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**Invitation to Comment, *Accounting for Government Grants by Business Entities*  
(File Reference No. 2022-02)**

We appreciate the opportunity to provide feedback on the 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*.

We do not believe the Financial Accounting Standards Board (FASB or Board) should add a project to its technical agenda on recognition, measurement and presentation of government grants for business entities because the current practice of analogizing to other guidance (typically International Accounting Standard (IAS) 20) is workable and sustainable. That is, the current practice of analogizing to IAS 20 works for most business entities and incorporating specific guidance into US GAAP is not necessary. Our view is consistent with our September 2021 response to the Board's agenda consultation (File Reference No. 2021-004).

In our experience, business entities typically analogize to IAS 20 to account for government grants not in the scope of authoritative US GAAP literature. As noted in the ITC, government funding to companies increased significantly during the COVID-19 pandemic, and business entities that received government assistance were able to account for it by analogizing to IAS 20 (or other appropriate guidance) and likely have systems and controls in place accordingly. However, there are aspects of IAS 20 that we have not seen business entities apply by analogy, such as IAS 20's forgivable loans guidance and the requirement to disclose non-recognized government assistance. We talk about these in further detail in Appendix A, where we provide our responses to certain questions the Board raised in the ITC.

Accordingly, we do not believe the FASB should incorporate the guidance in IAS 20 on the accounting for government grants into US GAAP because the challenges of doing that would outweigh the benefits of establishing US GAAP guidance on this topic. In order to incorporate IAS 20 into US GAAP, the Board would need to resolve several differences between IAS 20 and US GAAP that we also discuss in Appendix A. We also note that IAS 20, which was issued almost 40 years ago, does not align with the FASB's Conceptual Framework or the framework used by the International Accounting Standards Board.

In addition, as the FASB staff acknowledges in the Background to the ITC and in the Background Information and Basis for Conclusions of Accounting Standards Update (ASU) 2021-10,<sup>1</sup> defining the scope of any government assistance accounting guidance has been challenging. Incorporating IAS 20 into US GAAP would require the Board to provide a distinct scope to the guidance.

Lastly, we do not believe that incorporating IAS 20 into US GAAP would improve the comparability of business entities' accounting for government grants. While doing so would eliminate analogies to the contribution guidance in Accounting Standards Codification (ASC) 958-605 and ASC 450-30 on gain contingencies, as we have stated above, we believe most business entities already analogize to IAS 20. In addition, IAS 20 allows entities to apply judgment in how to present the financial statement impacts of government grants (e.g., between revenue and contra-expense for grants related to income), depending on the nature of the government grant. In our experience, business entities use IAS 20's principles to present government grants in a manner that provides meaningful information to users of their financial statements, but that means diversity in presentation will continue to exist even if IAS 20 is incorporated into US GAAP. We believe that the disclosure requirements recently codified in ASC 832, *Disclosures by Business Entities about Government Assistance*, provide users with appropriate qualitative and quantitative information to make the accounting treatment of government grants by business entities that analogize to IAS 20 transparent.

Overall, we believe that including recognition, measurement and presentation guidance for government grants received by business entities into US GAAP (either through the incorporation of IAS 20 or by some other method) would likely require more effort than expected, and in the end, the time and cost of doing so would outweigh any benefit and divert the FASB's resources from other, more pressing projects.

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We would be pleased to discuss our comments with the Board or its staff at your convenience.

Very truly yours,



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<sup>1</sup> ASU 2020-10, *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance*.

**Appendix – Responses to questions included in the ITC**

**Question 1:** 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 related to recognition, measurement, and/or presentation should be incorporated and why?

We do not believe that the FASB should consider incorporating into US GAAP the guidance in IAS 20 on the accounting for government grants by business entities. Please see our discussion above and our responses to the following questions for further details on the potential challenges of doing so.

**Question 2:**

- 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?

Historically, we have observed that the types of government grants received by business entities have included cost-reimbursement grants (i.e., award funding is distributed to entities after expenditures have been incurred) and milestone payment grants (i.e., award funding is distributed upon the achievement of grant-defined objectives). However, the form and type of government grants received by business entities vary, depending on the nature of the grant provided by a government and the terms and conditions of the program. In recent years, we have observed an increase in forgivable loan arrangements (e.g., the Paycheck Protection Program (PPP)) and government grant transactions based on metrics other than costs incurred (e.g., the Provider Relief Fund program that reimbursed an entity's lost revenue). We note that the recent Inflation Reduction Act and the CHIPS and Science Act will also provide funding and various incentives and tax credits for certain climate and energy projects, as well as domestic semiconductor manufacturing and research. We are currently analyzing these new programs.

Typically, after determining that other US GAAP does not apply (e.g., ASC 740, *Income Taxes*; ASC 606, *Revenue from Contracts with Customers*; ASC 470, *Debt*), we believe that most business entities account for government grants by analogy to IAS 20. Analogies to other guidance, such as ASC 958-605, *Not-for-Profit Entities – Revenue Recognition – Contributions*, or ASC 450-30, *Contingencies – Gain Contingencies*, are also made less frequently. Determining whether other US GAAP guidance applies (and if not, an analogy to IAS 20 may be appropriate) can be challenging due to the unique nature and terms and conditions of certain programs.

**Question 4:** 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, the IAS 20 definition of the term “government” is understandable and operable in isolation.

While “government” is not a defined term in ASC 832, ASC 832-10-15-5 provides a broad description of governments and entities related to governments. If IAS 20 were incorporated into US GAAP, that description would need to be reconciled with the definition of government in IAS 20 or a new definition would have to be incorporated into the US GAAP guidance.

When a traditional government acts through a nongovernmental organization (NGO) or other affiliated entity, it can be more complicated to determine whether IAS 20 applies to the assistance. The level of government involvement in assistance administered by NGOs or other affiliates also can change from one program to another and from one jurisdiction to another. If the FASB incorporates IAS 20 into US GAAP, we believe the FASB should provide further clarification on the role of NGOs, including providing examples of NGOs or other affiliated entities that are both in and out of the scope of the term “government.”

**Question 5:** 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.

Under IAS 20, “government grants” are a subset of “government assistance,” both defined terms.

Government assistance is “action by government designed to provide an economic benefit specific to an entity or range of entities qualifying under certain criteria. Government assistance for the purpose of this Standard does not include benefits provided only indirectly through action affecting general trading conditions, such as the provision of infrastructure in development areas or the imposition of trading constraints on competitors.”

Government grants are “are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. They exclude those forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity.”

If assistance from a government meets the definition of a government grant, it is recognized when the entity meets the criteria in IAS 20.7 (i.e., there is reasonable assurance that (1) the entity will comply with the conditions attached to the grant and (2) the grant will be received). However, if the assistance from a government does not meet the definition of a government grant, an entity would not recognize

the assistance in the financial statements, but it would disclose such assistance, if significant, in accordance with IAS 20.36 and 20.39(b).

We believe US GAAP business entities that are analogizing to IAS 20 are looking to it primarily for recognition guidance once they determine that other US GAAP topics do not apply to any assistance they receive. That is, we do not believe business entities that apply US GAAP are currently analogizing to the guidance in IAS 20 to disclose non-recognized government assistance. In addition, ASC 832 only requires disclosure of transactions with a government that have been “accounted for” by analogizing to a grant or contribution accounting model. As discussed in paragraph BC9 of ASU 2021-10, the FASB had proposed requiring disclosure of amounts received but not recognized in the financial statements; but due to stakeholder feedback, the FASB didn’t include this requirement in the final guidance.

As an example, US GAAP business entities may currently receive certain non-income tax incentives (e.g., in the form of property and/or payroll tax abatements) when they relocate to (or open a location in) a new jurisdiction. The nature and form of these incentive programs can vary widely. It is our understanding that US GAAP business entities generally do not currently account for such programs as a government grant by analogy to IAS 20. As such, these type of incentive programs will likely not be disclosed under ASC 832, but they would likely be required to be disclosed as “government assistance” under IAS 20. Therefore, if IAS 20 is incorporated into US GAAP, the Board would have to reconcile including this disclosure requirement in US GAAP with its previous decision to not require these types of disclosures because of challenges raised by stakeholders.

In addition, the scope exceptions in IAS 20.3, particularly those relating to investment tax credits, can be challenging to apply. One of the reasons for this is that both IAS 20 and IAS 12 *Income Taxes* use the term “investment tax credit” to describe items excluded from their scope. As such, entities must carefully consider the nature of such incentives and use significant judgment to determine which framework to apply. Diversity in practice has resulted, particularly by jurisdiction. In the US, we have observed similar scoping challenges between ASC 740 and using IAS 20 by analogy, and we recommend that the FASB provide more guidance and/or examples that illustrate how the guidance should be applied in this area if it incorporates any government assistance accounting guidance into US GAAP.

As stated previously, we believe that incorporating IAS 20 into US GAAP would require the Board to provide a distinct scope for the guidance. ASC 832 does not currently define “government grant” or “government assistance.” The challenges that the Board has experienced with defining government grants in previous projects would likely occur again, and the resources required to address those challenges may be better utilized in other FASB projects.

**Question 6:** Are there challenges associated with determining whether certain forms of government assistance cannot reasonably have a value placed on them? Please describe. Could those challenges be overcome with the use of examples?

As discussed above in our response to Question 5, the definition of “government grant” excludes forms of government assistance that cannot reasonably have a value placed upon them. Rather than prescribe how those forms of assistance should be accounted for, IAS 20 requires disclosure only (i.e., no recognition). For example, IAS 20.35 cites free technical or marketing advice and the provision of guarantees as examples of government assistance that cannot reasonably have a value placed on

them and, therefore, are excluded from the definition of a government grant. However, since the issuance of International Financial Reporting Standards (IFRS) 13 *Fair Value Measurement* (and ASC 820 under US GAAP), it has become less challenging to place a value on forms of government assistance. Accordingly, if IAS 20 were incorporated into US GAAP, we believe the FASB would need to change this aspect of the definition of "government grant" and/or revise the discussion of what types of government assistance cannot reasonably be valued to conform with ASC 820.

**Question 7:** 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?

In many cases, it is easy for a business entity to distinguish between a transaction with a government and its normal trading transactions (e.g., revenue from contracts with a customer). However, for other entities that have significant transactions with governmental entities as part of their operating activities, such as health care entities, life sciences organizations and defense contractors, distinguishing between normal trading transactions and government assistance can be more difficult.

Because IAS 20 was issued prior to the adoption of IFRS 15 *Revenue From Contracts with Customers* (and ASC 606 in US GAAP), if IAS 20 or other accounting guidance on government assistance is incorporated into US GAAP, we believe that the FASB should clarify how the new guidance interacts with ASC 606. We believe examples would be helpful, especially examples of transactions with a government that may include components of both an ASC 606 transaction and a grant. IAS 20 does not provide guidance on transactions with a government that might have multiple elements for which different guidance applies. We have seen an increase in these types of arrangements as the US government responded to COVID-19.

**Question 10:** 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?

Certain government grants that are received by business entities are on a cost-reimbursement basis. For these grants, the conditions that give rise to costs and expenses to determine the periods over which a grant will be earned are more easily identifiable. However, for other grant agreements (e.g., grants based on milestone payments), it can be more difficult for business entities to identify the appropriate conditions. Further, as seen in recent years due to the COVID-19 pandemic, some grants are not directly associated to costs or expenses (e.g., government grant programs that reimburse lost revenue). As such, depending on the nature of a grant, significant judgment may be required to apply the guidance in IAS 20.19.

Additionally, when there are multiple conditions in an agreement, some business entities have had challenges identifying which terms and conditions of their grant agreements should be identified as conditions that "give rise" to costs and expenses, and which are more administrative in nature. We believe that guidance in this area would be helpful, which could be similar to that provided in ASC 958-605.

**Question 12:** 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.

While the timing and pattern of recognition of a government grant are often clear (e.g., cost reimbursements), making these determinations can be challenging if the arrangement and conditions are complex. We believe more guidance and/or examples that illustrate how the guidance should be applied in this area would be helpful. That is, IAS 20's "matching" principle is a core component of the standard, yet IAS 20 does not provide any illustrative examples. We believe this would be an area for improvement for the FASB to address if IAS 20 is incorporated into US GAAP. However, this could also be accomplished through the issuance of FASB staff guidance.

**Question 13:**

- 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?

Because "reasonable assurance" is not defined in IAS 20, we believe there is likely diversity in practice in how US GAAP entities that analogize to IAS 20 apply the recognition threshold. However, we understand that "reasonable assurance" is generally interpreted under IFRS as being a high threshold that implies a significantly higher probability than "more likely than not."

When they apply IAS 20 by analogy, we generally believe most US GAAP business entities interpret the term "reasonable assurance" to mean "probable," as defined in ASC 450-20, *Contingencies – Loss Contingencies*. That is, in order to meet the recognition threshold, an entity will consider whether it is probable that it will comply with the conditions attached to the grant and that the grant will be received. As such, applying the "probable" threshold in ASC 606-10-25-1(e) would likely not affect current accounting practices for business entities applying IAS 20 by analogy.

**Question 16:** 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?

We believe there is likely diversity in practice because IAS 20 allows entities to either (1) assess the fair value of a nonmonetary government grant and account for both the grant and the asset at that fair value or (2) recognize such nonmonetary assets and the related grant at a nominal amount. Both measurement approaches are allowed by IAS 20. However, we would expect an entity to select an accounting policy and apply it consistently to all nonmonetary grants.

We note that not-for-profit entities and business entities that analogize to ASC 958-605 are required to recognize contributions, including contributed nonfinancial assets, at their fair value (see ASC 958-605-30-2). Further, ASC 958-605 requires not-for-profit entities that receive and recognize nonfinancial assets to disclose a description of the valuation techniques and inputs used to arrive at the fair value measure in accordance with ASC 820-10-50-2(bbb)(1) at initial recognition. As such, the nominal amount measurement approach available to business entities that analogize to IAS 20 is not available to not-for-profit entities under US GAAP. It is unusual for a business entity to have less restrictive requirements than not-for-profit entities.

The FASB should consider the views of financial statement preparers and users about which measurement approach would be preferable.

**Question 18:** 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?

IAS 20 allows entities to apply judgment in how to present the financial statement impacts (e.g., between revenue and contra-expense for grants related to income) depending on the nature of the government grant. In our experience, business entities use IAS 20's principles to present government grants in a manner that provides meaningful information to a user. We also note that IAS 20 and ASC 832 both require disclosures regarding the presentation and amount of government grants recognized by business entities. These disclosures provide users with appropriate qualitative and quantitative information to make the accounting treatment of government grants by business entities that analogize to IAS 20 transparent.

**Question 19:** 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?

Because there is no guidance in IAS 20 or IAS 7/ASC 230, *Statement of Cash Flows*, there is likely diversity in practice in how entities present government grants in the statement of cash flows (i.e., whether they relate to assets or to income).

If the Board would like to reduce this diversity, we would recommend including specific guidance on cash flows in any guidance on accounting for government grants added to US GAAP.



**Question 21:** Is the accounting guidance in IAS 20 on forgivable loans clear and understandable? Please explain why or why not?

**Question 23:**

- 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?

In our experience, US GAAP business entities do not analogize to the guidance in IAS 20.10 and 20.10A on forgivable loans. In 2020, there was general agreement<sup>2</sup> under US GAAP that PPP loans, which were forgivable if the entity met certain conditions, could be accounted for as either (1) debt or (2) a government grant if the entity expected to meet the eligibility and loan forgiveness criteria. Because the legal form of a PPP loan was debt, the view applied in practice was that accounting for it as debt under ASC 470 would always be appropriate, regardless of whether the entity expected the loan to be forgiven. However, an entity that expected to meet the PPP's eligibility and loan forgiveness criteria could elect to account for the proceeds from the loan as akin to a government grant. In doing so, business entities used the principles in IAS 20 related to grants related to income, rather than the specific IAS 20 forgivable loan guidance.

The application of the IAS 20 guidance on forgivable loans would have required the fair value of the PPP loan to be accounted for as a financial liability and only the below-market interest benefit as a grant under IAS 20. That is, under IAS 20, a forgivable loan is recognized as a financial liability and measured at fair value in accordance with IFRS 9 *Financial Instruments*. Only the benefit of any below-market rate of interest, calculated as the difference between the initial carrying value of the loan and the proceeds received, is accounted for under IAS 20 as a government grant.

A US GAAP entity would not impute additional interest at a market rate because the guidance in ASC 835-30 excludes transactions where interest rates are prescribed by a government agency (e.g., government-guaranteed obligations). We do not believe that the Board should consider making changes to US GAAP that would require only the benefit of below-market interest loans from a government to be accounted for as a government grant, nor should that accounting be extended to other forms of government lending.

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<sup>2</sup> See AICPA Technical Question and Answer (TQA) 3200.18, *Borrower Accounting for a Forgivable Loan Received Under the Small Business Administration Paycheck Protection Program*.

We also note that IAS 20 does not provide guidance on accounting for forgivable loans that are modified over the term to the loan. We believe it would be helpful for any accounting guidance included in US GAAP on forgivable loans to address modifications.

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

Under IAS 20.7, a government grant is not recognized until there is reasonable assurance that (1) an entity will comply with the conditions attached to the grant and (2) the grant will be received. This implies that a government grant could be recognized before its receipt. However, IAS 20 does not include guidance on the recognition of a receivable and, in fact, the recognition threshold of IAS 20 (i.e., reasonable assurance) is not the same as that of a receivable under US GAAP. We believe that any guidance on government grant accounting included in US GAAP should discuss the accounting for any grant receivables.

As we said in our response to Question 21, it would be helpful for any guidance on forgivable loans in US GAAP to address how to account for any future modifications. We believe that any modification guidance should apply to all government grant programs, not just forgivable loans. In recent COVID-19 programs, we note that funds have been distributed before supporting rules and regulations were issued. There may be diversity in how an entity accounts for changes in government assistance resulting from the issuance of rules and regulations after the enactment of legislation and the receipt of funding.