



September 12, 2022

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

Re: File Reference No. 2022-002

Dear Ms. Salo,

This letter is submitted by Financial Executives International's (FEI) Committee on Corporate Reporting (CCR) in response to the Financial Accounting Standards Board's (FASB or Board) Invitation to Comment (ITC), *Accounting for Government Grants by Business Entities*.

FEI is a leading international organization comprised of members who hold positions as Chief Financial Officers, Chief Accounting Officers, Controllers, Treasurers, and Tax Executives at companies in every major industry. CCR is FEI's technical committee of approximately 50 Chief Accounting Officers and Corporate Controllers from Fortune 100 and other large public companies, representing more than \$11 trillion in market capitalization. CCR reviews and responds to pronouncements, proposed rules and regulations, pending legislation, and other documents issued by domestic and international regulators and organizations such as the U.S. SEC, PCAOB, FASB, and IASB.

This letter represents the views of CCR and not necessarily the views of FEI or its members individually.

Executive Summary

We commend the Board for its diligence in performing stakeholder outreach and soliciting feedback on the recognition, measurement, and presentation requirements of IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, as it relates to accounting for government grants and whether aspects of those requirements represent a workable solution that could be incorporated into U.S. GAAP.

As suggested in the ITC, many CCR companies currently analogize to IAS 20 in recognizing, measuring, and presenting government grants received and have generally found the guidance in IAS 20 to be operable as written. We appreciate the Board leveraging these existing requirements and believe that doing so will aid in enhancing comparability for users. In our letter, we offer broad support for the incorporation of most of the requirements in IAS 20 and include specific recommendations on clarifying the definition of a government and scope exceptions. We also identify certain components of the recognition and measurement guidance in IAS 20 where we suggest aligning with existing U.S. GAAP guidance, as well as additional examples to facilitate

operability. Finally, we offer recommendations related to presentation requirements in IAS 20 that we believe could lead to an increase in the consistency and comparability of disclosures.

Scope

In general, we support incorporation of the scoping guidance outlined in IAS 20,¹ and we do not expect significant operability or auditing concerns in applying the definition of government grants or the scope exceptions. We believe the guidance for identifying assistance by a government that is in the scope of IAS 20 is operable as written but believe the following suggestions could add clarity and facilitate consistent application.

While the definition of “government” in IAS 20 is operable,² we recommend clarifying the term “similar bodies” and aligning the definition with the language used in ASC 832.³ The scope of ASC 832 includes intergovernmental organizations, nongovernmental organizations, and government-sponsored organizations that administer grants with the authority of and on behalf of a governmental organization. We believe explicitly including these types of organizations that have authority from a government in the definition of “similar bodies” could add clarity. We also suggest that the Board consider the use of examples such as those found in the ASU 2021-10 basis for conclusions to facilitate determination of assistance that is in scope.⁴ Additionally, we found the guidance on how to determine when a transaction with a government cannot be distinguished from the normal trading transactions of an entity to generally be clear and understandable. However, we suggest the Board consider making an explicit exclusion for transactions that are in the scope of other U.S. GAAP, as other topics within the codification include the relevant accounting and disclosure requirements. An example of the proposed exclusion is observed in ASU 2021-10 and specifically excludes from the scope of the guidance, transactions in which a government is a customer.⁵ For example, a transaction within the scope of Topic 606, Revenue from Contracts with Customers, where the government is a customer would be excluded from the guidance on government grants. Furthermore, we recommend the Board provide additional examples of transactions with a government that cannot be distinguished from the normal trading transactions of the entity to assist issuers in more consistently identifying those transactions.

We did not identify major challenges with determining whether certain forms of separately recognized government assistance cannot reasonably have a value placed upon them.⁶ However, we recommend that the Board consider including examples of the application of the term “reasonably” to help clarify their intended use of the term, as well as examples of other instances where certain forms of government assistance cannot reasonably have a value placed upon them.

¹ See [paragraphs 2 and 3](#) of IAS 20.

² See [paragraph 3](#) of IAS 20.

³ See [ASC 832-10-15-5](#).

⁴ See [BC 24](#) for ASU 2021-10.

⁵ See [BC 16](#) for ASU 2021-10.

⁶ See [paragraph 34](#) in IAS 20.

Recognition and Measurement

We generally support the guidance related to recognition and measurement of government grants in IAS 20 and believe it is operable and understandable but offer a few suggestions we believe will enhance comparability for users.

We support the guidance in IAS 20 around determining the timing and pattern of the recognition of a government grant and generally have found the existing guidance to be understandable.⁷ To increase comparability, we recommend that the Board consider using the term “probable” instead of “reasonable assurance” as part of the recognition guidance.⁸ Probable is defined in existing U.S. GAAP under ASC 450,⁹ and the use of this term could help facilitate comparability in recognition as the definition would be consistent with what is used in other guidance in U.S. GAAP. We suggest referring to the definition in ASC 450 as we believe the probability threshold as defined in ASC 606 is difficult to overcome and may result in grants being recorded on a cash basis.¹⁰ Further, our recommendation to incorporate ASC 450 by reference is specific to the definition of “probable.” We do not suggest analogizing to all of ASC 450, which would include the gain contingency guidance, as we believe this gain contingency guidance could also result in recording grants on a cash basis.

Overall, we found the guidance 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 to be operable and understandable as written. While some judgment may be involved, we appreciate the principles-based guidance and believe it will allow for disclosures that are decision useful, as the guidance can be applied to the variety of grants a company may receive.

Regarding the accounting requirements for income and asset related grants, we agree with there being different accounting requirements and recommend that the Board provide additional guidance to facilitate appropriately classifying grants that have both income and asset related aspects. Based on existing guidance in IAS 20, it is not always clear whether a grant is an income or asset related grant, and we believe additional guidance would be helpful in making the determination. We suggest that the Board consider providing additional guidance to clarify how an entity may classify a grant using a primary grant driver or allocate a grant between an asset related portion and an income related portion based on specific criteria.

Specific to measurement of nonmonetary grants, we are supportive of the flexibility in IAS 20, which allows for either a fair value or nominal amount measurement approach to be applied. As there can be significant

⁷ See [paragraph 7](#) of IAS 20.

⁸ See paragraph 8 of IAS 20

⁹ ASC 450-20-20 defines probable as “the future event or events are likely to occur.”

¹⁰ ASC 606-10-25-1(e) uses probable as part of broader collectability assessment, requiring an entity to assess whether it is probable it will collect substantially all of the consideration to which it is entitled, in order to evaluate whether there is a substantive transaction..

variability in the terms and conditions of nonmonetary grants, we appreciate having the option to choose between both measurement approaches.

Presentation

We believe that the presentation guidance in IAS 20 is clear, and we generally support the guidance as written being incorporated into U.S. GAAP. We are supportive of the option as permitted by IAS 20 for entities to elect gross or net presentation on the balance sheet and/or income statement depending on whether the grant relates to an asset or income.¹¹

Because IAS 20 does not specifically provide guidance on presentation in the statement of cash flows, we recommend that the Board provide guidance on where in the statement of cash flows an entity should present the cash inflows from the receipt of cash grants to increase consistency with existing U.S. GAAP. We believe the Board should explicitly indicate that cash inflows related to government grants should be presented in the statement of cash flows consistent with how the underlying asset or income to which the grant relates was treated (e.g., if cash was paid to invest in a long-term asset and was classified as an investing activity, any cash received thereafter as a government grant that reduces the cost of the long-term asset should also be classified as an investing activity).

Conclusion

We appreciate the Board's effort to obtain input from stakeholders on considering the incorporation of IAS 20 into U.S. GAAP. As the Board considers the ideas and recommendations included in this letter, we welcome further questions and dialogue and stand ready to assist the Board as needed.

Sincerely,

Rudolf Bless

Rudolf Bless
Chair, Committee on Corporate Reporting
Financial Executives International

¹¹ See [paragraphs 24 – 31](#) of IAS 20.