September 12, 2022

Technical Director, File Reference No. 2022-002
Submitted via email to: 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 Principals.

Dear Technical Director:

The Virginia Society of CPAs (VSCPA) Accounting and Auditing Advisory Committee has reviewed the 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 Principals,* issued by the Financial Accounting and Standards Board (FASB). The VSCPA is a leading professional association dedicated to enhancing the success of all CPAs and their profession by communicating information and vision, promoting professionalism, and advocating members' interests. The VSCPA membership consists of more than 13,000 individual members who actively work in public accounting, private industry, government, and education.

We acknowledge that the FASB has issued the Invitation to Comment to increase stakeholder awareness of this particular topic as a part of its effort to improve financial statement disclosures. The Committee appreciates the FASB's work on this effort and the opportunity to respond to the Invitation to Comment.

The Committee offers the following comments related to the Invitation to Comment:

- **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?*

  The Committee feels that FASB should consider incorporating IAS 20 as it relates to the accounting for government grants into GAAP. GAAP should incorporate paragraphs 1 - 39, except the specific paragraphs should be incorporated into GAAP.

  IAS 20 paragraph 10A should not be incorporated. GAAP does not recognize loans at below market rates as a benefit. The Committee believes the users of GAAP basis financial statements would be confused by reporting an economic benefit on below-market interest rate loans with the benefit amortized over the life of the loan.

  IAS 20 paragraph 14 should not be incorporated. In GAAP, showing the economic benefit received by reporting grants as income vs. using the capital approach is a better presentation. Presenting the revenue as other than operating in the profit and loss statement is sufficient to separate the grant income from earned income. In addition, IAS 20 paragraph 15 provides the

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same logic for not using the capital approach.

- **Question 2 (Preparers/Practitioners):**
    a. *What type of government grants do you (or the companies you audit) receive?*

       As the specific responder for the Committee, the companies my firm audits mainly have three types of government grants. One, PPP loans are forgiven; two, Provider Relief Funds (PRF); three, FAR (Federal Acquisition Regulation) funds.

    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?*

       As the specific responder for the Committee, my firm applies IAS 20 for PPP loans and uses the guidance around ASC 958-605 for PRF and FAR funds.

    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 Committee feels that the biggest challenge related to IAS 20 will be determining when a company is reasonably assured that conditions have been met, allowing recognition of grant income, especially in the areas related to the forgiveness of loans. The second area of challenge will be the presentation of grants related to assets and the determination of presenting the transaction at FMV or a nominal amount.

- **Question 3 (Investors):** No Response

- **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?*

  The Committee feels that the term government in IAS 20 is understandable and operable. This definition fits with the GAAP definition used for government.

- **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:*
    - *The definition of government grants (paragraph 3 of IAS 20)*

      The Committee feels there will be no issues with the definition of government grants as defined in IAS 20 paragraph 3. This definition mirrors the GAAP definition used to apply 958-605 government grants.

    - *The scope exceptions (paragraph 2 of IAS 20)?*

      The Committee feels that the scope exceptions in paragraph 2 of IAS 20 will not present any concerns or constraints. They are clear and provide enough specifics to be able to apply effectively.

  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.

The Committee does not foresee any material one-time or recurring costs associated with applying the definition of government grants and the scope exceptions. Both areas are clearly defined and not complex. They also appear to be able to be applied consistently across companies.

- **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?*

  Most government assistance has clear economic substance in the form of assets or cash provided. In circumstances where only an intangible value can be associated with the assistance, the Committee feels there could be a chance that, in practice, a value will be placed on certain assistance to reflect an in-kind type of revenue. IAS 20 paragraph 35 provides several quick examples that clarify paragraph 34; therefore, the Committee feels that there are very few challenges in this area. A few examples would eliminate any confusion that does exist.

- **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?*

  The Committee feels that references to ASC 606 would help bring clarity to recording a transaction as a contract with a customer vs. a grant. Similar to ASC 958, there is a clear line when determining whether a transaction is an exchange transaction. The same or similar guidance could be used, along with examples, to help a practitioner determine which guidance applies.

- **Question 8 (Investors):** No Response

- **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.*

  The Committee feels that except for paragraphs 10A and 14 (as noted in Question 1), paragraphs 7 - 22 of IAS 20 are operable and understandable. The Committee also feels that the one-time and recurring costs of applying these requirements would not be material. Much of the guidance in paragraphs 7 - 22 is currently used in practice for nonprofit entities and government grants.

- **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*.

  The Committee feels that the guidance in paragraph 19 of IAS 20 is operable; however, there will be a need for examples to help with when the grant revenue is to be recognized. This guidance is similar to the guidance provided in ASC 606, where a determination needs to be made on how performance obligations are satisfied, and the amount of revenue recognized as the performance obligations are met.

- **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?*

  The Committee feels that the guidance for grants related to assets and income should be the same. As discussed in paragraphs 24-28 of IAS 20 (grants related to assets), paragraphs 29-31 of IAS 20 (grants related to income), and the guidance in other paragraphs of IAS 20, using a matching principal for the recognition of grant income is consistent with the matching principle of current GAAP. In addition, IAS 20 provides similar treatment to GAAP for contingencies related to income that may require repayment.

  The Committee feels providing a policy disclosure related to whether the company will treat grant income on a net vs. gross basis would be sufficient versus requiring one or the other. The guidance would need to require that the basis used is used consistently for all grant income, and if a change is made, it is treated as a change in accounting principle.

- **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.*

  See the response to Question 11 above. In addition to the response to Question 11, the Committee feels the most significant challenge will be documenting and disclosing the information in the grant that will determine the timing and pattern of grant income recognition. Preparers and practitioners must gain experience reading grants to ensure they understand the grant requirements.

- **Question 13 (Preparers/Practitioners):**
  - *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.*

    The Committee feels that companies will interpret reasonable assurance in a manner similar to GAAP's definition. Reasonable assurance has always been a difficult standard for companies to implement, so companies may require examples to help them feel confident in making this determination. In practice, many companies struggled with this concept regarding PPP loans. Many companies defaulted to treating the PPP as a loan until the Small Business Administration approved the forgiveness application vs. recognizing grant income in the same period as qualifying expenses were incurred.

  - *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?*

    The Committee feels that this may be the easiest standard to implement; however, we feel it will lead to many companies choosing to keep the money received as a liability until confirmation from the government entity that the grant requirements have been met. Unlike an exchange transaction where a service or product is provided to another company, many grants do not require the company to provide any product or perform any service to the granting governmental entity. Therefore, it may be more difficult for companies to determine when they have "earned" the grant.

- **Question 14 (Investors):** No Response

- **Question 15 (Investors):** No Response

- **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?*

  The Committee feels that the Fair Value measurement approach, in accordance with paragraph 23 of IAS 20, will be used for valuing nonmonetary government grants. The Committee would prefer the Fair Value measurement approach if only one measurement approach is permitted.

- **Question 17 (Investors):** No Response

- **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?*

  The Committee anticipates that both methods will be allowed in GAAP based on an accounting policy election. Because either option is acceptable, giving the option to apply alternative accounting policies with disclosure of the policy chosen provides the best option for preparers. Grants related to assets have a fundamental difference from those related to income when considered under current GAAP. In most circumstances in GAAP, the basis of the asset would be reduced by any consideration received in exchange for the asset.

- **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?*

  PPP loan forgiveness was recorded on the statement of cash flows by backing the grant income out of the operating section and recording the cash inflow in the financing section. The Committee anticipates that future government grants and assistance will be handled similarly. If the grant is a nonmonetary grant, then an entry in the nonmonetary investing and financing section below the main part of the cash flow statement would be appropriate.

- **Question 20 (Investors):** No Response

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

  The Committee feels the guidance in paragraph 10 of IAS 20 is clear and understandable. The Committee does feel that reasonable assurance will be a term that requires defining. Although reasonable assurance is already a term used in GAAP, there may be a tendency to wait until full forgiveness is issued before recognizing the income from the grant. This treatment will cause a disconnect between the period of expenses and the period of income.

- **Question 22 (Investors):** No Response

- **Question 23 (Preparers/Practitioners):**
  - *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?*

    The Committee feels that GAAP should not consider changes requiring 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. Currently, loans at below-market rates (especially for vehicles and equipment) are recorded without recognizing any benefit related to the below-market rate. It would be confusing to have governmental loans accounted for in a manner inconsistent with other below-market loans.

  - *How frequently do you (or the companies you audit) receive loans with below-market interest rates from a government?*

    As the representative of the Committee, my experience with below-market interest rates from a government is PPP loans and EIDLs. Outside of the last two years, I have no experience with below-market interest rates from a government.

  - *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?*

    The Committee believes that FASB should not extend the account for below-market loans to government guarantees and/or government-facilitated lending programs. The value of the guarantees or programs does not have a valuation method that could be consistently applied. The main value would be to allow the company to receive funds at a lower interest rate than it would receive on the open market. This value would be captured in the grant income calculated based on the below-market rate; therefore, no separate calculation would be needed.

- **Question 24 (Investors):** No Response

- **Question 25 (Preparers/Practitioners):**
  - *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?*

Per review of IAS 37, it is very similar to Topic 450. The Committee believes that the same standards that apply to the recognition of any contingent asset or liability could be applied consistently to contingent assets or liabilities relating to government grants.

- *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?*

  The Committee feels that there will be similar challenges related to the disclosure of contingent assets or liabilities relating to government grants as those associated with any contingent asset or liability. Company management will want to avoid a contingent liability. Therefore, it may be reluctant to acknowledge if the obligation occurred before or after the period ending date and will want to minimize the dollar amount of the recognized liability.

- **Question 26 (Preparers/Practitioners):**
  - *Has your organization (or your clients) had to repay a government grant? If yes, please describe the type of grant and reason for repayment.*

    As the representative of the Committee, I have not had a client required to repay a government grant.

- **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.*

  The Committee feels that all necessary areas relating to IAS 20 and the accounting for government grants are sufficiently covered above.

Again, the Committee appreciates the opportunity to respond to this ED. Please direct any questions or concerns to VSCPA Vice President, Advocacy Emily Walker, CAE, at ewalker@vscpa.com or (804) 612-9428.

Sincerely,

George G. Crowell, CPA, CITP
2022–2023 Chair
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