

August 31, 2022

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

By e-mail: director@fasb.org

**Re: 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***

(File Reference No. 2022-002)

Dear Ms. Salo:

The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 21,000 CPAs and other professionals in public practice, industry, government and education, welcomes the opportunity to comment on the above-captioned invitation to comment (ITC).

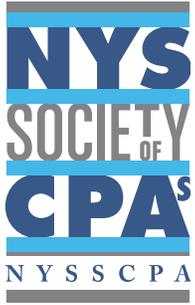
The NYSSCPA's Financial Accounting Standards Committee deliberated the ITC and prepared the attached comments. If you would like additional discussion with us, please contact Sean C. Prince, Chair of the Financial Accounting Standards Committee, at (646) 231-7285, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

A handwritten signature in black ink that reads "Lynne M. Fuentes CPA". The signature is written in a cursive style and is positioned over a faint, light blue watermark of the NYSSCPA logo.

Lynne M. Fuentes
President

Attachment



**NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS**

COMMENTS ON

**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***

(File Reference No. 2022-002)

August 31, 2022

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NYSSCPA Staff

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New York State Society of Certified Public Accountants

Comments on

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*

(File Reference No. 2022-002)

We welcome the opportunity to respond to the Financial Accounting Standards Board’s (FASB or the Board) 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* (ITC).

General Comments

Overall, we support the Board’s pursuit of establishing guidance in U.S. Generally Accepted Accounting Principles (U.S. GAAP) on how for-profit entities should account for the receipt of government grants. The COVID-19 pandemic highlighted the need for more robust guidance in this area. We also support the Board’s consideration of existing accounting guidance as a starting point for the development of any new guidance in this area. We generally support the belief that International Accounting Standards (IAS) 20 would provide a reasonable starting point for standard-setting efforts undertaken by the Board.

Proposed consideration on possible areas of improvement to the IAS 20 model can be found in our responses to specific selected questions posed in the ITC.

Specific Comments/Responses to Select Questions

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?

Response: We believe IAS 20 would serve as a reasonable starting point for any standard-setting activity by the Board in this area. From our experience, many for-profit entities — both before and during the COVID-19 pandemic — have analogized the guidance in IAS 20 to account for government grants without significant application issues

Alternatively, the guidance in ASC 958-605, *Not-for-Profit Entities—Revenue Recognition*, could also serve as a reasonable starting point. While different from IAS 20, we believe that the guidance in ASC 958-605 provides a reasonable accounting model that could be used by for-profit entities with limited adjustments.

We believe that it would be in the public’s interest for the Board to not create a new accounting model as it relates to the accounting for government grants, but instead the Board should use the existing guidance in IAS 20 and/or ASC 958-605 as a reasonable starting point.

Question 2 (Preparers/Practitioners):

- 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?**

Response: From our experience, the types of government grants for-profit entities receive can vary significantly – ranging from research grants to tax abatements to direct government assistance (e.g., Paycheck Protection Program (PPP) loans established by the CARES Act). Given the lack of explicit guidance in US GAAP, we have observed that for-profit entities have analogized to various accounting models to account for government grants, including to ASC 450-30, *Contingencies—Gain Contingencies*, ASC 958-605, and IAS 20. During the COVID-19 pandemic, we observed many for-profit entities analogizing to IAS 20.

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 considerations – The Board’s past experience with addressing the accounting for government grants has made clear that scoping considerations can present a significant challenge. Specifically, given the variety of government grants and other forms of assistance provided by governments to for-profit entities, it can be difficult to clearly define which types of government assistance would fall within the scope of an accounting model. We suspect, even under the scoping guidance in IAS 20, these types of challenges might persist. For example, we anticipate for-profit entities might struggle with the concept of “government assistance that cannot reasonably have a value placed upon it.”
- 2) Recognition threshold – The concept of “reasonable assurance” (IAS 20.7) does not exist in US GAAP. Furthermore, it has been our experience that, in certain circumstances, significant judgment is required to determine if the “reasonable

assurance” threshold has been met. Consequently, without more explicit guidance, we could foresee diversity in interpretation by for-profit entities.

- 3) Presentation matters – IAS 20 permits reporting entities to present the effect of government grants on either a gross or net basis. Given this optionality, we anticipate diversity in practice, which might present challenges to users of financial statements.

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?

Response: As noted in our response to Question 2, we believe that for-profit entities could struggle when applying the concept of “government assistance [that] cannot reasonably have a value placed upon them.” In our experience, valuation specialists typically ascribe a value to a wide range of items. Consequently, for-profit entities and auditors might struggle with concluding whether this scope exception can be applied in certain circumstances. We believe examples that reflect the Board’s interpretation of this provision could help resolve difficulties when applying this concept.

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?

Response: While we believe the concepts underlying the “normal trading transactions” scoping guidance in IAS 20 is reasonably clear and understandable, we encourage the Board to consider aligning the guidance more closely with the guidance in ASC 958-605 on distinguishing between contributions and exchanges.

As a general principle, we believe any differences between the accounting for government grants by not-for-profit entities and for-profit entities should be minimized to the extent possible. In some industries, there are a significant number of both for-profit and not-for-profit entities (e.g., healthcare and higher education). Consequently, unless merited because of conceptual differences, we believe the accounting for government grants between for-profit and not-for-profit entities should be as closely aligned as possible.

Question 9 (Preparers/Practitioners): 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.

Response: We believe the recognition and measurement requirements are operable and understandable. We do not anticipate significant costs or operability concerns.

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.

Response: Yes, we believe the guidance in IAS 20.19 is operable.

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?

Response: We believe the Board should solicit users' input on whether the distinction between asset-related grants and income-related grants is meaningful in their analyses. If users believe different accounting is warranted, we encourage the Board to provide examples to help preparers and practitioners distinguish between the two types of grants.

Question 13 (Preparers/Practitioners):

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?

Response: Our experience has been that for-profit entities typically interpret “reasonable assurance” consistent with how the term “probable” is used in U.S. GAAP (see ASC 450-20, *Contingencies—Loss Contingencies*). Consistent with how for-profit entities determine whether the “probable” threshold has been met under U.S. GAAP, we expect management will need to – in certain circumstances – apply significant judgment in determining whether the “reasonable assurance” threshold is met.

If the Board wishes to provide preparers with guidance on how to interpret “reasonable assurance” or to replace the concept with an existing threshold in U.S. GAAP, we suggest the Board consider the guidance in ASC 606-10-25-1(e) (“probable”) or ASC 842-10-55-26 (“reasonably certain”).

Question 16 (Preparers/Practitioners): 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?

Response: Our experience has been that reporting entities account for nonmonetary government grants received using a fair value measurement approach. We do not believe measuring nonmonetary grants at a nominal amount is appropriate.

Question 18 (Preparers/Practitioners): 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?

Response: We have observed for-profit entities use both gross and net presentations under IAS 20 for both asset-related and income-related government grants.

Similar to our response to Question 11, we encourage the Board to solicit user feedback to determine which presentation method is most useful to users of the financial statements.

Question 19 (Preparers/Practitioners): 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?

Response: We believe presentation in the statement of cash flows should be driven by the nature of the activity to which the government grant relates.

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

Response: Yes, we believe the guidance on forgivable loans in IAS 20 is sufficiently clear and operable. Many for-profit entities used this guidance without issue to account for PPP loans received during the COVID-19 pandemic.

Question 23 (Preparers/Practitioners):

- 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?

Response: We do not support accounting for the benefit of below-market loans as government grants. We do not believe the potential benefits of accounting for the benefit of a below-market loan as a government grant outweigh the costs of doing so. Furthermore, we observe that the Board recently concluded in ASU 2020-06 that investors generally find cash (coupon) interest expense more relevant than an imputed interest expense.