The Association of
Accountants and
Financial Professionals
in Business

via email
To: director@fasb.org

March 27, 2025

Mr. Jackson Day
Technical Director
Financial Accounting Standards Board
801 Main Avenue
P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 2024-ED700, Proposed Accounting Standards Update, *Accounting for Government Grants by Business Entities*

Dear Mr. Day:

The Financial Reporting Committee (FRC or Committee) of the Institute of Management Accountants (IMA) is writing to share its views on the Financial Accounting Standards Board's (FASB or Board) Proposed Accounting Standards Update (ASU), *Government Grants (Topic 832), Accounting for Government Grants by Business Entities.*

The IMA is a global association representing over 140,000 accountants and finance professionals. Our members work inside organizations of various sizes, industries, and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, government entities, and multinational corporations. The FRC is the financial reporting technical committee of the IMA. The Committee includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts, accounting consultants, academics, and analysts. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals, and other documents issued by domestic and international agencies and organizations. Additional information on the FRC can be found at www.imanet.org (About IMA, Advocacy, Financial Reporting Committee).

The Committee is supportive of the Board's effort to improve generally accepted accounting principles by establishing authoritative guidance on the accounting for government grants by business entities. We appreciate the Board's efforts to gather feedback and support its ultimate decision to implement guidance that is consistent with current practice for most companies. We believe the proposed guidance will increase consistency in both the timing of recognition of government grants and financial statement disclosures on government grant accounting. From a preparer perspective, the optionality and its consistency with IAS 20 provides flexibility to properly account for the wide variety of grant types received by international companies using current systems in place without creating additional US to IFRS financial reporting differences.

We believe the proposed accounting to be generally clear and operable but request further clarity on the concept of identifying a primary condition, potential recognition of grants before the related expenditures have been incurred, and the example provided on allocation of government grants. We also suggest providing more guidance on the statement of cash flows treatment to reduce potential diversity in practice.

Please refer to Appendix I for detailed responses to the questions for respondents.

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We would be pleased to discuss our comments with you or your staff at your convenience.

Sincerely,

Josh Paul
Chair, Financial Reporting Committee
Institute of Management Accountants
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Appendix I – Questions for Respondents

Scope

Question 1: *Is the proposed scope understandable and operable? Please explain why or why not and, if not, what changes you would suggest. Do you agree with the population of government grants included in the scope of the amendments in this proposed Update? Please explain why or why not.*

Response: The Committee finds the proposed scope generally understandable and operable. However, we note that the definition of an "exchange" in the proposed scope exception for exchange transactions in paragraph 832-10-15-4A(a) is based on the same Master Glossary definition of an "exchange" that is already excluded from the proposed Master Glossary definition of a "government grant". "Government grant" is then used to establish the scope of the guidance in proposed paragraph 832-10-15-3A *before* applying the proposed scope exceptions – i.e., "A transfer of a monetary asset or a tangible nonmonetary asset, other than an **exchange** transaction, from a government to a business entity". The redundancy in the treatment of exchange transactions in the definition of a government grant and the scope exceptions to the proposed guidance is unnecessary and confusing. We believe the simplest solution to eliminate this redundancy is to revise the proposed definition of a "government grant" in the Master Glossary by removing the phrase ", other than an **exchange** transaction,". Alternatively, we believe the Board could eliminate the proposed scope exception in paragraph 832-10-15-4A(a), although doing so would also result in eliminating the examples of exchange transactions provided in that proposed paragraph.

Recognition and Measurement

Question 2: *Under the proposed amendments, a government grant would be recognized when it is probable that (a) the business entity will comply with the conditions attached to the grant and (b) the grant will be received. Are these proposed amendments clear, operable, and auditable? Please explain why or why not.*

Response: The amendments are generally clear and operable. The proposal will increase consistency in the timing of recognition of government grants by establishing a definitive recognition threshold. However, some of our members questioned whether the incurrence of an expenditure was expected to be a condition necessary for recognition of a grant (in particular, grants related to assets). While we generally expect that companies currently do not and would prefer to continue to not recognize grants before incurring related expenditures in practice, the recognition threshold as proposed could be interpreted as allowing or requiring companies to do so in some circumstances. This may result in unintended consequences, most notably, a negative net asset position under the cost accumulation approach for grants related to assets. If the Board intends to allow or require recognition of grants before related expenditures have been incurred, the Committee believes the Board should clarify a) how to assess the likelihood of meeting the probability threshold before related expenditures have been incurred, and b) the appropriate accounting treatment for a created negative net asset position under the cost accumulation approach for grants related to assets.

Question 3: *The proposed amendments would provide different accounting requirements and alternatives for a grant related to an asset and a grant related to income. Is the distinction between the types of grants clear? Do the different accounting requirements and alternatives for a grant related to an asset and a grant related to income provide decision-useful information? Please explain why or why not.*

Response: While we believe the distinction between a grant related to an asset and a grant related to income is generally clear, the Committee believes the Board should clarify how those definitions apply to grants that contain multiple conditions. Specifically, there is no guidance on how to evaluate what comprises the primary condition of a grant and the interplay between the identification of a grant's primary condition and the costs for which the grant is intended to compensate. The definition of a grant related to an asset seems contradictory to the allocation concepts introduced in Example 3 of the proposed standard as the definition implies that grants must be identified as either a grant related to an asset or as a grant related to income in their entirety. If the Board intends for grants to be separated into asset and income components in order to achieve the objective discussed in paragraph BC28 of recognizing grants in earnings "on a systematic and rational basis over the periods in which an entity recognizes the expenses for which the grant is intended to compensate", we believe the Board should remove the concept of a primary condition from the definition of a grant related to an asset and provide clearer guidance about when and how to separate components of grants with multiple conditions as discussed further in our response to Question 12.

Question 4: *The proposed amendments would allow a business entity to elect to recognize and present a grant related to an asset either under the deferred income approach or under the cost accumulation approach.*

a. Is the deferred income approach operable and understandable? Please explain why or why not.
b. Is the cost accumulation approach operable and understandable? Please explain why or why not.
c. Should there be two approaches to account for a grant related to an asset? Please explain why or why not. If not, what approach do you prefer?
d. Should there be separate recognition or presentation requirements (and implementation guidance) for a grant related to a nondepreciable asset (for example, land)? If yes, should the guidance align with IAS 20, or would you suggest an alternative approach and why?

Response:

a - b. The Committee believes both the deferred income approach and the cost accumulation approach are generally operable and understandable with the incorporation of the clarification requested in Question 2 above.

c. From a preparer perspective, the Committee is supportive of the optionality provided by the Board as it avoids significant implementation costs, allows flexibility to best reflect the economics of the variety of grant types from international governments, and maintains alignment between US GAAP and IFRS financial reporting. Given that most companies currently analogize to IAS 20 and there is not a definitive use of one methodology over the other, optionality is consistent with the stated objective of establishing guidance that is compatible with current practice for most companies. We believe this will limit the cost of implementation by potentially reducing system upgrades and re-work of existing processes and internal controls. We believe optionality acknowledges that the type and terms of government grants can vary significantly, and it provides companies with the ability to identify and assess similar grants for the most appropriate treatment.

d. We believe the Board should provide specific guidance about how to apply the deferred income approach to non-depreciable assets, including how to recognize the grant income. If separate recognition requirements are proposed by the Board, the Committee recommends that the Board consider aligning the guidance with IAS 20 as this would be operable and understandable assuming non-depreciable assets are granted with conditions requiring a Company to undertake a capital project on the non-depreciable asset.

Question 5: *Should a business entity be required to recognize a grant related to income and a grant related to an asset under the deferred income approach in earnings on a systematic and rational basis over the periods in which the business entity recognizes as expenses the related costs for which the grant is intended to compensate? Please explain why or why not. If not, what changes would you suggest?*

Response: We are supportive of the proposed timing and pattern of income statement recognition for grants related to income and grants related to an asset under the deferred income approach as it is aligned with current practice for most preparers who analogize to IAS 20.

Question 6: *Should a business entity be required to initially measure a government grant of a tangible nonmonetary asset (a) at fair value if the deferred income approach is elected and (b) at cost if a cost accumulation approach is elected? Please explain why or why not.*

Response: We are supportive of the Board's proposal to recognize tangible non-monetary assets at fair value under the deferred income approach and at cost under the cost accumulation approach given our previously emphasized support for maintaining optionality from a preparer perspective. We believe the proposed initial measurement to be the most aligned with measurement principles under US GAAP for both methods.

Presentation

Question 7: *If a business entity elects to apply the deferred income approach for a grant related to an asset, the grant would be presented on the balance sheet as deferred income and within earnings either (a) separately under a general heading such as other income or (b) deducted from the related expense. Are these proposed amendments clear, operable, and auditable? Please explain why or why not. Would these presentation options provide decision-useful information? Please explain why or why not.*

Response: The proposed amendments are clear and operable. As noted above, given the variety of grants and underlying terms, the proposal allows preparers to reflect the grants in the line item most reflective of the nature of the grant and is consistent with current accounting practice. We do not foresee any auditability challenges with the proposed amendments.

Question 8: *If a business entity elects to apply the cost accumulation approach for a grant related to an asset, the grant would be presented on the balance sheet as part of the cost basis of the asset. Are these proposed amendments clear, operable, and auditable? Please explain why or why not. Would this presentation provide decision-useful information? Please explain why or why not.*

Response: The proposed amendments are clear and operable. As noted above, we support optionality from a preparer perspective and providing this optionality allows companies already following this method by analogy to utilize existing systems and processes while still providing investors with useful disclosures on the fair value of assets granted during the fiscal year. We do not foresee any auditability challenges with the proposed amendments.

Question 9: *The proposed amendments would require that a grant related to income be presented as part of earnings either (a) separately under a general heading such as other income or (b) deducted from the related expense. Are these proposed amendments clear, operable, and auditable? Please explain why or why not. Would these presentation options provide decision-useful information? Please explain why or why not.*

Response: The proposed amendments are clear and operable for the reasons noted in the above questions and we do not foresee any auditability challenges with the proposed amendments.

Question 10: *The proposed amendments would require that a business entity comply with the disclosure requirements in Topic 832, Government Assistance. Do the disclosures in Topic 832 provide investors with sufficient information to understand the nature of a government grant and the timing and amount of the grant's impact on a business entity's cash flows? If not, what additional disclosures, if any, should be required and why?*

Response: The Committee believes the Board should provide specific guidance on the statement of cash flows classification and presentation for government grants to reduce diversity in practice. Committee members have identified diversity in accounting firm guidance on both the classification of cash flows for grants related to assets and on whether cash inflows from the government grant and the corresponding outflows for the related capital expenditure or expense should be netted and shown on the same line item of the statement of cash flows. The Committee also identified potential diversity in classification dependent on the timing of receipt of the grant. For example, companies may classify inflows of grants received before expenditures have occurred as financing but might classify the same inflows as operating or investing if they are received as or after expenditures have been incurred. Consistent with the income statement presentation, we recommend netting the grant and the related expenditures on the same lines of the statement of cash flows. We also recommend that activity for grants related to income be presented in the operating section and activity for grants related to assets be presented in the investing section. The Committee requests guidance on whether the statement of cash flows presentation and classification for government grants is affected by the accounting approach selected or by the timing of the receipt of the grant. Additionally, if the Board concludes that activity can appear in several places, the Committee believes the Board should provide examples of the types of circumstances that would result in classifying a government grant in operating versus investing versus financing activities in the statement of cash flows.

Question 11: *If a business entity elects to apply the cost accumulation approach to account for a grant related to an asset, the proposed amendments would require that the business entity disclose the amount of the grant proceeds that was recognized in determining the carrying amount of the asset (in the period the amount was recognized) and if the grant is a grant of a tangible nonmonetary asset, the fair value of the grant (in the period the grant is recognized). The proposed amendments would not require that a business entity disclose in subsequent periods (a) the asset carrying amount that would have been recognized if the business entity had not received the grant, or if the deferred income approach had been used, or (b) depreciation expense, gain or loss on sale, or impairment expense that would have been recorded initially or on an ongoing basis over the life of the asset if the grant had not been received or if the deferred income approach had been used. (See paragraphs BC50–BC52 for additional discussion.)*

1. ***Investors:*** *Would the disclosures of the grant proceeds and the fair value of a grant of a tangible nonmonetary asset be decision useful? Would either of the alternative disclosures noted above be useful in your analysis? If so, how would you use this information, particularly in periods after the grant is recognized (for example, in Year 2 for an asset with a 5-year life or in Year 20 for an asset with a 25-year life), and how and when would it affect capital allocation decisions? If this information is not provided, would you seek to obtain it from other sources? Please explain your answer.*

2. ***Preparers/Practitioners:*** *What would be the operability and auditing challenges, if any, associated with disclosing either of the alternative disclosures noted above? What would be required to track the accounting for an alternative basis of recognition (including depreciation expense, gain or loss on sale, or impairment expense)? Please explain your answer.*

Response: We believe there would be operability challenges with the alternative disclosure requirements considered given that most fixed asset systems are not currently set up to support this type of hypothetical model tracking and calculation. Preparers would incur additional costs in the form of system upgrades or creation of separate manual schedules outside of fixed asset systems. These amounts would not tie to amounts in the financial statements, which could cause potential control issues internally and may cause confusion to users externally. Given that the values being tracked are based on historical costs, we believe that these amounts could quickly lose relevance. Committee members also noted the complexity of performing a hypothetical impairment analysis and identifying accelerated depreciation on assets with no cost basis. On-going costs, therefore, would be incurred over the life of the asset, including additional labor to monitor and implement controls over these hypothetical models, calculations, and disclosures. The Committee believes these additional costs would outweigh the benefit of potential disclosure of a scenario that does not reflect actual events occurring during the fiscal year. Finally, we believe that the potential inclusion of the additional disclosure requirements would discourage companies from selecting the cost accumulation approach, negating the optionality and flexibility which we support in the proposed update.

Implementation Guidance and Illustrations

Question 12*: Is the proposed implementation guidance, including the illustrative examples, understandable and operable? If not, please explain how it could be improved. Should additional implementation guidance be provided? If yes, please specify what additional guidance should be provided and why.*

Response: As noted in Question 2 above, if the Board intends to allow or require recognition of a grant before related expenditures have been incurred, we believe the Board should provide additional guidance in the proposed examples on the application of the probability threshold when related expenditures have not yet been incurred.

Further, while we understand that the Board decided not to include specific allocation guidance given the mixed feedback on the specified guidance provided in IAS 20, we find the allocation in Example 3 to be incongruous with the requirement to identify and define a grant as asset- or income-related based on its primary condition (as noted in our response to Question 3 above). Along with our recommendation to remove the reference to primary condition from the definition of a grant related to an asset (assuming the Board intends to require separation of grants that contain multiple conditions), we propose to make the following changes to provide further clarity in the proposed standard: a) move the first sentence in paragraph 832-10-55-19 (from Example 3), stating that no single approach is prescribed for allocating the proceeds of a government grant, to the end of the 832-10-55-7, which emphasizes the judgment needed in allocating, b) delete the second sentence of paragraph 832-10-55-19 and c) add a concluding sentence to paragraph 832-10-55-7 stating that the allocation approach should be consistent with the objective of recognizing grants in earnings on a systematic and rational basis over the periods in which the expenses for which the grant is intended to compensate are recognized. If the changes were to be implemented, ASC 832-10-55-7 would then read as follows (sentence moved from 832-10-55-19 is double underlined and other additions are single underlined):

> "ASC 832-10-55-7: Government grants may be received as part of a package of financial or fiscal aid that contains a number of conditions. In such cases, judgment is needed to identify the conditions related to the costs that determine the periods over which the government grant will be recognized. No single approach is prescribed for allocating the proceeds of a government grant when multiple conditions exist in a government grant agreement. However, the approach used shall be consistent with the objective of recognizing grants in earnings on a systematic and rational basis over the periods in which the expenses for which the grant is intended to compensate are recognized."

If those changes are implemented, we recommend that the Board also delete the last two sentences of paragraph 832-10-55-19 because those sentences result in an allocation that is not consistent with the objective of recognizing grants in earnings on a systematic and rational basis over the periods in which the expenses for which the grant is intended to compensate are recognized.

Accounting for a Government Grant in a Business Combination

Question 13: *Are the proposed amendments on how to account for government-grant-related liabilities assumed in a business combination understandable and operable? What operability or auditing challenges, if any, would be associated with those proposed amendments?*

Response: The proposed amendments are clear and operable, and we do not foresee any auditability challenges with the proposed amendments.

Transition and Effective Date

Question 14: *Is the proposed transition guidance operable? If not, why? What transition guidance would be more appropriate and why? Should there be different transition guidance for government grants acquired in a business combination? If yes, please explain why.*

Response: The proposed transition guidance is operable. We support maintaining the option of prospective or retrospective application. We believe maintaining the option of prospective application is important as the proposed guidance is consistent with current business practice for most companies. We did not identify a need for different transition guidance for government grants acquired in a business combination.

Question 15: *How much time would be needed to implement the proposed amendments? Is additional time needed for entities other than public business entities? Should early adoption be permitted? Please explain your answer.*

Response: We believe a timeframe of one to two years would be needed to implement the proposed amendments. As mentioned, we do not anticipate significant changes in outcomes for most entities given the optionality provided in the proposal.

We are supportive of early adoption.

Benefit and Costs

Question 16*: Would the proposed amendments provide investors with decision-useful information? If so, how would that information influence investment and capital allocation decisions? Would the proposed amendments clarify the appropriate accounting, increase consistency among business entities, and reduce diversity in practice? If not, please explain why.*

Response: We believe that the proposed standards clarify the appropriate accounting in the absence of definitive guidance and will increase consistency in the timing of recognition and disclosure of government grants among preparers. We do not believe that the standards will significantly reduce diversity in practice; however, we maintain that the optionality is beneficial for presenting differing types of grants on a global basis and the disclosure requirements provide sufficient information to understand the differences in application between companies.

Question 17*: To the extent not previously discussed, what costs may be incurred to apply the proposed amendments? If the proposed amendments are expected to impose significant incremental costs, please describe the nature and magnitude of those costs, differentiating between one-time costs and recurring costs. If the proposed amendments are not expected to impose significant incremental costs, or are expected to reduce costs, please explain why.*

Response: As written, we do not expect the proposed standard to result in significant incremental costs. However, as previously mentioned, if changes are made to reduce the optionality and flexibility of the standard or to require additional disclosures, particularly of a pro forma nature for the entire life of the asset or grant, we would expect incremental costs to implement the standard and account for the grants on an on-going basis.