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September 12, 2022

Ms. Hillary Salo
Technical Director
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

Via Email to director@fasb.org

Re: File Reference No. 2022-002

Dear Ms. Salo:

Grant Thornton LLP appreciates the opportunity to respond to the Invitation to Comment, *Accounting for Government Grants by Business Entities – Potential Incorporation of IAS 20, Accounting for Government Grants and Disclosure of Government Assistance, into Generally Accepted Accounting Principles*.

We support the Board's efforts to provide recognition, measurement, and presentation guidance within U.S. GAAP for business entities that receive government grants to improve comparability.

Our responses to selected questions in the Invitation to Comment (ITC) follow.

Overall

Question 1: GAAP does not have specific topical authoritative guidance on the accounting for government grants by business entities. Should the FASB consider incorporating into GAAP the guidance in IAS 20 as it relates to the accounting for government grants? If yes, what aspects of IAS 20 related to recognition, measurement, and/or presentation should be incorporated and why?

We support incorporating certain aspects of IAS 20 into U.S. GAAP, given that it provides guidance for a broad range of government grants, exemplified by the fact that many business entities applying U.S. GAAP currently analogize to IAS 20.

However, we believe certain amendments should be made to IAS 20 to enhance understandability and create guidance that is more cohesive with U.S. GAAP and the

overall U.S. financial reporting environment. Our responses below expand upon which aspects of IAS 20 we believe should be amended or incorporated into U.S. GAAP.

Question 2:

- a. **What type of government grants do you (or the companies you audit) receive?**
- b. **How do you (or the companies you audit) recognize, measure, and present government grants received? Do you (or the companies you audit) apply IAS 20 by analogy or another model?**
- c. **What issues or challenges, if any, have arisen (or do you anticipate would arise) in the application of IAS 20 as it relates to government grants?**

Our clients typically receive or participate in the following types of government grants and programs:

- Cash grants
- Non-cash grants, such as contributed services
- Expense reimbursement programs, such as research and development reimbursement programs or shared cost arrangements
- Loans that are forgivable or loans with below-market interest rates
- Tax abatements
- Emissions trading programs

Diversity in practice exists in accounting for government grants received by business entities. Depending upon the type of arrangement, our clients apply the following models to account for the receipt of government grants:

- IAS 20, by analogy, as government grants or assistance,
- ASC 450-30, *Gain Contingencies* as a gain contingency, for which an inflow of resources is recognized only once it is realized,
- ASC 470, *Debt*, as debt, for which a gain is recognized upon extinguishment,
- ASC 958-605, *Not-For-Profit Entities—Revenue Recognition*, by analogy, as a conditional or an unconditional contribution. While ASC 958-605-15-6 states transfers of assets from government entities to business entities are not within the scope of the Contributions Received Subsections, some entities refer to the AICPA's non-authoritative guidance on accounting for Paycheck Protection Program (PPP) loans in TQA 3200.18, which states that business entities may apply ASC 958-605 by analogy.

Refer to our responses below for further discussion on challenges we have observed, or anticipate, in applying IAS 20.

Definition of a Government

Question 4: Is the definition of the term *government* in IAS 20 understandable and operable, and if not what changes would need to be made to make it operable?

We believe the definition of the term *government* in IAS 20 lacks specificity. Therefore, we believe the definition should be amended for U.S. GAAP purposes to enhance understandability and operability.

We believe that any standard resulting from this project should align the definition of government, government grants, and government assistance with existing guidance elsewhere in GAAP. For example, we observe that the recently issued guidance in ASC 832, *Government Assistance* provides a prescriptive description of *governmental entities* in paragraph ASC 832-10-15-5.

The guidance in ASC 832-10-15-5 includes entities related to governments in its description of governmental entities, which could include, for example, an arrangement in which a third party, such as a bank, is involved in administering the grant with the business entity on behalf of the government. We believe that the explicit inclusion of entities related to a government in the scope of the project is important in order to capture arrangements that are in-substance government grants but for which there is not a transaction directly between the government and the business entity.

Scope

Question 5: What operability or auditing concerns or constraints, if any, have arisen (or do you anticipate would arise) in applying both of the following:

- a. The definition of government grants (paragraph 3 of IAS 20)
- b. The scope exceptions (paragraph 2 of IAS 20)?

Please also describe the nature and magnitude of costs in applying the definition of government grants and the scope exceptions, differentiating between one-time costs and recurring costs.

Refer to our responses to Questions 6 and 7 for concerns about the operability of the definition of government grants in paragraph 3 of IAS 20.

The current scope exceptions in paragraph 2 of IAS 20 conflict with U.S. GAAP on the imputation of interest. In accordance with ASC 835-30-15-3(e), interest is not imputed for transactions in which interest rates are affected by the tax attributes or legal restrictions prescribed by a governmental agency. Refer to our response to Question 23 for further discussion.

We defer to preparers' input on costs incurred to apply the definition of, and scope exceptions for, government grants. However, we generally observe the receipt of government grants to be infrequent relative to a business entity's other transactions, such that there are fewer recurring costs in accounting for government grants.

Question 6: Are there challenges associated with determining whether certain forms of government assistance cannot reasonably have a value placed upon

them? Please describe. Could those challenges be overcome with the use of examples?

In today's financial reporting environment, we believe it is typically possible to determine the fair value of a broad range of goods and services received by a business entity. Therefore, rather than relying on the ability to determine fair value to identify which types of government assistance should be recognized and measured, we encourage the Board to consider, on a qualitative basis, which types of government assistance are not intended to be recognized and measured as a government grant.

Alternatively, the Board could consider providing examples of types of assistance that are scoped out of the recognition and measurement guidance based on the inability to value, or specify conditions that, if present, prevent placing a value on, the assistance. Otherwise, we think it could be challenging for business entities to assert, and auditors to audit, that certain forms of assistance cannot reasonably have value placed upon them.

Regardless of the approach, the Board should clearly articulate the basis upon which government assistance does not have to be recognized and measured by a business entity. Otherwise, we anticipate diversity in practice in determining the recognition threshold for certain types of assistance, including:

- A transfer of benefits to a broad population of entities, without the transfer to any specific business entity, or the transfer of benefits to a single entity plus the general public. For example, a local police department assists in managing rush hour traffic at a business park in a downtown area that includes either one or multiple business entities.
- A transfer of services that do not require "specialized skills".

Question 7: Is the guidance clear and understandable on how to determine when a transaction with a government cannot be distinguished from the normal trading transactions of an entity? Could those challenges be overcome with the use of examples?

Rather than introduce new terminology of "normal trading transactions" from IAS 20, we believe that the Board should consider using other terminology that already exists in U.S. GAAP. For example, "normal trading transactions" could be replaced with the concept of the transfer of goods and services that are an output of the entity's ordinary activities in exchange for consideration, or exchange transactions, as discussed in ASC 606-10-15-3. We believe that leveraging existing terminology will create greater clarity for entities in applying the standard.

We also encourage the Board to consider how the scope of this project aligns with the Board's project on Accounting for Environmental Credit Programs. Since the government would not be the customer in an environmental credit program, there could be unintended overlap between the scope of IAS 20 and the guidance resulting from the environmental credits project for those transactions. Therefore, we believe that clear and understandable scoping guidance between the projects for these types of transactions will be necessary.

Recognition and Measurement

Question 9: Are the recognition and measurement requirements in paragraphs 7–22 of IAS 20 operable and understandable? Please describe the nature and magnitude of costs and any operability or auditing concerns on applying those requirements, differentiating between one-time costs and recurring costs.

The main operational challenge we observe in applying the recognition and measurement guidance in IAS 20 is in interpreting the terms of the grant to identify eligibility requirements and conditions that must be met for the business entity to be entitled to the funds, such as incurring qualifying expenses, and in determining whether there is reasonable assurance that both 1) the conditions will be met and 2) the grant will be received. A grant's terms and conditions can also be ambiguous, which adds to the complexity. However, we understand that application of professional judgment in these areas will always be necessary.

That said, we believe the recognition guidance could be improved by clarifying the recognition threshold intended by the use of the term "reasonable assurance". Refer to our response to Question 13 for further discussion.

We defer to preparers' input on costs incurred to apply the recognition and measurement guidance to government grants.

Question 10: Is the guidance operable in paragraph 19 of IAS 20 on identifying the conditions that give rise to costs and expenses to determine the periods over which a grant will be earned? Please explain why or why not.

In response to both Question 10 and 12, we believe the Board should consider the following suggestions to improve the guidance on determining the timing and pattern of recognition for a government grant:

- Clarifying what is meant by allocating part of a grant "on one basis and part on another" in paragraph 19 of IAS 20. The Board may consider adding guidance or an example to address what types of arrangements could require allocation of a grant, what types of allocation bases are reasonable, and whether multiple types of bases for allocation of a single grant are permissible.
- Adding guidance to address arrangements for which there is a single grant agreement or payment stream with multiple, overlapping conditions present to earn the grant that cover different time periods. We have observed that it can be challenging in these circumstances to determine the appropriate period over which to recognize the grant. This could be addressed with an example.

Question 11: Should there be different accounting requirements for grants related to assets and grants related to income? If yes, is the distinction between the types of grants clear?

We believe there should be different accounting requirements for grants related to assets versus grants related to income, as the government is providing resources to offset expenses of a different nature. The distinction between grants related to assets and grants related to income is clear.

Question 12: What are the challenges, if any, associated with determining the timing and pattern of the recognition of a government grant, or what do you anticipate they would be? Please explain.

Refer to our response to Question 10.

Question 13:

- a. The term *reasonable assurance* is not defined in IAS 20. How is the application of reasonable assurance interpreted in practice or how do you anticipate the application would be interpreted in practice? Do you have concerns about the operability of determining reasonable assurance? Please explain.
- b. Topic 606, *Revenue from Contracts with Customers*, indicates that one of the criteria that must be met for an entity to account for a contract with a customer is that it is probable that the entity will collect substantially all the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer (see paragraph 606-10-25-1(e)). Would a similar probability threshold as that noted in paragraph 606-10-25-1(e) be a workable solution to apply the guidance in either paragraph 7(a) or 7(b) of IAS 20 for determining reasonable assurance?

In applying ASC 840, *Leases*, practice has generally interpreted “reasonably assured” as a likelihood of 75 percent to 80 percent. ASC 842, *Leases* removed the term “reasonably assured” from the leasing guidance, instead using “reasonably certain”, to align with existing IFRS leasing guidance. In paragraph BC195 of ASU 2016-02, *Leases*, the Board stated that “reasonably assured” is synonymous with “reasonably certain” in applying ASC 842. Therefore, we believe practice would use similar guidelines when interpreting “reasonable assurance” in IAS 20.

We strongly encourage the Board to link the concept of “reasonable assurance” to existing terminology in either ASC 842 or ASC 606, *Revenue from Contracts with Customers* to be consistent with other ASC Topics in U.S. GAAP and to avoid introducing what may appear to be a new or different threshold.

Nonmonetary Government Grants

Question 16: Which measurement approach has been applied (or do you anticipate would be applied) to account for nonmonetary government grants received? If only one measurement approach was permitted, which measurement approach would you prefer?

We strongly prefer a fair value measurement approach for nonmonetary government grants. Such an approach would be consistent with the guidance in ASC 845, *Nonmonetary Transactions*, as well as the accounting by not-for-profit entities in ASC 958-605.

Presentation

Question 18: For grants related to assets and grants related to income, which presentation requirements have been applied or do you anticipate would be applied given the option to elect gross or net presentation? Please explain why. Are grants related to assets fundamentally different than grants related to income since acquired assets are recorded on a cost-accumulated basis?

For both types of grants, we observe a mix of gross and net presentation given the optionality in IAS 20 although, in our experience, net presentation is more prevalent.

We encourage the Board to require either gross or net presentation for both grants related to assets and grants related to income. That is, we believe the presentation optionality in IAS 20 should be removed. We believe the Board should perform outreach with users of financial statements to select the presentation alternative that provides the most decision-useful information to users and understand if users view the two types of grants as fundamentally different.

Question 19: IAS 20 does not provide guidance on where in the statement of cash flows an entity should present the cash inflows from the receipt of cash grants. How are government grants presented in the statement of cash flows or how do you anticipate they would be presented?

In our experience, an entity's cash flow presentation currently corresponds to the type of government grant received. Cash flows associated with grants related to assets are presented within investing activities, while cash flows associated with grants related to income are presented within operating activities when operating expenses are being offset.

We encourage the Board to provide prescriptive guidance on cash flow presentation for both types of grants to ensure clarity and consistency in financial statements.

Forgivable Loans

Question 21: Is the accounting guidance in IAS 20 on forgivable loans clear and understandable? Please explain why or why not.

Yes, we believe the guidance on forgivable loans is clear and understandable. We are not aware of different interpretations or views in applying the guidance.

Loans with below-Market Interest Rates

Question 23:

- a. **Should the FASB consider making changes to GAAP that would require the benefit of a below-market interest rate loan from a government to be accounted for as a government grant, similar to the guidance in IFRS 9?**
- b. **How frequently do you (or the companies you audit) receive loans with below-market interest rates from a government?**
- c. **If the FASB requires recognition of the benefit of a below-market interest rate loan from the government, should such accounting be**

extended to other forms of government lending such as government guarantees and/or government-facilitated lending programs?

As noted in our response to Question 5, current U.S. GAAP does not require the imputation of interest for below-market interest rate loans from the government. We defer to financial statement users' preferences on accounting for below-market loans. We believe the Board should perform outreach with financial statement users to determine if changing U.S. GAAP to account for the benefit of below-market loans from a government as a grant provides more decision-useful information to users.

If the Board were to require recognition of a government grant for the benefit received from a below-market interest rate loan, we believe it would be challenging for preparers to determine, and auditors to audit, an appropriate market rate of interest.

Lastly, we believe other forms of government lending, such as a government guarantee, provide the same benefit to a business entity as a below-market loan. Therefore, we support the extension of government grant accounting to these other forms of government lending and related support if the Board decides to require grant accounting for the benefit received from a below-market interest rate loan. However, similar to the challenges in identifying a market rate of interest, we anticipate operational challenges when measuring the benefit received by the business entity from a government guarantee.

Repayment of Government Grants

Question 26:

- a. **Has your organization (or your clients) had to repay a government grant? If yes, please describe the type of grant and reason for repayment.**
- b. **What issues or challenges, if any, have arisen (or do you anticipate would arise) when accounting for a repayment of a government grant by applying Subtopic 250-10 (instead of IAS 8)?**

Yes, we have observed some entities having to repay a government grant, typically upon subsequently determining that they were not eligible to participate in the government program.

Paragraph 32 in IAS 20 states that a government grant that becomes repayable shall be accounted for as a change in accounting estimate in accordance with IAS 8. We believe that the repayment of a grant should be subject to evaluation as an accounting change or error correction in accordance with ASC 250-10. We believe that entities are familiar with applying this guidance, and that there is not a reason to exclude repayments from being evaluated under ASC 250-10.



We would be pleased to discuss our comments with you. If you have any questions, please contact Carolyn Warger, Partner, at Carolyn.Warger@us.gt.com or 617.848.4838 or Lynne Triplett, Partner, at Lynne.Triplett@us.gt.com or 312.602.8060.

Sincerely,

/s/ Grant Thornton LLP