 *Revenue from Contracts with Customers* (December 2014) and AASB 1058 *Income of Not-for-Profit Entities* (December 2016) and their consequential amendments to other pronouncements for not-for-profit entities:
- (a) AASB 15 (December 2014);
 - (b) AASB 1058 (December 2016);
 - (c) AASB 1 *First-time Adoption of Australian Accounting Standards* (July 2015);
 - (d) AASB 3 *Business Combinations* (August 2015);
 - (e) AASB 4 *Insurance Contracts* (August 2015);
 - (f) AASB 16 *Leases* (February 2016);
 - (g) AASB 101 *Presentation of Financial Statements* (July 2015);
 - (h) AASB 102 *Inventories* (July 2015);
 - (i) AASB 112 *Income Taxes* (August 2015);
 - (j) AASB 116 *Property, Plant and Equipment* (August 2015);
 - (k) AASB 132 *Financial Instruments: Presentation* (August 2015);
 - (l) AASB 134 *Interim Financial Reporting* (August 2015);
 - (m) AASB 136 *Impairment of Assets* (August 2015);
 - (n) AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* (August 2015);
 - (o) AASB 138 *Intangible Assets* (August 2015);
 - (p) AASB 139 *Financial Instruments: Recognition and Measurement* (August 2015);
 - (q) AASB 140 *Investment Property* (August 2015);
 - (r) AASB 1023 *General Insurance Contracts* (July 2004);
 - (s) AASB 1038 *Life Insurance Contracts* (July 2004);
 - (t) AASB 1039 *Concise Financial Reports* (August 2008);
 - (u) AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (October 2007);
 - (v) AASB 1053 *Application of Tiers of Australian Accounting Standards* (June 2010);
 - (w) AASB 1056 *Superannuation Entities* (June 2014);
 - (x) Interpretation 12 *Service Concession Arrangements* (August 2015)
 - (y) Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease* (August 2015);
 - (z) Interpretation 132 *Intangible Assets – Web Site Costs* (August 2015);

Commented [KX1]: Note to the Board

Implementation of the two accounting Standards for NFP entities with research grants has been difficult. Significant judgement is required in applying the Standards and the sector has a large volume of tailored/non-standard contracts to assess. Many stakeholders in the university sector and medical research sector have December year ends.

With limited time left for the sector to tackle the significant implementation challenges given the uncertainty as to the requirements to be applied, deferring the effective dates of the Standards from 1 January 2019 to 1 July 2019 will provide the sector with additional implementation time and will not affect preparers with June year-ends. The extended implementation time would also give the AASB an opportunity to consult further, consider whether further amendments are needed, and assist with implementation.

Deferring the Standards, however, will also require deferral of the consequential amendments to other Standards and Interpretations.

Furthermore, AASB 16 has references to AASB 15. For example, AASB 16 requires an entity to assess whether a transfer of the asset in a sale and leaseback transaction is a sale (ie when a performance obligation is satisfied) under AASB 15.

Staff are of the view that the deferral of AASB 15 would not prevent NFP entities from applying AASB 15 requirements in determining the accounting under AASB 16. On this basis, staff propose specifying in both AASB 15 and AASB 16 that AASB 15 remains effective for NFP entities for annual reporting periods beginning on or after 1 January 2019 to the extent required by the references to AASB 15 in AASB 16.

Questions to the Board:

Q1: Do Board members agree with the deferral of the effective dates of AASB 15 and AASB 1058?

Q2: Do Board members agree with the amendments in paragraphs 6-9 to defer the specific Standards and note the effect in AASB 16, and with the amendments in paragraphs 10-11 to defer the consequential amendments?

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- (aa) Interpretation 1031 *Accounting for the Goods and Services Tax (GST)* (July 2004);
 - (bb) Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities* (December 2007); and
 - (cc) Interpretation 1052 *Tax Consolidation Accounting* (June 2005).
- 2 This Standard also amends the *Australian Illustrative Examples for Not-for-Profit Entities* accompanying AASB 15 to clarify the analysis of how AASB 15 applies in several research grant examples. The amendments do not change the requirements of AASB 15 or the conclusions of the examples.

Application

- 3 The amendments set out in this Standard apply to entities and financial statements in accordance with the application of the Standards and Interpretations set out in AASB 1057 *Application of Australian Accounting Standards*.
- 4 This Standard applies to annual periods beginning on or after 1 January 2019. Earlier application of this Standard is permitted.
- 5 This Standard uses underlining, striking out and other typographical material to identify some of the amendments to a Standard, in order to make the amendments more understandable. However, the amendments made by this Standard do not include that underlining, striking out or other typographical material. Amended paragraphs are shown with deleted text struck through and new text underlined. Ellipses (...) are used to help provide the context within which amendments are made and also to indicate text that is not amended.

Commented [KX2]: Note to the Board:

This application date is required in this amending Standard for the deferral so that there will be no mandatory application under the previous application date (1 January 2019).

Amendments to AASB 15

- 6 Paragraph AusC1.1 is amended as follows:
- AusC1.1 Notwithstanding paragraph C1, this Standard applies to not-for-profit entities for annual reporting periods beginning on or after ~~1 January 2019~~ 1 July 2019. Earlier application is permitted, provided that AASB 1058 *Income of Not-for-Profit Entities* is also applied to the same period. If a not-for-profit entity applies this Standard earlier, it shall disclose that fact.
- 7 Paragraph AusC1.2 is added as follows:
- AusC1.2 This Standard remains effective for not-for-profit entities for annual reporting periods beginning on or after 1 January 2019 to the extent required by the references to this Standard in AASB 16, despite the deferral of the effective date of this Standard for not-for-profit entities to annual reporting periods beginning on or after 1 July 2019.

Amendments to AASB 16

- 8 Paragraph AusC1.1 is added as follows:
- AusC1.1 In respect of not-for-profit entities, AASB 15 remains effective for annual reporting periods beginning on or after 1 January 2019 to the extent required by the references to AASB 15 in this Standard, despite the deferral of the effective date of AASB 15 for not-for-profit entities to annual reporting periods beginning on or after 1 July 2019.

Amendments to AASB 1058

- 9 Paragraph C1 is amended as follows:
- C1 An entity shall apply this Standard for annual reporting periods beginning on or after ~~1 January 2019~~ 1 July 2019. Earlier application is permitted provided that entities apply AASB 15 *Revenue from Contracts with Customers* to the same period. If an entity applies this Standard earlier, it shall disclose that fact.

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Amendments to other Standards and Interpretations

- 10 Subject to paragraph 11, the deferrals, reversals and revised wording for pronouncements set out in paragraphs 13–18 of AASB 2015-8 *Amendments to Australian Accounting Standards – Effective Date of AASB 15* and in Appendix D of AASB 1058 apply to not-for-profit entities so as to determine the content of the pronouncements for such entities effective 1 July 2019 instead of 1 January 2019. The consequential amendments to other Standards and Interpretations originally set out in AASB 2014-5 *Amendments to Australian Accounting Standards arising from AASB 15* – except for the amendments to AASB 9 *Financial Instruments* (December 2009) and AASB 9 (December 2010) – and in Appendix D of AASB 1058 may be applied by not-for-profit entities to annual reporting periods beginning before 1 July 2019.
- 11 AASB 15 remains effective for not-for-profit entities for annual reporting periods beginning on or after 1 January 2019 to the extent required by the references to AASB 15 in AASB 16.

Amendments to Australian Illustrative Examples for not-for-profit entities

- 12 Illustrative Examples 4A and 4B in the Australian examples accompanying AASB 15 are amended as follows:

Example 4—Research activities—Transfer of research findings

Example 4A – Enforceable agreement, sufficiently specific performance obligation, research data only

Research Institute C receives a cash grant from a donor, Marine Sanctuaries Trust M, of \$5.3 million to undertake research that aims to track whale migration along the eastern coast of Australia.

The terms of the grant are:

- a period of three years;
- the return of funds that are either unspent or not spent in accordance with the agreement;
- publication of research data on a public website as it is obtained, so that any researchers can use the data;
- the IP arising from the research is neither transferred to nor licensed to donor M;
- annual progress reports and a final report are required;
- Institute C may publish research results in conference presentations and/or scholarly journals, retaining the copyright to such results; and
- the institute has an explicit right to payment for the research services completed to date if the agreement is terminated.

Institute C concludes that the arrangement is a contract with a customer as defined in AASB 15 on the basis that:

- Institute C's promise of specified research and contemporaneous publication of the research data is enforceable as the grant is refundable if the research is not undertaken;
- the institute identifies its promise to undertake the research and contemporaneously publish the research data is sufficiently specific and represents a single performance obligation; and
- the undertaking of the research and contemporaneous publication of the data will represent services provided to the donor, as it is a beneficiary of the research even though the research data is publicly available.

Accounting treatment

In accordance with AASB 15, Institute C allocates the cash grant to its identified performance obligation and recognises the financial asset (cash) and a contract liability of \$5.3 million on initial recognition.

Institute C concludes that the performance obligation is satisfied over time as the donor simultaneously receives and consumes the benefits of the research services as they are performed (paragraph 35(a)). This is on the grounds that ~~another entity would not need to substantially re-perform the research completed to date by the institute if that other entity were to fulfil the remaining performance obligation to the donor (paragraph B4) as the research data is made public as it is collected, and thus available to any replacement researchers.~~

Accordingly, the institute recognises revenue over time as it satisfies the performance obligation. The institute elects to measure its progress towards complete satisfaction of the performance obligation on the basis of research data published.

Commented [KX3]: Note to the Board:

No changes have been made to the amendments proposed in the FFR version to Examples 4A and 4B.

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Example 4B – Enforceable agreement, sufficiently specific performance obligation, research data and assessment only

In this example, the facts of Example 4A apply, except that:

- the grant requires Research Institute C to prepare interim and final reports analysing the tracking data obtained;
- publication of the research data is required at the conclusion of the research, rather than contemporaneously;
- the IP arising from the research is neither transferred to nor licensed to donor M; and
- the institute is restricted from readily directing the tracking information and analysis for another use of the institute.

Institute C concludes that the arrangement is a contract with a customer as defined in AASB 15, on the same basis as set out in Example 4A.

Accounting treatment

In accordance with AASB 15, Institute C allocates the cash grant to its identified performance obligation and recognises the financial asset (cash) and a contract liability of \$5.3 million on initial recognition.

Institute C concludes that the donor does not simultaneously receive and consume the benefits of the research services as they are performed, ~~since the research data is not published until the conclusion of the research. This is on the grounds that another entity would need to substantially re-perform the research completed to date by the institute if that other entity were to fulfil the remaining performance obligation to the donor. Furthermore, the performance of the research activities results in the accumulation of knowledge, which is an asset (whether recognisable or unrecognisable) developed by the researcher but not immediately consumed.~~ Therefore, paragraph 35(a) is not satisfied.

As the donor does not obtain the IP under the agreement, Institute C determines that its research does not create or enhance an asset that donor M controls as the asset is created or enhanced. Therefore, paragraph 35(b) is not satisfied.

Institute C notes that its research performance does not create an asset with an alternative use to the entity due to the restrictions in the agreement regarding directing the research to another use. Institute C also notes that it has an explicit, enforceable right to payment for performance completed. Therefore, paragraph 35(c) is satisfied.

Accordingly, Institute C concludes that the performance obligation is satisfied over time and recognises revenue over time as it satisfies the performance obligation. The institute elects to measure progress on the basis of the amount it would be entitled to receive for its performance to date, which corresponds with the value of the performance to the customer.

13 Example 4D is added to Illustrative Example 4 in the Australian examples accompanying AASB 15 as follows:

Example 4—Research activities—Transfer of research findings

...

Example 4D – Enforceable agreement, sufficiently specific performance obligation, research data only

In this example, the facts of Example 4C apply, except that, rather than requiring publication of research data contemporaneously or at the conclusion of the research, the grant agreement refers to the institute’s policy that requires the de-identified research findings (including data) to be made available to the donor and authorised third parties periodically (eg at least annually at the end of each year).⁴

Institute C concludes that the arrangement is a contract with a customer as defined in AASB 15 on the basis that:

- Institute C’s promise of specified research and making available the de-identified research findings is enforceable as the grant is refundable if the research is not undertaken; and
- the institute identifies its promises to make available de-identified research findings periodically as sufficiently specific promises as they are separate performance obligations each satisfied at a point in time, representing discrete transfers of the research to the donor or third-party beneficiaries. The promises are sufficiently specific on the basis that the policies attached to the research grant specify the nature of the material (de-identified research findings (including data)) to be made available and a timeframe for that to occur (ie making the research findings available periodically, at least at the end of each of the three years). The terms of the grant require the institute to make the research findings

Commented [KX4]: Note to the Board:

This is a new example (adapted from Staff FAQs Scenario 2A) added to illustrate some of the contract features that, individually or in combination with other features, can help entities with implementation. For example:

- a “transfer of benefit” can take the form of “making available de-identified research data” (not just “publishing research findings”);
- in absence of an explicit promise to publish research findings, an implied promise with past publication practices can create a valid expectation between parties; and
- revenue recognised at multiple points in time (eg at least annually) could result in an accounting outcome similar to recognition over time.

Question to the Board:

Q3: Do Board members agree to add this new example?

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available to the donor and third parties as set out in its policy, regardless of whether the donor or third parties actually access the findings.

Accounting treatment

In accordance with AASB 15, Institute C allocates the cash grant to its identified performance obligations and recognises the financial asset (cash) and a contract liability of \$5.3 million on initial recognition.

Institute C concludes that for each of the performance obligations, the donor does not simultaneously receive and consume the benefits of the research services as they are performed. This is on the grounds that performance of the research activities results in the accumulation of knowledge, an asset (whether recognisable or unrecognisable) that is not immediately consumed. Therefore, paragraph 35(a) is not satisfied.

The donor does not obtain the IP under the agreement, nor does the donor control the knowledge accumulated as research activities are carried out. As a result, Institute C determines that its research does not create or enhance an asset that the donor controls as the asset is created or enhanced. Therefore, paragraph 35(b) is not satisfied.

Moreover, the institute notes that it is able to utilise the research it performs for any other use it determines. This is on the grounds that the institute has no contractual or practical limitation on its use of the research, including having the ability to sell the research to another party. Therefore, the institute's performance does create an asset with an alternative use to the entity, and paragraph 35(c) is not satisfied.

Accordingly, Institute C concludes that each performance obligation is satisfied at a point in time (eg the end of each year, when the research findings to date are made available, whether or not the donor or third parties access the findings) and recognises the related revenue at those points in time (eg the end of each year).

- a Alternatively, where the grant agreement does not explicitly refer to the university's policy, provided the donor is aware of this policy, the university's past practice of making de-identified research findings available at least annually to donors and authorised third parties in accordance with its policy may create a valid expectation that the research findings will be made available. In this case, the implicit promises to make available de-identified research findings periodically would be treated as part of the grant terms.

Commencement of the legislative instrument

14 For legal purposes, this legislative instrument commences on 31 December 2019.

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Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, AASB 2019-X Amendments to Australian Accounting Standards – Research Grant Examples and Deferral of AASB 15 and AASB 1058 for Not-for-Profit Entities.

Introduction

BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board's considerations in reaching the conclusions in this Standard. It sets out the reasons why the Board developed the Standard, the approach taken to developing the Standard and the key decisions made. In making decisions, individual Board members gave greater weight to some factors than to others.

Research grant examples

BC2 The Board became aware of different interpretations of how paragraph 35(a) of AASB 15 *Revenue from Contracts with Customers* applies in the case of research grants and decided that the analysis in the Illustrative Examples accompanying the Standard did not fully explain how to apply the paragraph. Paragraph 35(a) addresses whether the customer simultaneously receives and consumes the benefits provided by an entity's performance as the entity performs, as one basis for the entity transferring control of a good or service over time, and therefore satisfying a performance obligation and recognising revenue over time.

BC3 The Board determined that paragraph 35(a) leads to three possible outcomes:

- if it is clear the customer (the donor) simultaneously receives and consumes the research service, paragraph 35(a) is satisfied;
- if it is clear the customer (donor) does not simultaneously receive and consume the research service, paragraph 35(a) is not satisfied; and
- if it is uncertain whether the customer (donor) simultaneously receives and consumes the research service, it is necessary to refer to paragraph B4 to determine whether paragraph 35(a) is satisfied. Paragraph B4 states that, in those circumstances, a performance obligation is satisfied over time if an entity determines that another entity would not need to substantially re-perform the work that the entity has completed to date if that other entity were to fulfil the remaining performance obligation to the customer.

BC4 Whilst the original conclusions in the Illustrative Examples are appropriate, applying the original analysis to a different fact pattern could lead to an inappropriate application of paragraph 35(a). Accordingly, the Board made changes to Illustrative Examples 4A and 4B by removing the references to re-performance and paragraph B4 in assessing the application of paragraph 35(a), and adding an explanation in Illustrative Example 4B on why in this example it is clear that there is no simultaneous receipt and consumption by the donor of the benefits of the institute's performance of the research activities.

BC5 The Board noted that some stakeholders did not find the Illustrative Examples useful and were concerned that the fact patterns did not reflect common features of most research agreements. The Board decided to include an additional example illustrating key contract features that, individually or in combination with other features, could result in an accounting outcome similar to revenue recognition over time. This additional example would present a greater range of examples in the Illustrative Examples.

Issue of Fatal-Flaw Review version

BC6 In October 2019, the Board issued a Fatal-Flaw Review version of the amendments for public comment with a four-week comment period, following extensive consultations with stakeholders. The Board received submissions from eight stakeholders on the Fatal-Flaw Review version. Stakeholders generally disagreed with the approach proposed by the Board. The Board considered the feedback received and decided to include an additional illustrative example (Example D) and to defer the effective date of AASB 15 and AASB 1058 to assist not-for-profit entities that have research grants with their implementation.

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Deferral of AASB 15 and AASB 1058

- BC7 The Board observed that implementation of AASB 15 and AASB 1058 *Income of Not-for-Profit Entities* by not-for-profit entities with research grants has been difficult. Significant judgement is required in applying the Standards and the sector has a large volume of tailored or non-standard contracts to assess. Many stakeholders in the university sector and medical research sector have December year-ends. With limited time left for the sector to tackle the significant implementation challenges and uncertainty as to the requirements to be applied, deferring the effective dates of the Standards from 1 January 2019 to 1 July 2019 will provide the sector with additional implementation time and will not affect preparers with June year-ends. The extended implementation time would also give the AASB an opportunity to assist with the implementation.
- BC8 The Board considered the implications for AASB 16 *Leases* of the deferral of AASB 15 for not-for-profit entities as AASB 16 has references to AASB 15. For example, AASB 16 requires an entity to assess whether a transfer of an asset in a sale and leaseback transaction is a sale under AASB 15 (ie when a performance obligation is satisfied). The Board decided that AASB 15 should remain effective for annual reporting periods beginning on or after 1 January 2019 to the extent required by the references to AASB 15 in AASB 16. None of these references relate to the accounting for research grants.