The Association of
Accountants and
Financial Professionals
in Business

September 29, 2022

Ms. Hillary H. Salo
Technical Director
Financial Accounting Standards Board
801 Main Avenue
PO Box 5116
Norwalk, CT 06856-5116

File Reference No. 2022-002

Dear Ms. Salo:

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) Invitation to Comment (ITC) – 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.

The IMA is a global association representing over 140,000 accountants and finance team 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 appreciates the Board's efforts to solicit broad stakeholder feedback on whether the provisions of IAS 20, including recognition, measurement, and presentation, would be a workable solution for improving US GAAP (GAAP).

We acknowledge that GAAP does not provide authoritative guidance on how business entities should recognize and measure government grants and that this topic has become increasingly more relevant over the past several years due to an increase in government grants and government assistance during the COVID-19 pandemic. We believe that the Inflation Reduction Act recently signed into law further increases the need for authoritative guidance on how business entities should account for government grants. We also understand the FASB received feedback from numerous constituents in 2021 in response to its invitation to comment on FASB agenda priorities, who believe this project is a priority. We support the FASB in its consideration of whether incorporation of IAS 20 would be a workable solution for GAAP. We believe that IAS 20 provides a viable starting point for the Board in developing guidance on the accounting for government grants in GAAP. We recommend that the FASB address the following aspects of IAS 20 as part of this project:

- Limit the options provided in IAS 20 to reduce the extent of possible diversity in application among business entities;
- Address the definition of government as the description of government in ASC 832-10-15-5, *Government Assistance* (ASC 832) differs from the definition in IAS 20;
- Provide guidance over classification of government grants within the statement of cash flows; and
- Adapt terminology used in IAS 20 to the terminology used in GAAP.

The following sections of this letter, while addressing the objectives of the ITC formulated by the FASB staff as listed on page 1 of the ITC, provide additional detail on the above recommendations.

The requirements, including the scope and definition of the terms 'government' and 'government grants,' are understandable and operable in the U.S. financial reporting environment

We believe clearly establishing the scope of the guidance will be critical, particularly if the Board agrees with our preference to eliminate options that are currently provided in IAS 20.

We observe that the definition of government included in ASC 832-10-15-5 is more comprehensive than the definition in IAS 20.3. We suggest leveraging the ASC 832 definition to clarify and refine the definition included in IAS 20 for GAAP application purposes.

We also note ASC 958-605, *Not-for-Profit Entities – Revenue Recognition* (ASC 958-605) provides guidance for accounting for contributions received by business entities, except those received from government entities. While ASC 958 does not define what a government entity is, ASC 958-10-20, *Glossary* includes a definition of a nongovernmental entity. It is an entity not required to issue financial reports in accordance with guidance promulgated by the Government Accounting Standards Board (GASB) or the Federal Accounting Standards Advisory Board (FASAB). If government entities as addressed in ASC 958-605 are by exclusion those who are required to issue the GASB or FASAB financials, this definition would again differ from either that in IAS 20 or in ASC 832.

The recognition model for contributions received by business entities under ASC 958-605 differs from that in IAS 20. Pursuant to ASC 958-605, income from conditional contributions is recognized in the period the conditions are substantially met. Under IAS 20.12, government grant income is recognized on a systematic basis over periods in which the entity recognizes the expenses the grants are intended to compensate.

We recommend aligning the definitions of government or government entities between ASC 832, ASC 958-605 and in the guidance on accounting for government grants and providing application guidance and/or examples. It is not clear, for example, whether a development grant from a state-owned university would be in the scope of the guidance on government grants, a contribution in the scope of ASC 958-605, or potentially be in the scope of both standards.

Both IAS 20.3 and ASC 832-10-05-1 include definitions of government assistance. IAS 20.3 also includes a definition of government grants. We believe GAAP guidance on accounting for government grants also should, similar to IAS 20, include a definition of a government grant, as there is no such definition elsewhere in GAAP. We also believe this definition should exclude transactions already in scope of other GAAP, such as income tax credits and other benefits within the scope of ASC 740. It should also exclude items not representing government assistance as defined in IAS 20, such as benefits provided only indirectly, through actions affecting general trading conditions, e.g., provision of infrastructure in development areas, the imposition of trading constraints on competitors, and other measures related to the general business and economic landscape in which the reporting entity operates.

The scope of ASC 832 disclosure requirements as defined in ASC 832-10-05-2 is limited to transactions that are accounted for by analogy to a grant or contribution accounting model. We highlight that once the guidance on accounting for government grants is introduced into GAAP, the scoping provisions in ASC 832-10-05-2 will require revision.

The requirements improve comparability in the accounting for government grants by business entities that apply GAAP

We believe guidance based on IAS 20 would improve comparability in the accounting for government grants by business entities that apply GAAP due to the current void in GAAP and diversity in practice. We do note, however, that IAS 20 provides application alternatives that allow diversity in how business entities account for similar government grants. We suggest that the GAAP guidance on government grants narrow the available alternatives in IAS 20, such as gross versus net presentation in the balance sheet or in the income statement. Refer below for further discussion.

We also recommend adding guidance on how government grants would be classified in the statement of cash flows, as there is no guidance currently in GAAP or in IAS 20, and a diversity in practice. Under GAAP, some companies analogize to ASC 958, where government grants would be considered a nonexchange transaction and, as such, would be recognized as operating cash flows, unless they are restricted by the government for long-term purposes, in which case they would be reported as financing cash flows. Other companies differentiate between capital and income related grants, and for capital grants may further consider the timing of grant receipts versus the timing of capital expenditures, when determining the appropriate classification of the grant cash flows. Under IFRS, while IAS 20 itself is silent on the classification of government grants within the statement of cash flows, the IFRS Interpretations Committee suggested in a meeting in 2012 that classification as a financing cash flow (i.e., based on the nature of the grant itself, not based on the financed activity) is appropriate.

Suggested changes to the provisions of IAS 20 as it relates to the accounting for government grants (and the reasons for those suggested changes)

As noted above, in addition to addressing the definition of government, we also recommend assessing whether the available accounting alternatives in IAS 20 should be included within the GAAP guidance on government grants or should be narrowed as compared to IAS 20. In this regard, we recommend the following changes to the provisions of IAS 20.

- *Gross versus net presentation for grants related to assets*
  We recommend considering whether either a gross or net presentation alternative for asset-related grants on the balance sheet should be eliminated. Currently, under IAS 20.24, if a government grant relates to an asset, the grant can either be recognized as deferred income ("gross") and released into income over the useful life of the asset, or deducted from the carrying amount of the capitalized asset ("net") and recognized in the income statement as a reduction in depreciation expense.

- *Gross versus net presentation for grants related to income*
  We recommend considering whether either a gross or net presentation alternative within the income statement should be eliminated. Currently, under IAS 20.29, a business entity may either record the income-related government grant against the related expense ("net") or as an element of income ("gross").

- *Nonmonetary grants can be accounted for at nominal value*
  If the GAAP guidance on government grants eliminates the IAS 20 net presentation alternative for asset-related grants, we do not believe it would be appropriate to permit recognition of nonmonetary grants at nominal value, as such presentation effectively represents net presentation for purposes of the balance sheet. However, if net presentation is ultimately required or allowed, we believe disclosure of the fair value of the nonmonetary grants, including relevant inputs and assumptions used to establish the fair value, would likely be important to users of the financial statements.

- *IAS 20 recognition model*
  IAS 20 provides for an income recognition model whereby grant income is recognized in a systematic manner in the same periods as the related expenses the grant is intended to

compensate. The recognition model in IAS 20 does not align with the GAAP recognition models for other types of income, such as for revenue with customers under ASC 606, *Revenue Recognition*, gains and losses from derecognition of nonfinancial assets under ASC 610-20, or contributions from nongovernmental entities under ASC 958-605. While it may be difficult to leverage the five-step model in ASC 606 for government grant income recognition, arguably, in various instances the only difference between government grants and contributions from nongovernmental entities may be the identity of the grantor/contributor.

We encourage the FASB to consider whether the recognition models in the GAAP guidance on government grants and in ASC 958-605 should be aligned, and whether the government grants model for GAAP should also incorporate elements of the recognition model in ASC 606.

- *Reasonable assurance*
  IAS 20.7 uses the terminology "reasonable assurance" to describe when an entity should recognize a government grant. "Reasonable assurance" is not a defined term under GAAP. We suggest the FASB change the IAS 20 terminology for purposes of the GAAP guidance on government grants to "probable" to be consistent with the terminology used elsewhere in GAAP.

The requirements provide decision-useful information to investors and other allocators of capital (herein referred to as "investors")

We believe the requirements of IAS 20 provide decision-useful information to investors. However, we note that the accounting alternatives provided for within IAS 20 could present consistency issues for certain investors. For example, an investor who is calculating return on assets for two comparable business entities might find it less than meaningful due to the impacts of the gross versus net presentation accounting election choices in IAS 20.

Current practice issues that may arise when applying the government grant accounting requirements in IAS 20

We are not aware of current practice issues when applying the accounting requirements in IAS 20. However, that may be due to the alternatives allowed within IAS 20, which may lead to application inconsistency, as business entities are able to set their own accounting policies and use their own judgment when applying the standard.

* * * *

The Association of
Accountants and
Financial Professionals
in Business

We appreciate the opportunity to provide comments on the ITC and would be pleased to discuss our comments with the FASB or its staff at your convenience.

Sincerely,

Josh D. Paul
Chair, Financial Reporting Committee
Institute of Management Accountants