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March 31, 2025

Via email to director@fasb.org

Mr. Jackson M. Day, Technical Director
Financial Accounting Standards Board
801 Main Avenue
P.O. Box 5116
Norwalk, CT 06856-5116

Re: Government Grants (Topic 832): Accounting for Government Grants by Business Entities
(File Reference No. 2024-ED700)

Dear Mr. Day:

We appreciate the opportunity to respond to the Board's exposure draft on government grant accounting. We support the Board's objective of improving U.S. GAAP by establishing authoritative guidance for government grant accounting by business entities.

We generally support adoption of a model based on IAS 20. We observe that many businesses currently apply IAS 20 by analogy, and we support the Board's efforts to develop guidance where currently none exists in a manner that disrupts practice the least. However, IAS 20 does not address the complexity in many current government grants. Therefore, we believe that the model adopted should incorporate certain components of the existing model in ASC 958-605.

Specifically, we recommend the Board expand the proposed guidance to address several application matters related to scope, unit of account, and reassessing probability when facts and circumstances change. We also support reducing optionality by requiring a deferred income approach for all grants. Please refer to our responses to the Questions for Respondents in the attached Appendix.

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Jennifer Kimmel (jkimmel@bdo.com) or Angela Newell (ajnewell@bdo.com).
Very truly yours,

BDO USA, P.C.

BDO USA, P.C.

Appendix

Question 1: Is the proposed scope understandable and operable? Please explain why or why not and, if not, what changes you would suggest. Do you agree with the population of government grants included in the scope of the amendments in this proposed Update? Please explain why or why not.

The proposed scope is generally understandable, but its operability would be improved with guidance on how a business entity should distinguish a government grant from an exchange transaction with the government. To that end, we recommend that the Board incorporate the guidance in ASC 958-605-15-5A and ASC 958-605-55-1 through 55-14I, modified as appropriate for a business entity. That guidance provides a reasonable framework that business entities have applied directly or by analogy to determine whether an arrangement represents a grant or an exchange transaction.

We understand the Board's reasons for proposing a narrow scope, specifically the basis for excluding intangible assets and services, and we generally agree with that approach. However, we believe the Board should consider including services and payments made directly to third-party service providers that are narrow in scope and specific to the entity's business. For example, Cooperative Research and Development Agreement (CRADA) grants provide research and development (R&D) services by a government lab to a business entity at no cost. We also note that paragraph BC22 clarifies that intangible assets excluded from the scope of the proposed amendments are also intended to exclude free rent or leases with a reduced rent. However, in our experience, it is more common for a government to provide free lease of property (such as land) than to transfer ownership of the asset. We recommend that the Board include free or reduced rent in the scope of the final standard.

Moreover, we expect that business entities will apply the proposed model by analogy to excluded intangible assets and services. We recommend the Board retain the existing language in ASC 832-10-15-4 requiring an entity to provide the disclosures in ASC 832-10-50 if the entity is applying the other guidance in ASC 832 by analogy. We do not believe this requirement is clear in ASC 105-10-05-2.

Additionally, paragraph BC18 of the proposal acknowledges that some agreements may include elements that are in the scope of ASC 832 and others that are out of its scope. We recommend that the Board incorporate that concept into the standard consistent with the guidance provided in other standards (for example, ASC 606-10-15-4) instead of addressing it only in the Basis for Conclusions. We recommend the Board also provide guidance to assist entities with this distinction and the related allocation.

Further, current GAAP does not provide direct guidance on the accounting for most tax credits. We agree with the proposal to include refundable tax credits in the scope of the new model. However, we understand that some entities currently analogize to IAS 20 or another grant or contribution model to account for non-refundable transferrable tax credits, while others account for them in accordance with ASC 740. We are concerned that if the proposed model is affirmed, additional diversity in practice could emerge regarding the appropriate accounting for non-refundable transferrable tax credits.

Finally, while we agree with the scope exceptions included in ASC 832-10-15-4, we believe it may be helpful if the Board added the definition of a "monetary asset" to ASC 832-10-20.

Question 2: Under the proposed amendments, a government grant would be recognized when it is probable that (a) the business entity will comply with the conditions attached to the grant and (b) the grant will be received. Are these proposed amendments clear, operable, and auditable? Please explain why or why not.

The proposed amendments are generally clear and auditable for simple grant agreements. However, their application is less clear to more complex grant arrangements such as those that include multiple phases or decision points tied to the achievement by the grantee of milestones or to the performance of specific activities. For example, the Departments of Energy and Health and Human Services provide grants for energy-related and health-related projects in which subsequent funds are received only upon the successful completion of earlier phases of the project. To support the accounting by entities for such fact patterns, we recommend the Board develop guidance on unit of account within a grant, for example, by incorporating the guidance on donor-imposed conditions and donor-imposed restrictions in ASC 958-605, modified as appropriate for a business. Refer also to our response to Question 12.

Further, we note that the proposed guidance might be interpreted to require an entity to record a receivable and deferred income when both recognition criteria in ASC 832-10-25-1 have been met but funds have not been received from the government (that is, a gross-up approach). We think this is an unintended consequence of the principle in ASC 832-10-25-1. Currently, we are aware of some diversity in practice but we understand that the prevailing practice is not to record a receivable. The Board could consider clarifying the proposed guidance by recharacterizing it as scope criteria, similar to guidance in ASC 606-10-25-1.

Separately, we recommend the Board clarify the interaction between ASC 832-10-25-4 and ASC 832-10-35-1. That is, if a grantee originally met the 'probable' threshold for initial recognition in a prior period but that conclusion subsequently changes, it is not clear whether the grantee should continue to account for the government grant while recognizing a separate contingent liability in accordance with ASC 450, or account for the now-repayable grant as a change in accounting estimate in accordance with ASC 250. We believe the latter approach is appropriate (that is, accounting under ASC 832-10-35-1) and we note that it has been widely applied for government grants (for example, PPP loans provided under the CARES Act when IAS 20 was applied by analogy). In addition, a strict reading of the proposed guidance in 832-10-25-4 in isolation would require immediate derecognition of any asset because it would represent a gain contingency under ASC 450-30, which would not be recognized until it is realizable.

Question 3: The proposed amendments would provide different accounting requirements and alternatives for a grant related to an asset and a grant related to income. Is the distinction between the types of grants clear? Do the different accounting requirements and alternatives for a grant related to an asset and a grant related to income provide decision-useful information? Please explain why or why not.

We believe that the accounting model should include principles that apply broadly to all types of grants rather than different approaches for grants related to income vs. assets, including the optionality afforded to grantees within each category. Refer to our response to Questions 4-6.

Notwithstanding our preference, we note the proposed amendments related to assets assumes that the resources received will be capitalized and amortized. Additionally, grants of intangible assets are excluded from the scope of the proposed guidance. Accordingly, it is unclear how to treat grants related to R&D activities. For example, the Department of Energy provides grants to incentivize development of green energy storage systems. Such a project may include developing a working prototype. The recipient would recognize the costs of such development as R&D expense. However, in a business combination, the project would be recognized as in-process R&D, an indefinite-lived intangible asset. Unless the Board intends a grantee to assume the presence of a business combination (which seems unlikely), we recommend clarifying that grants for in-process R&D are considered grants related to income.

Finally, paragraph BC48 states that an entity should apply the accounting policies elected in accordance with the proposed amendments consistently for similar types of grants. However, this concept is not articulated within the guidance. We believe that the Board should codify this statement in the final standard to clarify this fact.

Question 4: The proposed amendments would allow a business entity to elect to recognize and present a grant related to an asset either under the deferred income approach or under the cost accumulation approach.

a) Is the deferred income approach operable and understandable? Please explain why or why not.

b) Is the cost accumulation approach operable and understandable? Please explain why or why not.

c) Should there be two approaches to account for a grant related to an asset? Please explain why or why not. If not, what approach do you prefer?

d) Should there be separate recognition or presentation requirements (and implementation guidance) for a grant related to a nondepreciable asset (for example, land)? If yes, should the guidance align with IAS 20 or would you suggest an alternative approach and why?

Both approaches are understandable and operable. However, we prefer a single accounting model for all government grants under the deferred income approach because it provides more transparency for users of the financial statements and is consistent with the accounting for other assets when a third party provides the related funding, for example, lease incentives. Further, the cost accumulation approach may not faithfully portray the economics for grants recognized at zero or nominal amounts. Requiring the deferred income approach for all grants would also eliminate some of the concerns expressed by several members of the Board with respect to the disclosure requirements in the proposal.

Also, given the narrow scope of the proposed amendments, the only grant of a non-depreciable asset that would be in scope would be a grant of land. Based on our experience, it is more common for a government to provide a free or below-market lease of land to a grantee than to transfer ownership of the land (refer to our Question 1 response), so we expect this issue to arise infrequently. However, we support augmenting the deferred income approach by incorporating the guidance in IAS 20, paragraph 18 which states that it may be appropriate to recognize a grant of land into income over the period associated with related conditions (e.g., construction of a building on the site).

Consistent with our response to Question 3, if the Board retains optionality, we recommend clarifying in the final standard (for example, in ASC 832-10-25-5) that the election is an accounting policy that must be consistently applied to similar grants.

Question 5: Should a business entity be required to recognize a grant related to income and a grant related to an asset under the deferred income approach in earnings on a systematic and rational basis over the periods in which the business entity recognizes as expenses the related costs for which the grant is intended to compensate? Please explain why or why not. If not, what changes would you suggest?

We agree for the reasons cited by the Board in BC28. However, as noted in our response to Question 2, application questions arise regarding the appropriate timing and pattern of income recognition for grants that have multiple milestones or other funding contingencies. Refer to our response to Question 2 for our recommendations.

Question 6: Should a business entity be required to initially measure a government grant of a tangible nonmonetary asset (a) at fair value if the deferred income approach is elected and (b) at cost if a cost accumulation approach is elected? Please explain why or why not.

We believe that a government grant of a tangible nonmonetary asset should initially be measured at fair value, consistent with the accounting for contributions received by a non-profit in accordance with ASC 958-605-30-2 as well as the guidance on noncash consideration in ASC 606. Consistent with our previous responses, we prefer that the final model retain only the deferred income approach and reduce the level of optionality afforded to grantees. However, if the Board were to retain two models for the initial measurement of a government grant related to an asset, we agree that recognition at cost would be appropriate under a cost accumulation model.

Question 7: If a business entity elects to apply the deferred income approach for a grant related to an asset, the grant would be presented on the balance sheet as deferred income and within earnings either (a) separately under a general heading such as other income or (b) deducted from the related expense. Are these proposed amendments clear, operable, and auditable? Please explain why or why not. Would these presentation options provide decision-useful information? Please explain why or why not.

The proposed amendments are clear, operable, and auditable. However, consistent with our previous responses, we recommend stating in the codification amendments that the optionality regarding income statement presentation is an accounting policy election that should be applied consistently for similar types of grants.

Separately, we suggest reconsidering the decision not to address how government grants should be presented in the cash flow statement. We are aware of existing diversity in practice because ASC 230 does not include specific guidance for government grants to a business. For example, some entities view all forms of government grants as a source of financing, irrespective of the actual intended use of the assets received, some consider all grants operating in nature, while others consider other factors when classifying cash flows on an award-by-award basis. We suggest the Board develop more comprehensive principles for classification of cash flows. We support presentation of cash flows on a gross basis.

Question 8: If a business entity elects to apply the cost accumulation approach for a grant related to an asset, the grant would be presented on the balance sheet as part of the cost basis of the asset. Are these proposed amendments clear, operable, and auditable? Please explain why or why not. Would this presentation provide decision-useful information? Please explain why or why not.

The proposed amendments are clear, operable, and auditable. We defer to investors as to whether this presentation approach would provide decision-useful information.

Separately, the Board may consider clarifying how an entity should recognize a grant received under the cost accumulation approach when the entity has not yet complied with the conditions for the award. For example, an entity could receive a grant for the construction of a tangible nonmonetary asset that will be performed over several reporting periods. In such an example, what type of liability should the entity recognize and which additional disclosures would be required? To that end, it would be helpful to clarify ASC 832-10-55-12 in Example 1.

Question 9: The proposed amendments would require that a grant related to income be presented as part of earnings either (a) separately under a general heading such as other income or (b) deducted from the related expense. Are these proposed amendments clear, operable, and auditable? Please explain why or why not. Would these presentation options provide decision-useful information? Please explain why or why not.

We believe that the amendments are clear and operable. We would generally prefer gross presentation of grant income on the income statement, although we agree with the Board's reasons for allowing entities to present grant income as a deduction from the related expense. In that context, we recommend clarifying in the final amendments that the election regarding income statement presentation is an accounting policy election that should be applied consistently for similar types of transactions.

Separately, we recommend addressing whether presentation as grant revenue could be appropriate in certain situations. We are aware of current practice in which some entities, particularly in the healthcare and biotech industries, present grant income as revenue because the receipt of grants is part of their ordinary and ongoing activities.

Question 10: The proposed amendments would require that a business entity comply with the disclosure requirements in Topic 832, Government Assistance. Do the disclosures in Topic 832 provide investors with sufficient information to understand the nature of a government grant and the timing and amount of the grant's impact on a business entity's cash flows? If not, what additional disclosures, if any, should be required and why?

We defer this question to investors and other users of the financial statements. Consistent with our response to Question 1, we recommend that the Board retain the existing language in ASC 832-10-15-4 requiring an entity to provide the disclosures in ASC 832-10-50 if the entity is applying the other guidance in ASC 832 by analogy.

Question 11:** **If a business entity elects to apply the cost accumulation approach to account for a grant related to an asset, the proposed amendments would require that the business entity disclose the amount of the grant proceeds that was recognized in determining the carrying amount of the asset (in the period the amount was recognized) and if the grant is a grant of a tangible nonmonetary asset, the fair value of the grant (in the period the grant is recognized). The proposed amendments would not require that a business entity disclose in subsequent periods (a) the asset carrying amount that would have been recognized if the business entity had not received the grant, or if the deferred income approach had been used, or (b) depreciation expense, gain or loss on sale, or impairment expense that would have been recorded initially or on an ongoing basis over the life of the asset if the grant had not been received or if the deferred income approach had been used. (See paragraphs BC50–BC52 for additional discussion.)

1. Investors: Would the disclosures of the grant proceeds and the fair value of a grant of a tangible nonmonetary asset be decision useful? Would either of the alternative disclosures noted above be useful in your analysis? If so, how would you use this information, particularly in periods after the grant is recognized (for example, in Year 2 for an asset with a 5-year life or in Year 20 for an asset with a 25-year life), and how and when would it affect capital allocation decisions? If this information is not provided, would you seek to obtain it from other sources? Please explain your answer.

2. Preparers/Practitioners: What would be the operability and auditing challenges, if any, associated with disclosing either of the alternative disclosures noted above? What would be required to track the accounting for an alternative basis of recognition (including depreciation expense, gain or loss on sale, or impairment expense)? Please explain your answer.

We note that GAAP does not normally require ongoing disclosure of proforma information related to the hypothetical impact of an accounting policy that was not elected. The alternative disclosures above would require dual record keeping that would increase the cost for reporting entities and reduce any operational benefits from applying the cost accumulation approach. Although we do not expect operability or auditing challenges in providing information about the depreciation expense for a tangible asset, we do expect challenges to arise in estimating and auditing impairment losses. Specifically, it is not clear how to assess impairment related to an unrecognized asset. In addition, we question the relevance of information related to a hypothetical impairment of an unrecognized asset.

Instead, we recommend requiring a gross recognition approach for all types of grants, which would improve transparency and comparability and would reduce the need for further disaggregation or hypothetical information via disclosure.

Question 12: *Is the proposed implementation guidance, including the illustrative examples, understandable and operable? If not, please explain how it could be improved. Should additional implementation guidance be provided? If yes, please specify what additional guidance should be provided and why.*

We recommend adding examples that are more complex, detailed, and consistent with the types of grants frequently observed in the market. It would also be helpful if the Board illustrated a scenario involving a change in the probability assessment performed in accordance with ASC 832-10-25-1.

We also observe that Example 2 seems to be internally inconsistent. The first sentence of ASC 832-10-55-13 states that the entity has received the $2 million grant while later in that paragraph the entity concludes that it is not probable that the grant will be received until the qualifying expenses are incurred. If the Board retains the existing guidance in paragraph 832-10-25-1, it should consider revising the first sentence of ASC 832-10-55-13 to state: "Entity B is <u>approved</u> for a government grant of $2 million for qualifying…"

Additionally, ASC 832-10-55-19 introduces one potential approach for allocating the proceeds of a government grant between multiple conditions for the receipt of the grant and indicates that other approaches may be appropriate in practice. We believe that the Board should develop a unit of account principle to include in the recognition guidance. For example, a research grant to fund a company's development of new medical technology might include various milestones; as the company completes each milestone and submits supporting documentation to the funding agency, the company becomes eligible to receive a portion of funding associated with that milestone. The proposed guidance does not currently address whether this or similar fact patterns represent one or multiple unit(s) of account, nor does it address whether and how that determination affects the timing and pattern of recognition of related grant income. Refer also to our responses to Question 1 and Question 2 regarding multiple units of account.

Question 13: Are the proposed amendments on how to account for government-grant-related liabilities assumed in a business combination understandable and operable? What operability or auditing challenges, if any, would be associated with those proposed amendments?

The proposed amendments on government-grant-related liabilities assumed in a business combination are understandable and operable. However, paragraph BC56 states that a deferred income amount recognized by an acquirer would likely be the same as the amount recognized by the acquiree immediately before the acquisition. Consistent with our response to Question 2, we believe that the Board should clarify whether the acquirer should recognize a receivable for an acquired grant when it has not yet been received (for example, reimbursements of costs as the entity submits proof of qualifying expenses). If the Board does not support a gross-up approach, it would be helpful if the Board explains the offsetting credit in the journal entry to record the cash once received by the grantee.

Question 14: Is the proposed transition guidance operable? If not, why? What transition guidance would be more appropriate and why? Should there be different transition guidance for government grants acquired in a business combination? If yes, please explain why.

We agree with the proposal to allow full retrospective application through a cumulative effect adjustment to the opening balance of retained earnings at the beginning of the earliest period presented.

However, we believe the Board should allow a modified retrospective approach which requires application of the new guidance to any grants that are in process at the date of adoption, and therefore a cumulative effect adjustment at the date of initial application, rather than a prospective approach. We do not support the proposed prospective approach because, for any in-process grants, it would require a company to apply a previous model by analogy to recognize and present a portion of a grant in prior periods and the new model to recognize and present a portion of the same grant after adopting the proposed guidance. This prospective approach would reduce comparability and could create significant judgments about appropriate cutoff, for example in grants that contain milestones. Further, grants generally do not extend for long periods of time, so we anticipate that both retrospective approaches would be operable and auditable.

Question 15: How much time would be needed to implement the proposed amendments? Is additional time needed for entities other than public business entities? Should early adoption be permitted? Please explain your answer.

We note that the proposed amendments would codify accounting guidance that is substantially the same as the guidance in IAS 20, to which many business entities analogize. We also acknowledge that most business entities do not receive significant numbers of government grants (if any). For these reasons, we believe that a one-year transition period is sufficient but would not object to providing private companies with an additional year to adopt. We believe that early adoption should be permitted.

Question 16: Would the proposed amendments provide investors with decision-useful information? If so, how would that information influence investment and capital allocation decisions? Would the proposed amendments clarify the appropriate accounting, increase consistency among business entities, and reduce diversity in practice? If not, please explain why.

The proposed amendments would establish authoritative guidance for government grants that would reduce the application by analogy of accounting standards such as ASC 450-30 and ASC 958-605. Accordingly, it should mitigate diversity in practice by filling a void in U.S. GAAP.

Question 17: To the extent not previously discussed, what costs may be incurred to apply the proposed amendments? If the proposed amendments are expected to impose significant incremental costs, please describe the nature and magnitude of those costs, differentiating between one-time costs and recurring costs. If the proposed amendments are not expected to impose significant incremental costs, or are expected to reduce costs, please explain why.

The proposed amendments would introduce guidance that is substantially the same as the guidance in IAS 20, with minor differences. Because most business entities accounting for government grants have previously applied IAS 20 by analogy, we do not foresee incremental costs arising from application of the proposed amendments.