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September 12, 2022

Via email to director@fasb.org

Technical Director
File Reference No. 2022-002
Financial Accounting Standards Board
401 Merritt 7 Norwalk, Connecticut 06856-5116

Re: FASB Invitation to Comment – Accounting for Government Grants by Business Entities

Dear Ms. Salo:

We are pleased to provide our comments on the Board's Agenda consultation. We support the Board's pursuit of establishing guidance in US Generally Accepted Accounting Principles (US GAAP) on accounting by for-profit entities for the receipt of government grants.

Overall, we support adoption of the International Accounting Standards (IAS) 20 model into US GAAP as it relates to government grants. As noted in the background information to the Invitation to Comment, a majority of respondents to the previous invitation to comment currently analogize to IAS 20 in order to account for government grants. Therefore, we generally support the belief that IAS 20 would be a reasonable starting point for standard-setting efforts to provide more robust guidance in this area. However, we note the following:

1. To the extent that there are gaps in IAS 20 for which guidance already exists in US GAAP, the Board may wish to incorporate the relevant guidance in current US GAAP.
2. To the extent that IAS 20 references International Financial Reporting Standards that contradicts current US GAAP, the Board may wish to exclude (or modify) those provisions.
3. We would not support amending the guidance in FASB ASC 958-605 for not-for-profit entities due to the development of guidance on accounting for government grants by for-profit entities.

Our detailed responses and suggestions to the Questions for Practioners are contained in the attached Appendix.

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Angela Newell at (214) 689-5669 or Adam Brown at (214) 665-0673.

Very truly yours,

BDO USA, LLP

BDO USA, LLP

Appendix

Note: We have not responded to certain questions posed directly to investors.

Question 1(All Respondents): 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 the FASB's efforts to bring consistency in practice in accounting for government grants by for-profit entities. As the majority of respondents have indicated that IAS 20 is their preferred model, we believe it would be appropriate to incorporate much of IAS 20 into US GAAP. However, we note the following areas that the FASB may wish to exclude, or modify, if IAS 20 is incorporated into US GAAP:

1. IAS 20, par. 10A discusses that the benefit of a government loan at a below-market rate of interest is treated as a government grant with the benefit of the below-market rate of interest measured as the difference between the initial carrying value of the loan determined in accordance with IFRS 9 and the proceeds received. Although we acknowledge that this is a form of government support, we do not support including this provision in US GAAP. Specifically, we note that IFRS 9 requires financial instruments to be initially accounted for at fair value. However, apart from the fair value option, US GAAP does not typically require loans received by a business entity to be accounted for at fair value.

   In addition, we note the Board's recent project to simplify the accounting for convertible debt instruments, which culminated in Accounting Standards Update 2020-06. In paragraph BC23 in the Basis for Conclusions to that standard, the Board noted that "Many financial statement users also indicated that cash (coupon) interest expense is more relevant information for their analyses, rather than an imputed interest expense that results from the separation of conversion features required by GAAP." That paragraph further notes that robust and comprehensive disclosures are more important than incorporating a market rate of interest in the financial statements. Given this recent feedback, we do not believe that the costs in added complexity of incorporating the measurement and recognition guidance in IAS 20 on below-market loans outweighs the benefits. Further, ASC 835-30 includes a scope exclusion related to the imputing of additional interest for government loans. Due to the prevalence of these below-market loans, we anticipate that removing the scope exception would be costly for business entities, especially small entities.

   We would support incremental disclosures similar to and consistent with those in ASC 470-20-50 related to convertible debt added by ASU 2020-06 rather than recognition and measurement guidance. However, if the Board elects to include a similar provision to that in IAS 20, we would encourage conforming it with existing guidance on accounting for debt in US GAAP rather than adding a new model. In addition, we strongly encourage the Board to seek feedback from users specific to the guidance in IAS 20 on below-market rate loans prior to proposing to include any such guidance in US GAAP.

2. In multiple areas of IAS 20, the guidance allows for optionality. Specifically:

a. Par. 13 – 15 discusses two broad approaches for accounting for government grants, the capital approach and the income approach.

b. Par. 23 discusses the accounting for non-monetary government grants and indicates that "it is usual to assess the fair value of the non-monetary asset and to account for both grant and asset at that fair value". However, it also provides that "An alternative course that is sometimes followed is to record both asset and grant at a nominal amount."

c. Par. 24 – 28 allows a policy choice for presenting grants related to assets as a reduction of the asset or as a deferred income liability.

d. Par. 29 allows a policy choice for presenting grants related to income as "Other Income" or as deduction from the related expense.

Generally, we do not support optionality, as we believe that adds unneeded complexity to the financial reporting model. Therefore, we encourage the Board to either eliminate one of the two options in each of these areas, or if appropriate, provide additional guidance that indicates when each of the two options would be applicable.

As it relates to non-monetary grants, we support recognizing the grants at the fair value of the non-monetary asset received, as we believe that is more consistent with other provisions in US GAAP, including the guidance on non-monetary contributions in ASC 958-605. In addition, when considering the most appropriate income statement presentation of grants, we recommend that the Board also address whether it is ever appropriate for a for-profit entity to present the value of a government grant received as revenue, and if so, under what circumstances. This is a question that arises in practice, and we note that in certain limited instances, for-profit entities have concluded that revenue presentation is appropriate.

Question 2 (Preparers/Practioners):

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 receive multiple types of governmental grants which vary from research grants to direct government assistance. For example, most recently many of our clients received Paycheck Protection Program (PPP) Loans and Employee Retention Credits (ERC), established under the CARES Act, which have highlighted these issues. For PPP loans, the majority of our clients have applied the accounting guidance for debt under FASB ASC 470. Other examples include Cooperative Research and Development Agreements (CRADA) sponsored by the Department of Energy (DoE), which are often accounted for by applying the guidance in ASC 958-605 by analogy, as well as pandemic-related provisions in non-US jurisdictions, some of which included wage forgiveness, zero interest rate loans, research incentive grants, and wage reimbursement for job creation or advancement of scientific objectives. As a result, the Board may wish to consider providing transition guidance for impacted stakeholders.

We have not observed significant application issues resulting from for-profit entities' use of IAS 20. However, we anticipate that the most challenging aspects of IAS 20 would be as follows:

1. Scoping – There may be different opinions on what constitutes a grant. Given the variety of government grants and other forms of assistance provided to for-profit entities by the government, it can be difficult to define which types of government assistance would fall within the scope of any relevant guidance. For example, in some instances it may be challenging to determine whether a transaction represents sales to a government body in the ordinary course of business or a government grant. We note that this question was addressed for not-for-profit entities in Accounting Standards Update 2018-08. We believe that guidance is helpful for for-profit entities and would encourage the Board to incorporate it in the accounting model ultimately adopted related to for-profit entities.

2. Recognition – The concept of "reasonable assurance" (IAS par. 7) does not exist in US GAAP. Without explicit guidance, we anticipate diversity in interpretation by for-profit entities. See further discussion below in our response to Question 13.

3. Presentation – IAS 20 permits reporting entities to present the effect of government grants on either a gross or net basis. Given this optionality, we foresee diversity in practice, which may limit comparability for users of financial statements. As noted above in our response to Question 1, we do not support retaining this optionality in US GAAP.

As IAS 20 is a model that has existed in its current form for nearly 40 years (originally published in the 1980s), the Board may want to consider updates and/or revisions to terms and concepts, given the passage of time.

Question 4 (All Respondents): 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?

Generally, we agree that the current definition is understandable and operable. However, we ask the board to clarify if quasi-governmental entities (for example, the Cancer Prevention and Research Institute of Texas) would be included in that definition. While the definition of a government in IAS 20 is generally consistent with that of ASC 832, we note that ASC 832 also includes "non-governmental organizations or government-sponsored enterprises that have authority from a government" (ASC 832-10-15-5) which we recommend also be incorporated. We believe any government presence that has a material benefit for an entity is important for recognition, measurement, and presentation. As such, a broad definition would ensure that such assistance received would be accounted for consistently.

Further, we ask the Board to consider if there could be any effects on the ASC 810-10-15-12 scope exception that applies to "governmental organization." It is not defined in US GAAP, although we note that the AICPA Audit and Accounting Guide, State and Local Governments defines a governmental organization.

Finally, we note that IAS 20 includes a scope exception for grants to agricultural entities. We recommend the Board consider whether such an exception is appropriate for US GAAP, given the limited guidance in ASC 905-605.

Question 5 (Preparers/Practioners): 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.

See our response to the previous question. Although we do not anticipate any difficulties with applying the current definition in IAS 20, we recommend conforming that definition with the definition in ASC 832 in order to promote consistency.

Question 6 (Preparers/Practitioners): 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?

We believe that for-profit entities could struggle when determining how to measure "government assistance [that] cannot reasonably have a value placed upon them." However, as noted in our response to Question 1, we believe that fair value measurement should nonetheless be required (other than for below-market loans) to be consistent with other areas of US GAAP, including non-cash contributions in ASC 958-605.

Question 7 (Preparers/Practitioners): 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?

We believe that the guidance regarding normal trading transactions is sufficiently understandable, but we believe that the use of illustrative examples would improve the guidance in this area. In addition, as noted above, the FASB may wish to consider incorporating guidance from ASC 958-605-15-15A and 958-605-55-3A through 55-7 regarding distinguishing between contributions and commercial exchanges.

Question 9 (Preparers/Practioners): 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.

In general, we believe the recognition and measurement requirements are operable and understandable. As further discussed below, we acknowledge that there are challenges associated with applying the concept of "reasonable assurance" as no current definition exists under US GAAP. The Board should consider providing explicit guidance to avoid diversity in application.

Question 10 (Preparers/Practitioners): 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.

Yes, we believe the guidance in paragraph 19 is sufficiently operable. However, we note that in our experience, the Capital Approach (IAS 20 par. 13 – 15) is never applied in practice. Thus, the Board may wish to either consider removing the discussion of the Capital Approach or include such discussion in the basis of conclusions as an alternative considered and rejected.

Question 11 (Preparers/Practitioners): 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?

No, we do not believe there should be different accounting requirements for grants related to assets and grants related to income. As noted above in our response to Question 1, we generally do not support diversity in application of the guidance.

Question 12 (Prepares/Practioners): 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.

Although we do not anticipate significant challenges with applying the existing guidance on timing and pattern of recognition, as there may be a variety of scenarios subject to varying judgments, the Board may wish to provide illustrative examples to minimize diversity in practice.

Question 13 (Preparers/Practitioner)

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?

Our experience has been that for-profit entities typically interpret “reasonable assurance” consistent with how the term “probable” is used in US GAAP (see ASC 450-20, Contingencies—Loss Contingencies). As such, we recommend replacing the term “reasonable assurance” with the term “probable,” as that would conform this guidance not only with its current application in practice, but also with other areas of US GAAP. We would not support incorporating a probability threshold similar to that included in ASC 606-10-25-1(e) as to do so would add unnecessary complexity.

However, we note that consistent with how for-profit entities determine whether the “probable” threshold has been met under US GAAP, we expect management will need to – in certain circumstances – apply significant judgment in determining whether the “reasonable assurance” threshold is met regardless of how defined.

Question 16 (Preparers/Practioners): 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?

As previously discussed, we believe that nonmonetary government grants should be accounted for at fair value, consistent with guidance for other non-monetary transactions under US GAAP.

Question 18 (Preparers/Practioners): 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?

There exists diversity in practice due to the lack of authoritative guidance. For-profit entities use both gross and net presentations under IAS 20 for both asset-related and income-related government grants. Also, as noted above in our response to Question 1, there is diversity in practice in presentation of the income statement impact, including as revenue in certain limited circumstances.

Although we believe both presentations have merit, for grants related to assets we believe a net balance sheet presentation and a corresponding reduction of depreciation expense is more consistent with a cost accumulation model for assets. For grants related to income, we believe presentation on a gross basis is more consistent with other areas of US GAAP. We acknowledge the unique nature of grant income is typically predicated upon incurring some sort of cost or expense. As such, we are not opposed to a net presentation. In addition, in certain limited circumstances, we are not opposed to gross presentation as revenue rather than other income. However, we do support consistency where possible, and thus do not support an open choice in presentation. As such, to promote consistency in the application of the standard, if FASB does not eliminate the optionality, we recommend that the Board clarify when each alternative is appropriate.

We note that for other areas in GAAP (e.g., revenue recognition) gross presentation is only appropriate when the recipient is the principal in the arrangement. We have seen instances in which a governmental body contributes services to a for-profit entity, but the for-profit entity may not control the services. For example, a governmental body may engage a third party to perform specialized research and development services in support of a specified project, but other than providing initial instructions related to the services to be provided, the for-profit entity sponsor of the project may not be able to direct the service provider. If the Board elects to require or permit gross presentation, we recommend that it consider incorporating the principal vs. agent concepts in ASC 606.

Question 19 (Preparers/Practioners): 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 present in the statement of cash flows or how do you anticipate they would be presented?

We would not object to presentation in the statement of cash flows based on the nature of the grant itself, which may result in classification as financing, investing, or operating cash flows, as applicable.

However, we would also support requiring classification as a financing cash flow. If so, the Board may wish to consider the guidance as provided within the IFRS Interpretations Committee (the Committee): IAS 7 Statement of Cash Flows, project published in July 2012. The Committee supported classification as a finance transaction as "…the grant is providing a source of financing to the entity and consequently cash received should be part of the entity's financing activities." In addition, we recommend that the Board consider excluding or modifying IAS 20, par. 28 depending on the approach taken.

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

We believe the guidance is sufficiently clear and understandable if the concept of "reasonable assurance" is either defined or replaced by a better understood term such as "probable." However, the Board may want to evaluate whether such loans should be in the scope of accounting for government grants by business entities or if other US GAAP should be applied, such as accounting for forgivable loans as true debt under FASB ASC 470. Alternatively, we would also support incorporating the guidance in ASC 958-605 on conditional contributions into the resulting for-profit model, as this would encourage consistency between not-for-profit and for-profit entities.

Question 23 (Preparers/Practioners):

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 above, we do not believe the Board should incorporate the guidance in IAS 20 on below-market loans without first seeking stakeholder feedback. Instead, we support requiring comprehensive disclosures to allow users to understand the economics of the transaction.

Question 25 (Preparers/Practioners):
a) What issues or challenges, if any, have arisen (or do you anticipate would arise) when accounting for contingent assets and/or contingent liabilities relating to government grants in applying IAS 37?
b) What issues or challenges, if any, have arisen (or do you anticipate would arise) when accounting for contingent assets and/or contingent liability relating to government grants in applying Topic 450 instead of IAS 37?

We do not believe the Board should consider incorporating the guidance in IAS 20 if that guidance is inconsistent with its US GAAP counterpart (i.e., if US GAAP includes explicit guidance on that topic). FASB ASC 450 already provides guidance on accounting for contingent assets and/or contingent liabilities. We would not recommend any changes to the current model.

Question 26 (Preparers/Practioners):
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)?

As previously noted, we do not believe the Board should incorporate guidance in IAS 20 if that guidance is not converged with its US GAAP counterpart. We note that ASC 250 already provides clear guidance on accounting for repayment of a government grant[i]. We would not recommend any changes to the current model.

Question 27 (All Respondents): Are there any other areas relating to IAS 20 and the accounting for government grants that the FASB should consider? Please explain

We do not have any further matters for the Board's consideration with respect to IAS 20 and the accounting for government grants, except that we would encourage the Board not to make changes to IAS 20 that would create differences between US GAAP and IFRS unless the underlying position contradicts existing US GAAP, or is necessary to reflect the evolution in the environment since the issuance of IAS 20.

In addition, we note that as a general principle, we believe that standard-setting activities should minimize, to the extent possible, unwarranted differences in the accounting for governmental grants between for-profit and not-for-profit entities. For some industries (e.g., healthcare and education), there are a considerable number of for-profit and not-for-profit entities. We believe the accounting for government grants between for-profit and not-for-profit entities should be as closely aligned as possible, unless otherwise merited because of conceptual differences. Having said that, we do not support modifying the current guidance for not-for-profit entities in ASC 958-605, as we do not believe that the benefits of consistency would outweigh the costs to the not-for-profit segment from having to change their current accounting processes.

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[i] We presume the question assumes that an entity is forced to repay a government grant previously recognized in earnings. See our response to Question 21 if instead the question relates to loans that are forgivable and have not yet been recognized in earnings.