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March 31, 2025

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

**RE: Proposed Accounting Standards Update, Government Grants (Topic 832): Accounting for Government Grants by Business Entities (File Reference No. 2024-ED700)**

Dear Mr. Day:

We appreciate the opportunity to comment on the FASB's Proposed Accounting Standards Update (ASU), Government Grants (Topic 832): Accounting for Government Grants by Business Entities. We support the Board's objective to establish US GAAP for recognizing, measuring and presenting grants received by business entities from a government.

This cover letter describes our key observations and suggestions regarding the proposed ASU. Appendix A provides our responses to the questions for respondents and includes other recommendations for the Board to consider. Appendix B contains some additional observations not covered by the questions for respondents.

Throughout our responses, we have identified areas where we believe the Board could enhance the proposed ASU's guidance by leveraging existing US GAAP standards, such as Topic 606 and Subtopic 958-605.

**Scope**

As discussed in our response to Question 1 in Appendix A, we recommend that the Board provide additional guidance to clarify the scope of the proposed ASU and its interaction with other standards, such as exchange transactions in Topic 606, research and development activities in Subtopics 730-20 and 912-730, and tax credits in Topic 740. Regarding tax credits, we believe nonrefundable, transferable tax credits are currently the most significant government incentives being provided to entities in the US. However, they do not appear to be in the scope of the proposed ASU. As a result, it is unclear what guidance would apply to these credits and whether it would be acceptable to account for them by analogy to the proposed ASU.

**Recognition and attribution**

We recommend providing separation and measurement guidance for government grants that have more than one component. We also support providing separate recognition guidance for grants related to nondepreciable assets such as land.

### Other observations

As discussed in Appendix B, we encourage the Board to consider developing comprehensive guidance on the classification of cash flows for government grants as part of this project or, alternatively, in its statement of cash flows project.

We also encourage the Board to reconsider whether the benefits of diversity in the accounting for similar government incentives such as grants, tax credits and environmental credits justify the costs of non-comparability. These types of incentives may be economically equivalent and designed to encourage the same behaviors, yet they would be accounted for in very different ways based on the proposed ASU, the existing guidance in US GAAP on accounting for income taxes, and the proposed ASU on accounting for environmental credit programs. For example, an entity may receive incentives related to its green energy production in the form of refundable tax credits accounted for as a grant; nonrefundable, transferable tax credits it intends to sell accounted for as income taxes; and regulatory credits it intends to sell accounted for as environmental credits. We believe the comparability between entities will be limited due to differences in accounting for each incentive and the number of accounting policy elections available in each applicable accounting standard (this proposed ASU, Topic 740, and the proposed ASU on environmental credit programs).

\* \* \* \* \*

If you have questions about our comments or wish to discuss the matters addressed in this comment letter, please contact Kimber Bascom at [kbascom@kpmg.com](mailto:kbascom@kpmg.com) or Mike Breen at [mbreen@kpmg.com](mailto:mbreen@kpmg.com).

Sincerely,

A handwritten signature in black ink that reads "KPMG LLP". The letters are stylized and slanted to the right.

KPMG LLP

## Appendix A – Responses to Questions for Respondents and Practitioners

### 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.*

We believe providing additional scoping guidance and potential examples would help increase consistency in application as noted below.

#### Distinguishing between exchange transactions and government grants

We note that exchange transactions are excluded from the proposed scope of Topic 832. We believe there could be diversity in practice in determining whether certain transactions are in-scope government grants or out-of-scope exchange transactions. Similar diversity in practice existed among not-for-profit entities when determining whether a transaction was a contribution or exchange transaction under Subtopic 958-605. The Board addressed that diversity in ASU 2018-08 by adding paragraph 958-605-15-5A to provide factors to be used in making the determination. We recommend that the Board consider incorporating the relevant guidance from that paragraph into Topic 832 to provide direction on how to distinguish between exchange transactions and government grants.

In addition to the guidance ASU 2018-08 provided, we believe the proposal should indicate that an entity also considers whether the transfer of assets from a government represents a nonrefundable upfront fee that represents a material right to purchase future goods or services under Topic 606. We believe this represents an exchange transaction. Consider the following example.

#### **Example**

We observe arrangements whereby a government engages an entity to perform research and development (R&D) services to develop technology that would be used to manufacture a product the government would then purchase. There may be no minimum purchase commitment, and the R&D may be performed on a best-efforts basis. If control of the R&D services does not transfer to the government (e.g. the IP remains with the entity and is not licensed to the government), without additional guidance an entity may conclude that the transaction is not an exchange transaction and therefore in scope of the proposed guidance for government grants. However, these types of arrangements are also common between commercial entities and are therefore indicative of exchange transactions.

#### Grants containing an exchange element: Interaction with Topic 606

We believe the Board should provide guidance on how to account for a transaction that is partially in the scope of the proposed ASU, as noted in paragraph BC18, and how the proposed guidance interacts with the revenue recognition guidance in Topic 606. Consider the following example.

### Example

We have observed instances where the government provides funding to develop or expand an entity's production capacity of goods that benefit public health, national security, or otherwise provide benefits to the general public. These arrangements may also provide the government with the right to obtain some of the goods that will be produced if the project is successful. However, the funding provided, inclusive of additional product prices if separately stated, is not commensurate with the value of the right to purchase the goods, i.e. the government is paying significantly more than stand-alone selling price for the goods.

Because Topic 606 is residual guidance, if another Topic specifies how to separate or measure one or more parts of a contract, an entity:

- first applies that separation or measurement guidance to the contract; and
- then applies Topic 606 to any identified elements that fall within its scope.

If the other Topics do not specify how to separate or measure part of the contract, then the Topic 606 guidance is applied to the entire contract.

If the proposed ASU is finalized without specific guidance on allocation, Topic 832 would not contain guidance on how to allocate proceeds between the exchange element and the non-exchange element of a contract, meaning that the allocation approach in Section 606-10-32 would be used. Therefore, the allocation would be based on relative stand-alone selling price under Topic 606.

However, we do not believe estimating the stand-alone selling price or fair value of the public benefit of the non-exchange element is practicable. We propose adding guidance in Topic 832 to state that when allocating between a grant element in Topic 832 and an exchange element in Topic 606 or Subtopic 610-20, first allocate the proceeds to the exchange elements based on their stand-alone selling prices. The residual amount after determining the stand-alone selling price of the exchange element would be allocated to the grant element in the scope of the proposed ASU.

### Duplication in Scoping for Exchange Transactions

Exchange transactions, based on the Master Glossary definition of an “exchange”, are excluded from the proposed Master Glossary definition of a “government grant”, which is used to establish the scope of the guidance in proposed paragraph 832-10-15-3A *before* applying the proposed scope exceptions. However, there is also a proposed scope exception for exchange transactions in paragraph 832-10-15-4A(a) that is based on the same Master Glossary definition of an “exchange”. The duplication in the treatment of exchange transactions in the definition of a government grant and the scope exceptions to the proposed guidance seems unnecessary and is confusing. We recommend that the Board resolve this by removing the scope exception for exchange transactions in paragraph 832-10-15-4A(a). The examples of exchange transactions included in that paragraph – i.e. transactions in the scope of Topic 606 and Subtopic 610-20 – could be moved to the implementation guidance.

### Tax credits

The proposed guidance in paragraph 832-10-55-4 explicitly identifies refundable tax credits as an example of a monetary asset from a government. In addition, paragraph BC18 indicates that

nonrefundable, nontransferable income tax credits are in the scope of Topic 740 (income taxes). This aligns with what we have observed in practice. However, we believe further consideration should be given to the applicability of the proposed ASU to other tax credits that are not explicitly in the scope of Topic 740, such as nonrefundable, transferable tax credits and tax credits that can be used to pay non-income-based taxes. The features of these tax credits mean their value to an entity is not dependent on its income tax liability, which is consistent with refundable tax credits that are in the scope of the proposed guidance.

The Inflation Reduction Act (IRA), enacted in 2022, allocates hundreds of billions of dollars over the next decade to support clean energy initiatives. A significant portion of this funding is distributed through tax credits, many of which are transferable and can be monetized via sale to a third party. This represents a new method by which the US government provides funding to incentivize business entities, as the IRA's transferability provisions have effectively created a new marketplace for tax credits. We have observed that these tax credits are currently the most significant government incentives provided to entities in the US, and yet we believe they are not in the scope of this proposed ASU on government grants or the proposed ASU on environmental credits.

To address the accounting for these tax credits in current practice, we, in consultation with staff from the FASB and SEC, believe when an entity has a nonrefundable, transferable tax credit, it can make a policy election to account for these credits either as a government grant by analogy to a grant model or using Topic 740. Given the current scoping of the proposed ASU, it is unclear what the Board may intend the accounting for these transferable tax credits to be. We believe there are four different potential interpretations of the scoping of nonrefundable, transferable tax credits as follows.

- They are in the scope of Topic 740 because they are not in the scope of the proposed ASU. If this is the Board's intent, the Board should consider providing additional guidance in Topic 740 on the accounting for these credits and transition guidance for those entities currently applying government grant accounting to them.
- They are in the scope of the proposed ASU because the transferable feature allows the entity to monetize the tax credit regardless of whether the entity has an income tax liability. In addition, the tax credit amount the buyer is entitled to claim on its tax return is a monetary amount. Based on these features, one might consider that these tax credits are a monetary grant from the government. If this is the Board's intent, that should be clarified in the proposed ASU.
- An accounting policy election can continue to be made after the proposed ASU is finalized and adopted to either apply Topic 740 or Topic 832 by analogy. This accounting policy election does not depend on the entity's intended use of the tax credit. If this is the Board's intent, that should be codified in the final ASU.
- An accounting policy election can be made based on the entity's intended use of the tax credit (i.e. how the entity intends to monetize the tax credit). For example, if the entity intends, and has the ability, to use the tax credit to reduce its income tax liability it would apply Topic 740. If not, it would apply the government grant guidance in the proposed ASU. If the Board agrees with this approach, it should be codified in the final ASU, and the Board should consider providing additional guidance in Topic 740 on the accounting for these credits along with transition guidance.

### Research and development (R&D)

We recommend that the Board clarify the interaction of the proposed ASU scope guidance and the existing R&D guidance in Subtopics 730-20 and 912-730. Specifically, the Board should consider either:

- adding the guidance for federal government contractors in Subtopic 912-730 to the scope exceptions in paragraph 832-10-15-4A; or
- aligning the accounting for transactions with the federal government with that for transactions with other governments.

In practice, we have observed life sciences entities receive funding from government organizations for R&D activities, which in some cases include a potential revenue share owed to the government upon commercialization of the intellectual property. This revenue share may exceed the initial funding provided if commercialization is successful.

In our experience, entities have applied Subtopic 730-20 when the arrangement with the government has characteristics of an R&D funding arrangement (i.e. the government can earn a return similar to an investor) by evaluating the substance of the arrangement (e.g. whether the arrangement represents an obligation to repay the government or provide it contractual R&D services). However, we note that many of these funding arrangements are described as 'grants' even though they may represent a reciprocal transaction.

The IFRS Interpretations Committee addressed a similar fact pattern, noting that applying IAS 20 recognition guidance is not appropriate. Without additional guidance, an entity may also consider these types of 'grants' as forgivable loans under the proposal. Providing additional guidance and/or illustrative examples would increase consistency in the application of the appropriate guidance to these arrangements.

### Other US GAAP and environmental credits

We recommend that the Board consider additional interactions between the proposed ASU on government grants and existing US GAAP, as well as its other ongoing projects. Examples of areas where the scope guidance may be unclear between the proposed ASU and existing or proposed guidance, in addition to those identified above, include the following.

- The proposed ASU on accounting for environmental credit programs (Topic 818) defines environmental credits in its scope. These environmental credits may be granted by a regulator, which may be a government.
- Subtopic 905-605 (agriculture – revenue recognition) provides guidance for government subsidies and other programs provided to producers of agricultural commodities. For instance, paragraph 958-605-25-1 indicates that subsidy payments received "constitute additional income and should be recorded when the amount of and right to receive the payment can be reasonably determined."
- Topic 845 (nonmonetary transactions) provides guidance on nonreciprocal transfers with entities other than owners. For instance, paragraph 845-10-05-6 describes a scenario involving the "contribution of land by a governmental unit for construction of productive facilities by an entity."

Further, we note that the Board has excluded intangible assets from the scope of the proposed ASU due to operability concerns, as expressed in paragraphs BC17 and BC22. In practice, we have observed

entities applying IAS 20 by analogy to identified intangible assets, such as certain licenses and tax credits granted to the entity. We believe entities likely will have questions about whether it is appropriate or acceptable to apply Topic 832 by analogy to government incentives that are economically similar to in-scope grants and for which other US GAAP does not apply.

**Question 2:**

*Under the proposed amendments, a government grant would not be recognized until 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 and operable? Please explain why or why not.*

We recommend improvements to the amendments to provide additional clarity. The proposed guidance in paragraph 832-10-25-1 is similar to the language used in IAS 20 – i.e. it is probable that the entity will (a) comply with the conditions attached to the grant and (b) receive the grant. However, we have observed different interpretations of this language in practice.

Income statement recognition

Some have misinterpreted the IAS 20 guidance that corresponds to paragraph 832-10-25-1 to mean that the timing of recognition in the income statement is based solely on when the probability threshold is met regardless of whether that timing reflects a systematic and rational method of recognizing the benefit of the grant in relation to recognition of the costs for which the grant is intended to compensate. To address this, instead of describing paragraph 832-10-25-1 as the criteria for recognition of a government grant, we suggest that the Board consider using it as a gating question for determining whether a government grant exists. This is an approach that business entities are familiar with applying in step 1 of Topic 606 (paragraph 606-10-25-1), which involves determining whether a revenue contract exists. Paragraph 832-10-25-1 could indicate that a government grant exists when both of the paragraph's criteria are met.

Balance sheet recognition guidance

There are also diverse interpretations about whether the guidance in IAS 20 that corresponds to paragraph 832-10-25-1 is meant to require balance sheet recognition of an asset and a corresponding liability when the IAS 20 criteria are met even if no expenditures related to the conditions of the grant have been incurred. To address this, we suggest that the Board consider adding guidance on how an entity should account for a grant that meets the criteria in paragraph 832-10-25-1 but for which the entity has not yet received any grant proceeds and has not incurred any expenditures for which the grant is intended to compensate (i.e. at what point does the entity recognize a grant-related asset and/or liability). We believe an asset should be recognized for a grant prior to actual receipt of monetary or nonmonetary grant proceeds only when the entity has incurred related expenditures (or otherwise performed) to fulfill the conditions of the grant.

Further, we recommend that the Board add guidance for situations in which grant funding is received before it is probable that the grant conditions will be met. We believe a liability should be recognized, measured at the amount of grant funding received from the government. Please refer to our response to Question 13 for additional comments related to liabilities in a business combination. Additionally, we recommend that the Board add guidance requiring an entity to reassess the criteria in paragraph 832-10-25-1 throughout the grant period for grants that do not initially meet those criteria (similar to the

reassessment guidance in paragraph 606-10-25-6). We believe the repayment of a government grant guidance in paragraphs 832-10-35-1 and 35-2 should apply when a grant asset has been recognized before any grant proceeds have been received and the recognition criteria for the income statement and/or balance sheet then cease to be met (i.e. the grant should be derecognized even if there has not been a “repayment” of the grant).

Lastly, for forgivable loans, the guidance in paragraph 832-10-25-3 could be improved by providing the relevant guidance that would apply if a forgivable loan does not meet the criteria in paragraph 832-10-25-1 and clarifying whether an entity should continue to reassess these criteria throughout the grant period.

#### Criterion 832-10-25-1(b)

For criterion (b) of paragraph 832-10-25-1, we suggest that the Board provide additional implementation guidance indicating that an entity needs to first determine that the governmental legislative and/or executive process necessary for the grant program to be enacted has been completed and then determine that it is probable that the grant proceeds will be received, which includes an evaluation of collectibility (inclusive of the effect of a fiscal funding clause indicating a grant is cancellable if the government does not appropriate the grant funds). In addition, if it is the Board’s intent that criterion (b) considers both the receipt of the grant award as well as collectibility of the grant proceeds, we believe paragraph 832-10-25-1 should be revised as follows (addition underlined):

“b. The governmental grant legislative and/or executive process necessary for the grant program to be enacted has been completed and it is probable that the grant proceeds will be received.”

Example 2 (paragraph 832-10-55-13) would also need to be updated to add the concept of grant proceeds. Please refer to our response to Question 12 for additional information.

#### **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 the proposed amendments regarding the types of grants could be enhanced for grants with multiple conditions and suggest a potential two-pronged approach below. We also believe investors are best positioned to comment on the decision-usefulness of the different accounting requirements and alternatives for a grant related to an asset and a grant related to income.

#### Refining the definitions

The proposed ASC Master Glossary definition of a grant related to an asset states in part: “the primary condition is for an entity to purchase, construct, or otherwise acquire a long-term asset.” We are concerned that the term ‘primary’ is not defined and there is no guidance on how to determine when a grant has a primary condition. Without additional guidance, we believe this term could be interpreted to mean ‘occurring first’ or ‘predominant’, which is also not defined. We also believe proposed Example 3 (paragraphs 832-10-55-16 to 55-19) is not illustrative of how an entity should first determine if the grant



meets the definition of a grant related to an asset before determining if there are multiple conditions in the grant. Example 3 does not illustrate how Entity C would determine if the grant has a primary condition when it is being compensated for both costs of constructing a new facility (asset) and of hiring 1,000 employees (income). If in Example 3, Entity C determined that constructing the new facility was the primary condition in the grant, the grant would meet the definition of a grant related to an asset and no allocation would be permitted based on the guidance in paragraphs 832-10-25-5 to 25-8.

However, in practice, it is not uncommon for a single grant to have asset and income components. We believe it would be appropriate to allow entities to bifurcate a grant for purposes of recognition. Therefore, we recommend removing the term 'primary' from the ASC Master Glossary definition of a grant related to an asset and revising as follows (additions underlined and deletions struck through):

**A government grant** or component thereof that requires ~~in which the primary condition is for~~  
an entity to purchase, construct, or otherwise acquire a long-lived asset...

We believe this revised definition would allow an entity to separate components of a grant. The Board would also need to revise the definition of a grant related to income as follows:

**A government grant** or component thereof other than a **grant related to an asset**.

This approach would allow entities to treat a portion of the grant as a grant related to an asset and a portion as a grant related to income, as suggested in Example 3.

#### Providing separation and measurement guidance

We also believe it can be challenging to apply the proposed amendments when a grant has multiple conditions with different classifications (i.e. some related to assets and others related to income). After clarifying the definitions of the two types of grants, we suggest that the Board specifically provide separation and measurement guidance, that would be performed at grant inception, for government grants with multiple components. A potential approach is as follows:

- If the grant agreement includes specified amounts for each condition and the conditions are not dependent on each other such that each condition could be a separate grant, the allocation is based on the terms of the grant agreement.
- If the grant agreement does not include specific amounts for each condition and a predominant condition exists, an entity should be permitted, as a practical expedient, to not allocate grant proceeds to the other condition(s). The term 'predominant' should be defined, however we believe this should be a high threshold like substantially all rather than a lower threshold like a majority.
- Otherwise, the entity should allocate the proceeds of the grant on a rational basis, such as proportionate to anticipated expenditures for which the grant is intended to compensate the entity.

Alternatively, the Board could provide separation and measurement guidance that the allocation of proceeds to components of a grant aligns with the general principle in paragraph BC28 of recognizing the benefit of a grant "in earnings on a systematic and rational basis over the periods in which an entity recognizes the expenses for which the grant is intended to compensate".

**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?*

We believe the deferred income and cost accumulation approaches included in the proposed amendments are both operable and understandable. However, we believe investors are best positioned to comment on the appropriateness of having two approaches to account for a grant related to an asset.

If the two recognition approaches are retained, we recommend that the clarification in paragraph BC48—that the election represents an accounting policy that should be consistently applied for similar grants—be incorporated into the Codification. The implementation guidance could include the guidance and reference the specific paragraphs where an entity is permitted to make an accounting policy election.

We support providing separate recognition guidance for grants related to nondepreciable assets due to the practical difficulties in applying the deferred income approach. Our interpretation of the draft amendments is that no benefit from the grant would be recognized in the income statement unless there is a recognized impairment or sale of the nondepreciable asset. If there is an impairment, the related benefit of the grant would be recognized in the income statement up to the amount of the impairment. If there is a sale, the remaining unrecognized benefit of the grant would be recognized in full.

The guidance on nondepreciable assets in IAS 20 indicates that when there are requirements that certain obligations are fulfilled, the benefit of the grant is recognized in the income statement over the periods that include the associated costs of meeting those obligations. IAS 20 provides an example of a grant of land with a condition of constructing a building on the site and recognizing the benefit of the grant over the life of the building. However, the IAS 20 guidance is not clear about when to recognize the benefit of the grant when there are no clearly identifiable costs associated with the fulfillment of the conditions or if the condition is for a period shorter than the life of the depreciable asset constructed (e.g. operating a homeless shelter for 10 years).

We believe a better approach for nondepreciable assets than what the current proposal or IAS 20 provides would be to require the benefit from the government grant to be recognized in the income statement on a systematic and rational basis as an entity satisfies the conditions of the grant.

**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?*

The proposed recognition in earnings guidance for grants related to income is operable for government grants providing funding on a cost-reimbursement basis or for a depreciable asset. However, we believe there are potential challenges in applying the guidance to grants that are not associated with an expense. For example, we have observed grants that provide funding for the following: not producing agriculture on land for a period of time (e.g. Conservation Reserve Program<sup>1</sup>), lost revenue (e.g. Provider Relief Fund for healthcare entities<sup>2</sup>), and nondepreciable assets.

A potential solution to address this issue is for the Board to clarify that when the conditions of the grant do not require significant expenses to be incurred (e.g. conditions not to undertake an activity), the benefit from the government grant is recognized in the income statement on a systematic and rational basis as an entity satisfies the conditions of the grant. Alternatively, the Board could modify the recognition requirements for all income grants to be based on a systematic and rational basis as the entity satisfies the conditions of the grant. This would be similar to selecting an appropriate measure of progress for over-time performance obligations in Topic 606. This alternative would ensure that the guidance comprehensively addresses various types of grants, thereby enhancing consistency in application. Please refer to our response to Question 4 for considerations regarding a grant of a nondepreciable asset.

**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 investors are best positioned to comment on whether the measurement approaches provide decision-useful information. However, we suggest providing specific guidance for determining the measurement date for a government grant of a tangible nonmonetary asset recorded at fair value. Alternatives include:

- the inception date of the grant when the criteria in paragraph 832-10-25-1 are met;
- if the recognition criteria are not met at grant inception, the date(s) on which the criteria are met; or
- the date on which the asset is received.

We recommend that the Board remove or revise the language in paragraph BC31 indicating that net presentation (cost accumulation approach) is preferable in many cases for investment tax credits. What is not included in paragraph BC31 but is also included in paragraph 740-10-45-27 is “However, it is equally appropriate to treat the credit as deferred income.” We believe paragraph BC31 as currently drafted is not consistent with the investment tax credits language in Topic 740.

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<sup>1</sup> <https://www.fsa.usda.gov/resources/programs/conservation-reserve-program>

<sup>2</sup> <https://www.hrsa.gov/provider-relief>

**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.*

We believe the proposed amendments are clear, operable and auditable. However, we believe investors are best positioned to comment on whether the presentation options provide decision-useful information.

We recommend that the Board consider the interaction of the proposed amendments with ASU 2024-03 (expense disaggregation disclosures). For example, paragraph 220-40-50-26 may require some entities to separately disclose the amounts of expense reimbursements in a relevant expense caption. If the benefit of a grant is deducted from the related expense in the income statement, the guidance in paragraphs 220-40-50-26 to 50-29 may apply. We believe the proposal should address whether the disclosure is required and, if so, we recommend that the Board consider any effect that may have on the decision-usefulness or operability of the alternatives provided.

**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.*

We believe the proposed amendments are clear, operable and auditable. However, we believe investors are best positioned to comment on whether the presentation options provide decision-useful information.

**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 the proposed amendments are clear, operable and auditable. However, we believe investors are best positioned to comment on whether the presentation options provide decision-useful information. Please refer to our response to Question 7 for our recommendation that the Board consider the interaction of the proposed amendments with ASU 2024-03 (expense disaggregation disclosures).

**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 believe investors are best positioned to comment on the sufficiency of information from the proposed disclosure requirements and whether any additional disclosures should be required.

**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 believe preparers are best positioned to comment on the requirements for tracking the accounting for the alternative basis of recognition. However, we acknowledge that there are practical challenges for entities attempting to create accounting records for an alternative basis that was not originally recorded in the financial statements. For example, if an entity had historically recorded grants related to assets under the cost accumulation approach, it would need to determine what the accounting would have been if the deferred income approach had been used for prior periods.

Entities would need to identify a complete population of government grants received in prior periods related to assets that still have a useful life at the adoption date. This may be challenging for land and buildings received years ago. For any tangible nonmonetary assets received, the entity would need to determine what each asset's fair value would have been when the grant was initially recognized. These challenges would result in incremental application costs, both at initial adoption and for the ongoing maintenance and auditing of another set of accounting records for the alternative disclosures.

**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 believe the illustrative examples could be improved. Providing examples that include an entity's scoping decision would increase consistency in application and understanding. For instance, Example 2 in the proposed ASU relates to R&D activities but does not illustrate how the entity determined the transaction to be in the scope of Topic 832 versus other guidance (e.g. Topic 606, Subtopic 730-20 and Subtopic 912-730).

Also, Example 2 (paragraph 832-10-55-13) begins with "Entity B receives a government grant of \$2 million" but a few sentences later, it states, "However, Entity B also determines that it is not probable that the grant will be received until the qualifying expenses are incurred." This lack of clarity in how the criteria in paragraph 832-10-25-1 are applied in Example 2 supports our response to Question 2, indicating how paragraph 832-10-25-1 should serve as a gate to the grant model rather than a basis for recognition. Example 2 could be revised such that the first sentence indicates that Entity B is awarded a grant and then the fourth sentence could indicate that Entity B determines it is not probable that the proceeds of the grant will be received until the qualified expenses are incurred.

Further, we recommend updating and potentially simplifying proposed Example 3 to either exclude or revise the employee retention component. In practice, the retention component may represent a third condition, in addition to constructing a new facility and hiring 1,000 employees for the facility within a two-year period. We believe it is unrealistic to expect that all 1,000 employees hired for the new facility would be retained for a period of 36 months after the end of the two-year hiring period. Therefore, it is unlikely that this condition would be met until the 36-month period expires. The example could be revised to indicate that the terms of the grant require hiring and retaining a minimum of 1,000 employees.

Please refer to our response to Question 3 for consideration of additional guidance in the proposed ASU on allocation for a grant with multiple conditions, which would impact Example 3.

Additionally, see our responses to Questions 1, 2 and 4 for potential scope, recognition, and accounting policy election guidance that could be added to the implementation guidance.

**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?*

We generally believe the proposed amendments are understandable, operable and auditable. However, in our response to Question 2, we recommend that the Board provide guidance for situations where grant funding is received, but it is not yet probable that the entity will comply with the conditions of the grant. We believe a liability should be recognized, measured at the amount of grant funding received from the government. We do not believe this liability should be accounted for using the Topic 450 guidance noted in proposed paragraph 805-20-25-28G upon a business combination. We are concerned that entities

could interpret that guidance as applying because proposed paragraph 805-20-25-28F only addresses scenarios where it is probable that the conditions attached to the grant will be met.

For example, assume an acquirer has received proceeds from a grant and the acquirer believes it is only 55% likely that the grant conditions will be met (i.e. not probable). If the acquirer considers the likelihood of repayment under Topic 450, the likelihood of repayment is 45% (i.e. not probable). Therefore, a liability would not be recognized. We believe a liability should be recognized for the amount of grant proceeds received by the acquirer when it is not yet probable that the acquirer will meet the conditions of the grant.

**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 believe preparers are best positioned to comment on the operability of the proposed transition guidance. However, we believe the Board should provide additional implementation guidance on the transition for historical accounting policy elections entities applying IAS 20 by analogy have made. Upon adoption, it is unclear whether the Board intends to permit these entities to make a new accounting policy election or whether it intends to require them to assess preferability of the change. For example, if an entity had historically applied a deferred income approach for grants related to assets under IAS 20, it is unclear whether the Board intends for the entity to be permitted to apply the cost accumulation approach when adopting the new government grants standard without evaluating the preferability of that approach.

We support a prospective transition method that applies the guidance for government grants acquired in a business combination to business combinations occurring on or after the effective date, consistent with the transition guidance in ASU 2021-08 (Topic 606 contract assets and contract liabilities in a business combination). We are concerned that remeasuring all acquired grant liabilities in accordance with the guidance in the proposed ASU (that is, reversing fair value adjustments) could affect the measurement of goodwill in the business combination and could raise questions about whether retrospective impairment assessments need to be made. The Board could clarify that, at the date of adoption:

- the amendments in the proposed ASU only apply to grants that were not previously acquired in a business combination; or
- any adjustments to grants not complete as of the effective date should adjust retained earnings and not goodwill.

**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 believe preparers are best positioned to comment on the time needed to implement the proposed amendments. We are not aware of factors specific to entities other than public business entities that would warrant a different implementation period. However, we believe transition timing between this proposal and the proposal on accounting for environmental credit programs should be aligned given the scope interaction. We support early adoption given the lack of current guidance for business entities accounting for government grants.

**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.*

We believe investors are best positioned to comment on whether the proposed amendments provide decision-useful information and how that information would influence investment and capital allocation decisions. The proposed amendments establish a single US GAAP accounting standard for all business entities to apply to government grants in its scope, which should reduce some diversity in practice. However, we believe the comparability between entities may be limited due to the number of accounting policy elections available in the proposed ASU.

**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.*

We believe preparers are best positioned to describe what costs they would expect to incur if the proposed amendments are finalized.



## **Appendix B – Other Observations**

### **Statement of cash flows observation:**

In our experience, there is diversity in practice regarding the presentation of government grants in the statement of cash flows. To determine the cash flow classification, entities may consider grant conditions, their accounting policy elections applied to recognize the grant on the balance sheet, and the timing of receipt of grant proceeds compared to the expenditures for which the grant is providing compensation. These different views create diversity in classification of cash flows for potentially similar grants. In paragraph BC44, it is unclear what is meant by 'classifying cash flows from government grants on the basis of the nature of the grant' and how this may affect existing practice. The nature of the grant could be interpreted to be the underlying activities the entity is being compensated for or the type of grant (asset or income). We recommend that the Board develop comprehensive guidance on the classification of cash flows for government grants as part of this project or, alternatively, as part of its statement of cash flows project.

### **Acquisition cost observation:**

We have observed questions about how to account for costs incurred to acquire government grants. Because the proposed ASU does not provide specific cost guidance, we would expect entities to refer to existing cost guidance in US GAAP. For acquisition costs, it is unclear whether entities should expense all costs incurred to acquire government grants in the absence of explicit guidance, or whether they can analogize to Topic 340 guidance on incremental costs of obtaining a contract (as outlined in paragraphs 340-40-25-1 to 25-4) or to the guidance on accounting for debt issuance costs (which defers and amortizes third-party costs).