September 13, 2022

Hillary Salo
Technical Director
Financial Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

RE: File Reference No. 2022-002

Dear Ms. Salo,

PricewaterhouseCoopers LLP appreciates the opportunity to comment on the Invitation to Comment, *Accounting for Government Grants by Business Entities* (the ITC). We commend the FASB for its continuing efforts to address emerging areas that present challenges for financial statement preparers and users. The lack of explicit guidance for business entities to account for government assistance was highlighted during the COVID-19 pandemic and may become more prevalent as governments increasingly focus on expenditures and incentives in the areas of infrastructure and climate, among other initiatives.

We believe providing recognition and measurement guidance for government grants received by business entities would be an improvement to US GAAP, reducing diversity among business entities accounting for similar forms of government assistance. We recommend the FASB's leverage of the principles in IAS 20 in developing the proposed US GAAP guidance. However, we anticipate certain challenges with applying the principles modeled after IAS 20, and recommend the FASB provide additional clarification in the following areas to make the guidance more operable:

- **Scope -** We recommend that the definition of a government grant be clarified to avoid the guidance being applied more broadly than intended to arrangements that are generally not accounted for as government grants under current practice. We also recommend specifically excluding from the scope of the guidance transactions that are currently accounted for under other US GAAP, including loans at below-market interest rates. Refer to our response to Question 5 in the Appendix for further discussion.

- **Timing of recognition -** We recommend that the principles in IAS 20 regarding the timing and pattern of income recognition for government grants be clarified. Specifically, it may not be clear in some circumstances which costs should be considered the "related costs" used to determine the period of income recognition of a government grant. Refer to our response to Question 10 in the Appendix for further discussion.

The Appendix includes responses to the specific questions included in the ITC.

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If you have any questions regarding our comments, please contact Thomas Barbieri at thomas.barbieri@pwc.com or Angela Fergason at angela.fergason@pwc.com.

Sincerely,

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Appendix

Following, please find our detailed comments in response to the questions posed in the ITC. We have responded to the questions posed to practitioners.

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 believe providing recognition and measurement guidance for government grants received by business entities would be an improvement to US GAAP. The lack of explicit guidance for government grants was highlighted during the COVID-19 pandemic when various forms of government assistance became more broadly applicable to business entities. Further, government grants may become more prevalent as governments increasingly focus on climate-related initiatives, which are often implemented through incentives and other forms of government assistance to business entities.

We recommend leveraging the principles in IAS 20 when developing US GAAP guidance as our experience is that the preponderance of practice by business entities today when accounting for government grants is to analogize to IAS 20. Utilizing the principles in IAS 20 as the basis for US GAAP guidance would therefore limit the cost of adoption while providing the benefit of consistency in accounting and financial reporting by all business entities. Further, preparers and financial statement users are already familiar with the IAS 20 accounting model and preparers have experience applying the guidance to various forms of grants. Lastly, incorporating the principles of IAS 20 into US GAAP would have the added benefit of improving convergence with IFRS in this area.

An alternative approach would be to align the guidance for government grants received by business entities with the accounting guidance in ASC 958-605 on contributions received by not-for-profit entities, which would have the benefit of a single US GAAP model for nonexchange transactions across all entities. However, a project with a goal of aligning the accounting for not-for-profit and business entities would likely be a longer-term project that would need to consider the similarities and differences in arrangements between these entities and governments, and the needs of users of business entity financial statements compared to users of not-for-profit entity financial statements. Thus, we recommend leveraging the guidance in IAS 20 to achieve a goal of providing recognition and measurement guidance in the near term for government grants received by business entities.

We recommend that when considering incorporation of the principles of IAS 20 into US GAAP, the FASB clarify certain aspects of the guidance, specifically related to scope and timing of income recognition. Our recommendations are further discussed in our responses to Questions 4, 5, 10, and 23 below.

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?

The companies we audit receive various forms of government assistance through a wide range of programs. Examples include infrastructure grants, research grants, income and other tax credits (federal, state, and local), forgivable loans, and loans with a below-market interest rate. In certain sectors, such as financial services, companies commonly receive government guarantees and participate in government-facilitated lending programs.

Our experience is that business entities generally apply IAS 20 by analogy when they receive a cash grant from the government. Certain tax credits that are not in the scope of the income tax guidance in ASC 740, such as refundable tax credits, may also be accounted for as a government grant by applying IAS 20 by analogy. As noted in our responses to Questions 5 and 23, business entities do not typically give accounting recognition to government assistance in the form of below-market interest rate loans, guarantees, and other direct investments, or to many other forms of "implicit" government assistance that do not involve receiving cash from the government. In more limited situations, we are aware of business entities that have applied other accounting models by analogy to recognize and measure their government grants. Those other models include the guidance for contributions received by not-for-profit entities in ASC 958-605 and the guidance on gain contingencies in ASC 450.

Please refer to our responses to Questions 5 and 10 for the challenges that we have observed in applying IAS 20.

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?

Rather than utilizing the definition of the term "government" in IAS 20, we recommend the FASB leverage the existing guidance defining transactions with a government in ASC 832-10-15-5. We believe this guidance is understandable and operable, and more comprehensive than the IAS 20 definition. Additionally, it leverages existing US GAAP rather than introducing a new definition. We also note that entities sometimes do not receive grants directly from the government, but from intermediaries that have arrangements with the government. We recommend acknowledging that in these situations, it is necessary to evaluate whether the intermediary is solely acting as an agent of the government such that the transaction is in substance a government grant.

Question 5 (Preparers/Practitioners): 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.

We believe that a clear definition of "government grant" will be critical to the operability of US GAAP guidance on government grants. We recommend the FASB consider the following clarifications to the definition of government grants within IAS 20:

- Incorporate concepts in the existing definition of a "contribution" in the Master Glossary in US GAAP into the definition of "government grant," such as references to "transfer of cash or other assets…to an entity, or a reduction, settlement or cancellation of its liabilities" and the notion that these transactions are nonreciprocal. We believe these are also characteristics of a government grant.

- Consider referencing or incorporating the existing guidance in ASC 958-605 on determining whether a transaction is an exchange or nonexchange transaction.

- Omit the requirement in paragraph 3 of IAS 20 that a government grant be in return for "past or future compliance with certain conditions relating to the operating activities of the entity." We are aware of instances when it may not be clear whether a grant contains conditions (e.g., whether certain general qualifications for receiving a grant are akin to conditions) and we question whether the existence of conditions is an essential element of the definition of a government grant. In interpretations of IAS 20, a "condition" has been interpreted broadly to include even a general requirement to operate in certain regions or industry sectors. Further, existing US GAAP related to not-for-profit entities does not require a contribution to contain conditions in order to be within the scope of ASC 958-605. We therefore recommend that the FASB acknowledge that conditions are a general feature of most government grants, but remove the requirement that a grant contain conditions in order to be subject to the proposed guidance.

With regards to scope exceptions, we recommend the FASB replace the scope exceptions listed in paragraph 2 of IAS 20 with scope exceptions that exclude transactions in the scope of other US GAAP, such as transactions in the scope of:

- ASC 606, *Revenue from Contracts with Customers*
- ASC 842, *Leases*
- ASC 740, *Income Taxes*
- ASC 958, *Not-For-Profit Entities*

Additionally, we believe the scope of US GAAP guidance on government grants should exclude below-market interest rate loans and other forms of government lending, such as government guarantees and government-facilitated lending programs. Refer to our response to Question 23 for further discussion. We also recommend the FASB exclude from the scope of US GAAP guidance on government grants other government programs or arrangements that contain implicit government assistance, but are generally not accounted for as government grants in practice. For example, a negotiated property tax abatement could be viewed as government assistance but business entities do not in practice "impute" a government grant in these circumstances.

We recommend the FASB clarify that loans from the government that are expected to be forgiven are in-substance government grants. For example, similar to the guidance in paragraph 10 of IAS 20, the guidance could specify that a forgivable loan is accounted for as a government grant when it is probable the entity will meet the terms for loan forgiveness. If that guidance is carried forward, however, we recommend the FASB consider whether additional guidance should be provided on how to account for subsequent changes in the probability assessment of whether the entity will meet the terms for loan forgiveness.

We also recommend the FASB consider whether it is necessary to clarify the interactions with other US GAAP, such as ASC 912-730, *Contractors–Federal Government–Research and development,* ASC 450, *Contingencies*, and the discussion of nonreciprocal transfers in ASC 845, *Nonmonetary transactions*.

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 it would be uncommon to be unable to place a value on government assistance and that if the intention is to exclude certain types of arrangements (e.g., "implicit" government assistance) from the scope of the guidance, it would be more effective to address by clarifying the definition of a government grant and/or including additional scope exceptions. Please refer to our response to Question 5. If language similar to IAS 20 regarding "forms of government assistance which cannot reasonably have a value placed upon them" is incorporated into US GAAP, we recommend including examples of these situations to explain the intent of the guidance and to avoid the concept being applied more broadly than intended.

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 do not recommend including the current language in IAS 20 regarding “normal trading transactions” in US GAAP guidance. Instead, we recommend incorporating or referencing the existing US GAAP guidance on distinguishing between exchange and nonexchange transactions in ASC 958-605. Refer to our response to Question 5.

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.

Please refer to our responses to Questions 10 and 13 for our recommendations related to clarifying the guidance on initial recognition of government grants, as well as the timing and pattern of income recognition. Additionally, refer to our response to Question 5 regarding guidance on forgivable loans.

We also observe that several of the paragraphs in IAS 20 appear to describe alternatives considered rather than the principles established in the guidance (i.e., more akin to language typically included in the basis for conclusions). We recommend excluding this language from US GAAP guidance as it may create confusion; for example, we do not recommend including the text in paragraphs 13-16 of IAS 20.

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.

We recommend the FASB provide further clarification regarding the timing and pattern of income recognition if the guidance in IAS 20 is incorporated into US GAAP. Paragraph 12 of IAS 20 states: “Government grants shall be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate.” In some circumstances, it can be unclear which costs are the “related costs” that determine the timing and pattern of income recognition.

For example, a government grant may provide reimbursement for costs to construct a building in a particular jurisdiction and include a condition that the entity employ a specified number of individuals within that jurisdiction in order to retain the grant. In this case, there may be differing views regarding the costs that determine the timing of recognition of the grant; that is, are the related costs (a) the costs to construct the asset that is the basis for determining the amount of the grant, (b) the costs to employ individuals to fulfill the conditions of the grant, or (c) both the costs of the asset and the employment costs? Another example is a grant related to a non-depreciable asset, such as land. Paragraph 18 of IAS 20 suggests that a grant related to a non-depreciable asset should be recognized over the periods that “bear the cost of meeting the obligations” of the grant. It may be unclear in this instance whether any of the grant income should or could be offset against the carrying amount of the land, similar to other asset grants, particularly if the grant does not include explicit conditions.

While we acknowledge that judgment will often be required to determine the “related costs” for a government grant, we recommend providing additional guidance or examples to clarify the income recognition principle to improve consistency in applying the guidance to common forms of grants.

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?

We believe that the underlying principle in IAS 20 for initial recognition is the same for grants related to assets and grants related to income. That is, for both types of grants, a receivable cannot be recorded until there is reasonable assurance the entity will comply with the conditions in the grant and that the grant will be received. Additionally, the underlying principle for subsequent recognition is similar in that grant income is recognized in the period or periods the entity recognizes the related costs. In both cases, the grant income is offsetting the costs it is meant to subsidize, whether such costs are capitalized as an asset (that is depreciated or amortized over time) or recognized as a period expense.

We observe that the primary difference between asset grants and income grants is that asset grants are often recognized in income over extended periods of time (based on the useful life of the related asset) whereas income grants are often recognized in income over a shorter time frame as qualifying expenses are incurred. Therefore, the financial reporting outcome can differ significantly depending on whether a company concludes a grant relates to an asset or a period expense. Refer to our response to Question 10 for our views regarding the challenges in assessing which costs determine the period of recognition.

We also observe that in certain cases, the option to reduce the carrying amount of an asset by the grant amount can result in recording minimal or no asset balance if substantially all of the cost of the asset is funded by a government grant. In our view, these situations necessitate robust disclosure in order to provide decision-useful information to financial statement users.

Question 12 (Preparers/Practitioners): 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.

Please refer to our response to Question 10 for discussion of the challenges and our recommendations related to the timing and pattern of the recognition of a government grant.

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?

Our experience is that, in practice, entities interpret the threshold of “reasonable assurance” as equivalent to “probable” as defined in US GAAP. We recommend incorporating an initial recognition threshold of “probable” in US GAAP guidance as this threshold is used in various aspects of US GAAP and is well understood by preparers and financial statement users.

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?

As this issue does not arise frequently, we are not aware of one of the measurement approaches outlined in IAS 20 (i.e., fair value or at a nominal amount) being more prevalent in practice than the other to account for nonmonetary government grants received. We observe that a fair value measurement approach would be more consistent with the framework for measuring noncash consideration in ASC 606; however, we believe it is important to clarify the definition of a government grant and the scope of US GAAP guidance so that the guidance does not unintentionally require "imputing" government grants at fair value in situations when government assistance is generally not given accounting recognition in practice today. Please refer to our response to Question 5.

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?

We are aware of diversity in practice with regard to the option to elect gross or net presentation of government grants. We observe that a company's election often depends on the company's specific facts and circumstances, including the nature of the grant and the company's business model. In some cases, companies choose net presentation either to reflect the true economic cost of the related activities or because the company may not have been willing to incur the related costs in the absence of government assistance. In other cases, companies choose gross presentation to provide increased transparency into actual costs incurred and grant income received.

We recommend that the FASB obtain feedback from users on whether optionality related to presentation inhibits comparability for similar types of grants and consider whether comparability may also be achievable through disclosures of the impact of the elected accounting policy on the affected financial statement line items. If the accounting policy election for presentation is retained, we recommend clarifying whether the policy should be applied consistently to similar grants.

As noted in our response to Question 11, we believe the underlying principles for initial and subsequent recognition in IAS 20 are similar for grants related to assets and grants related to income. The primary judgment – and often the challenge – in applying IAS 20 is identifying which costs are the "related costs" that determine the timing and pattern of income recognition.

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?

We have observed diversity in practice in how business entities present government grants in the statement of cash flows. We recommend the FASB provide guidance on cash flow statement presentation to achieve consistency in presentation.

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

Please refer to our response to Question 5 for our recommendations related to guidance on forgivable loans.

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?

Our experience is that business entities applying US GAAP generally do not account for below-market interest rate loans from a government as a government grant based on the guidance within ASC 835-30-15-3(e), which indicates that entities should not impute interest on transactions with a governmental entity. We are concerned that changing this guidance could introduce significant cost and complexity for entities that receive such loans without providing a corresponding benefit to financial statement users. For example, we anticipate challenges in determining the fair value of these instruments, particularly when similar loans would not be expected to be provided by entities other than a government. Additionally, it may not be clear which costs the grant is intended to compensate for and thus, how the imputed grant income should be recognized and presented. For example, it may not be clear whether the "related costs" for purposes of applying the government grant model are the interest amounts the entity is not required to pay to the government or other expenses of the business being funded by the government loan.

For the above reasons, we recommend that the FASB exclude below-market interest rate loans from the scope of US GAAP guidance on government grants. For similar reasons, we also recommend excluding other forms of government lending, such as government guarantees and government-facilitated lending programs. We acknowledge that in some situations, receipt of a cash grant from the government and a below-market interest rate loan may be economically similar. However, we believe a project intended to address a broader concept of government assistance would be a longer-term project, and excluding these items from the scope of a near-term project to incorporate the IAS 20 model into US GAAP would be an acceptable alternative in the interim. We believe information about loans from the government and similar programs could alternatively be provided through disclosure.

As noted in our response to Question 5, we also encourage the FASB to consider whether there are other government programs or arrangements outside of lending programs that are not currently accounted for as government grants that should also be excluded from the scope of US GAAP guidance on government grants. We are concerned that a broad scope that includes transactions not currently accounted for as government grants will significantly increase the cost and complexity of adopting a new standard without a corresponding benefit to financial statement users.

Question 25 (Preparers/Practitioners):

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 liabilities relating to government grants in applying Topic 450 instead of IAS 37?

We are aware of some confusion in the interaction between the "reasonable assurance" threshold for recognition of a government grant in IAS 20 and the application of the contingent asset and liability guidance. Therefore, we recommend the FASB clarify when ASC 450, *Contingencies,* would be applicable through examples or additional guidance. For example, it would be helpful to clarify how to account for subsequent changes in the amount of grant proceeds that result from (a) changes in the estimate of variable amounts, (b) changes in the assessment of whether receipt of the grant is probable, and (c) changes in circumstances that may result in clawback or repayment of a government grant. We observe that ASC 606 may provide relevant frameworks for estimating grant proceeds when such amounts are variable and accounting for changes in conclusions about whether receipt of consideration is probable.

We are also aware of some arrangements in which an entity that meets defined conditions will receive a grant from the government (e.g., funding for research activities) but if certain events occur in the future, the entity will be required to make payments to the government under the same arrangement (e.g., a revenue-share payment). It would be helpful to clarify whether such arrangements meet the definition of a government grant and if so, which accounting model applies to the future payments to the government. We observe that arrangements that provide the government with a share of future revenue or profits likely do not meet the definition of a nonexchange transaction and therefore, likely should be excluded from the definition of a government grant.

Question 26 (Preparers/Practitioners):

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)?

In our experience, the repayment of government grants is not a common occurrence. In some limited circumstances, we are aware of entities either failing to meet conditions to retain grants or voluntarily returning funds. As noted in our response to Question 25, we recommend clarifying the accounting model for potential repayments as compared to other changes in estimates of grant proceeds.

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.

It is common for arrangements with the government to include fiscal funding clauses, which are provisions by which the arrangement is cancelable if the legislature or other funding authority does not appropriate the funds necessary for the government entity to fulfill its obligations under the arrangement. We recommend that the FASB provide guidance clarifying the impact of fiscal funding clauses on the recognition of government grants. For example, the FASB could consider providing similar guidance as provided in ASC 842-10-55-27, which addresses the impact of a fiscal funding clause on the accounting for a lease arrangement.

An evolving area is the increasing prevalence of government incentives in the form of tax credits, including credits that are refundable and those for which an entity can realize the benefit of the credit by transferring (selling) it to another party. We recommend the FASB consider addressing whether these credits should be accounted for as government grants, as well as how to apply the recognition and measurement guidance in these instances. We also recommend more broadly considering the interaction between a project on government grants and the FASB's current project on accounting for environmental credit programs.