FASB EXPOSURE DRAFT

Proposed Accounting Standards Update

Issued: November 19, 2024
Comments Due: March 31, 2025

Government Grants (Topic 832)

Accounting for Government Grants by Business Entities

The Board issued this Exposure Draft to solicit public comment on proposed changes to Topic 832 of the *FASB Accounting Standards Codification*®. Individuals can submit comments in one of three ways: using the electronic feedback form on the FASB website, emailing comments to director@fasb.org, or sending a letter to "Technical Director, File Reference No. 2024-ED700, FASB, 801 Main Avenue, PO Box 5116, Norwalk, CT 06856-5116."

Financial Accounting Standards Board

Notice to Recipients of This Exposure Draft of a Proposed Accounting Standards Update

The Board invites comments on all matters in this Exposure Draft until March 31, 2025. Interested parties may submit comments in one of three ways:

- Using the electronic feedback form available on the FASB website at Exposure Documents Open for Comment
- Emailing comments to director@fasb.org, File Reference No. 2024-ED700
- Sending a letter to "Technical Director, File Reference No. 2024-ED700, FASB, 801 Main Avenue, PO Box 5116, Norwalk, CT 06856-5116."

All comments received are part of the FASB's public file and are available at www.fasb.org.

The *FASB Accounting Standards Codification*® is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective. A copy of this Exposure Draft is available at www.fasb.org.

FASB FINANCIAL ACCOUNTING STANDARDS BOARD®

Proposed Accounting Standards Update

Government Grants (Topic 832)

Accounting for Government Grants by Business Entities

November 19, 2024

Comment Deadline: March 31, 2025

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Summary and Questions for Respondents

Why Is the FASB Issuing This Proposed Accounting Standards Update (Update)?

The FASB is issuing this proposed Update to improve generally accepted accounting principles (GAAP) by establishing authoritative guidance on the accounting for government grants by business entities.

GAAP does not provide specific authoritative guidance about the recognition, measurement, and presentation of a grant received by a business entity from a government. In the absence of specific guidance, many business entities analogize to the guidance in International Accounting Standard (IAS) 20, *Accounting for Government Grants and Disclosure of Government Assistance,* or, less commonly, the guidance in Subtopic 958-605, Not-For-Profit Entities—Revenue Recognition. When applying that guidance by analogy, business entities may not apply all of that guidance. Stakeholders have observed that the lack of specific authoritative guidance on the accounting for government grants has led to questions about the acceptability of certain accounting approaches and has resulted in diversity in practice.

In November 2021, the FASB issued disclosure guidance in Accounting Standards Update No. 2021-10, *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance,* to address requests from investors for increased transparency about government grants. Even with the disclosure requirements established in Update 2021-10, the lack of specific guidance about recognition, measurement, and presentation has continued to be highlighted by stakeholders as an area for potential improvement.

Stakeholder feedback, particularly from practitioners and preparers, including the respondents to the 2021 FASB Invitation to Comment, *Agenda Consultation* (2021 Agenda Consultation), and the 2022 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 Principles* (2022

GG ITC), expressed support for developing specific authoritative guidance for recognition, measurement, and presentation of government grants. Those stakeholders noted that having guidance in GAAP on the accounting for government grants would reduce diversity in practice and increase consistency among business entities.

Who Would Be Affected by the Amendments in This Proposed Update?

The amendments in this proposed Update would apply to business entities (specifically, all entities except for not-for-profit entities and employee benefit plans) that receive a government grant, which would be defined as a transfer of a monetary or a tangible nonmonetary asset, other than an exchange transaction, from a government. The proposed amendments would not apply to exchange transactions, income taxes, the benefit of below-market interest rate loans, and government guarantees.

What Are the Main Provisions?

The amendments in this proposed Update would establish guidance for a government grant including (1) a grant related to an asset and (2) a grant related to income. A grant related to an asset is a government grant in which the primary condition is for the business entity to purchase, construct, or otherwise acquire a long-term asset, including the direct grant of a tangible nonmonetary asset from a government. A grant related to income is a government grant other than a grant related to an asset (for example, a grant that reimburses a business entity for operating expenses).

The amendments in this proposed Update would require a consistent initial recognition threshold for all government grants. In accordance with the proposed amendments, a government grant would be initially recognized when it is probable that (1) a business entity will comply with the conditions attached to the grant and (2) the grant will be received.

The amendments in this proposed Update would require that, upon meeting the initial recognition threshold, a grant related to an asset be recognized in the balance sheet either as:

1. Deferred income (the deferred income approach)

2. A part of the cost basis in determining the carrying amount of the asset (the cost accumulation approach).

A grant related to income and a grant related to an asset in which the deferred income approach is elected would be recognized in earnings on a systematic and rational basis over the periods in which a business entity recognizes as expenses the costs the grant is intended to compensate. When a business entity elects the cost accumulation approach for a grant related to an asset, the business entity would recognize the amount of the grant in determining the carrying amount of the asset.

The amendments in this proposed Update would require a business entity to present a grant related to income within earnings either (1) separately under a general heading such as other income or (2) deducted from the related expense.

In addition, the amendments in this proposed Update would require, consistent with current disclosure requirements, that a business entity provide disclosures about the nature of the government grant received, the accounting policies used to account for the grant, and significant terms and conditions of the grant, among other disclosure requirements.

How Would the Main Provisions Differ from Current Generally Accepted Accounting Principles (GAAP) and Why Would They Be an Improvement?

Establishing authoritative guidance in GAAP about accounting for government grants received by business entities would improve financial reporting by clarifying the appropriate accounting, reducing diversity in practice, and increasing consistency across business entities.

Many business entities currently apply IAS 20 by analogy, at least in part, to recognize, measure, and present government grants. Most stakeholders supported leveraging the guidance in IAS 20 in developing accounting guidance for government grants in GAAP, noting that it would reduce diversity in practice because entities would apply the guidance instead of analogizing to it, thus narrowing the variability in accounting for government grants.

In response to feedback, the Board decided to include targeted improvements to the guidance in IAS 20 in certain areas that were identified by stakeholders as challenging to apply.

When Would the Amendments Be Effective?

The amendments in this proposed Update would require a business entity to apply the guidance either (1) prospectively to a government grant that either is not complete or is entered into after the effective date or (2) retrospectively, as described further below. A complete government grant is a grant for which all the proceeds have been recognized before the effective date.

Under prospective application, no prior-period results would be restated and there would be no cumulative-effect adjustment.

Under retrospective application, a business entity would recognize the cumulative effect of initially applying the amendments in this proposed Update as an adjustment to the opening balance of retained earnings as of the beginning of the earliest period presented.

The Board will determine the effective date and whether early adoption should be permitted after it considers stakeholders' feedback on the amendments in this proposed Update.

Questions for Respondents

The Board invites individuals and organizations to comment on all matters in this proposed Update, particularly on the issues and questions below. Comments are requested from those who agree with the proposed guidance as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposed guidance are asked to describe their suggested alternatives, supported by specific reasoning.

Scope

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.

Recognition and Measurement

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.

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.

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?

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?

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.

Presentation

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.

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.

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.

Disclosure

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?

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.

Implementation Guidance and Illustrations

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.

Accounting for a Government Grant in a Business Combination

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?

Transition and Effective Date

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.

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.

Benefits and Costs

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.

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.

Amendments to the *FASB Accounting Standards Codification®*

Summary of Proposed Amendments to the Accounting Standards Codification

1. The following table provides a summary of the proposed amendments to the Accounting Standards Codification.

Codification Subtopic	**Description of Changes**
Master Glossary	• Added the new terms *forgivable loan, government grant*, *grant related to an asset*, and *grant related to income.* • Added existing Master Glossary terms to Subtopic 832-10.
832-10, Government Grants—Overall	• Amended the title of Topic 832. • Amended the overview and background in Section 832-10-05. • Amended the scope in Section 832-10-15. • Added recognition guidance for government grants in Section 832-10-25. • Added initial measurement guidance for government grants in Section 832-10-30. • Added subsequent measurement guidance for government grants in Section 832-10-35. • Added presentation guidance for government grants in Section 832-10-45. • Amended disclosure guidance for government grants in paragraphs 832-10-50-2 through 50-4. • Added disclosure guidance for government grants in paragraphs 832-10-50-3A through 50-3B.

Codification Subtopic	Description of Changes
	• Added implementation guidance and illustrations for government grants in Section 832-10-55.
805-20, Business Combinations—Identifiable Assets and Liabilities, and Any Noncontrolling Interest	• Amended paragraphs 805-20-25-16 through 25-17 to include guidance on recognition of government-grant-related liabilities assumed in a business combination. • Added guidance on recognition of government-grant-related liabilities assumed in a business combination in paragraphs 805-20-25-28D through 25-28G. • Amended paragraphs 805-20-30-10 through 30-12 to include guidance on measurement of government-grant-related liabilities assumed in a business combination. • Added guidance on measurement of government-grant-related liabilities assumed in a business combination in paragraph 805-20-30-31.
958-605, Not-for-Profit Entities—Revenue Recognition	• Amended paragraph 958-605-15-6 to reference Topic 832.
958-805, Not-for-Profit Entities—Business Combinations	• Added paragraph 958-805-25-21A to clarify that not-for-profit entities will not be subject to the government-grant-related liability exception in Subtopic 805-20.

Introduction

2. The Accounting Standards Codification is amended as described in paragraphs 3–18. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs.

Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

Amendments to Master Glossary

3. Add the following new Master Glossary terms, with a link to transition paragraph 832-10-65-2, as follows:

Forgivable Loan

A loan for which the lender (a government) agrees to waive repayment under certain prescribed conditions.

Government Grant

A transfer of a monetary asset or a tangible nonmonetary asset, other than an **exchange** transaction, from a government to a business entity.

Grant Related to an Asset

A **government grant** in which the primary condition is for an entity to purchase, construct, or otherwise acquire a long-term asset, including the direct grant of a tangible nonmonetary asset. Other conditions also may be attached, such as restricting the type or location of the asset, the periods during which the asset is to be acquired or held, or the disposal of the asset.

Grant Related to Income

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

4. Add the following Master Glossary terms to Subtopic 832-10 as follows:

Exchange

An exchange (or exchange transaction) is a reciprocal transfer between two entities that results in one of the entities acquiring assets or services or satisfying liabilities by surrendering other assets or services or incurring other obligations.

Fair Value (second definition)

The price that would be received to sell an asset or paid to transfer a liability in an **orderly transaction** between **market participants** at the measurement date.

Market Participants

Buyers and sellers in the principal (or most advantageous) market for the asset or liability that have all of the following characteristics:

a. They are independent of each other, that is, they are not **related parties**, although the price in a related-party transaction may be used as an input to a fair value measurement if the reporting entity has evidence that the transaction was entered into at market terms
b. They are knowledgeable, having a reasonable understanding about the asset or liability and the transaction using all available information, including information that might be obtained through due diligence efforts that are usual and customary
c. They are able to enter into a transaction for the asset or liability
d. They are willing to enter into a transaction for the asset or liability, that is, they are motivated but not forced or otherwise compelled to do so.

Orderly Transaction

A transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (for example, a forced liquidation or distress sale).

Probable

The future event or events are likely to occur.

Public Business Entity

A public business entity is a business entity meeting any one of the criteria below. Neither a **not-for-profit entity** nor an employee benefit plan is a business entity.

a. It is required by the U.S. Securities and Exchange Commission (SEC) to file or furnish financial statements, or does file or furnish financial statements (including voluntary filers), with the SEC (including other entities whose financial statements or financial information are required to be or are included in a filing).
b. It is required by the Securities Exchange Act of 1934 (the Act), as amended, or rules or regulations promulgated under the Act, to file or furnish financial statements with a regulatory agency other than the SEC.
c. It is required to file or furnish financial statements with a foreign or domestic regulatory agency in preparation for the sale of or for purposes of issuing securities that are not subject to contractual restrictions on transfer.
d. It has issued, or is a conduit bond obligor for, **securities** that are traded, listed, or quoted on an exchange or an over-the-counter market.
e. It has one or more securities that are not subject to contractual restrictions on transfer, and it is required by law, contract, or regulation to prepare U.S. GAAP financial statements (including notes) and make them publicly available on a periodic basis (for example, interim or annual periods). An entity must meet both of these conditions to meet this criterion.

An entity may meet the definition of a public business entity solely because its financial statements or financial information is included in another entity's filing with the SEC. In that case, the entity is only a public business entity for purposes of financial statements that are filed or furnished with the SEC.

Related Parties

Related parties include:

a. Affiliates of the entity
b. Entities for which investments in their equity securities would be required, absent the election of the fair value option under the Fair Value Option Subsection of Section 825-10-15, to be accounted for by the equity method by the investing entity
c. Trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management
d. Principal owners of the entity and members of their immediate families

e. Management of the entity and members of their immediate families
f. Other parties with which the entity may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests
g. Other parties that can significantly influence the management or operating policies of the transacting parties or that have an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

Security (second definition)

A share, participation, or other interest in property or in an entity of the issuer or an obligation of the issuer that has all of the following characteristics:

a. It is either represented by an instrument issued in bearer or registered form or, if not represented by an instrument, is registered in books maintained to record transfers by or on behalf of the issuer.
b. It is of a type commonly dealt in on securities exchanges or markets or, when represented by an instrument, is commonly recognized in any area in which it is issued or dealt in as a medium for investment.
c. It either is one of a class or series or by its terms is divisible into a class or series of shares, participations, interests, or obligations.

Amendments to Topic 832

5. Amend the title of Topic 832 and add the General Note as follows:

Government ~~Assistance~~Grants

General Note on Government Assistance: Upon the effective date of Accounting Standards Update No. 202X-XX, the title of this Topic will change to Government Grants.

6. Supersede paragraph 832-10-05-1 and amend paragraph 832-10-05-2, with a link to transition paragraph 832-10-65-2, as follows:

Overview and Background

832-10-05-1 Paragraph superseded by Accounting Standards Update No. 202X-XX.~~Governments provide different forms of assistance to entities, and the forms of assistance have varying structures, complexities, and terms. Government assistance can include tax credits, cash grants, grants of other assets, and project grants. Often, government assistance is provided to an entity for a particular purpose, and the entity promises to take specific actions. Generally accepted accounting principles (GAAP) do not provide comprehensive recognition and measurement guidance for many forms of government assistance received by business entities.~~

832-10-05-2 This Topic provides guidance on the accounting for government grants by business entities~~disclosures for transactions with a government that are accounted for by applying a grant or contribution accounting model by analogy~~.

7. Supersede paragraphs 832-10-15-3 through 15-4, add paragraphs 832-10-15-3A and 832-10-15-4A, and amend paragraph 832-10-15-5, with a link to transition paragraph 832-10-65-2, as follows:

Scope and Scope Exceptions

> Overall Guidance

832-10-15-1 The Scope Section of the Overall Subtopic establishes the scope for this Topic.

> Entities

832-10-15-2 The guidance in this Topic applies to all entities except **not-for-profit entities** and employee benefit plans within the scope of Topics 960, 962, and 965 on plan accounting.

> Transactions

832-10-15-3 Paragraph superseded by Accounting Standards Update No. 202X-XX.~~If an entity determines that the accounting for a transaction with a government is not specified within the scope of authoritative generally accepted accounting principles (GAAP), paragraph 105-10-05-2 requires that the entity~~

~~first consider accounting principles for similar transactions or events within an authoritative source of GAAP for that entity and then consider nonauthoritative guidance from other sources.~~

832-10-15-3A The guidance in this Topic applies to all **government grants** received by entities within the scope of this Topic.

832-10-15-4 Paragraph superseded by Accounting Standards Update No. 202X-XX.~~The guidance in this Topic applies to entities that have accounted for transactions with a government by analogizing to a grant or contribution accounting model (for example, a grant model within IFRS Standards or a contribution model within Subtopic 958-605 on not-for-profit entities—revenue recognition).~~

832-10-15-4A The guidance in this Topic does not apply to the following:

a. **Exchange** transactions, such as transactions within the scope of Topic 606 on revenue from contracts with customers and Subtopic 610-20 on gains and losses from the derecognition of nonfinancial assets
b. Transactions within the scope of Topic 740 on income taxes
c. The benefit of below-market interest rate loans
d. Government guarantees.

832-10-15-5 ~~Transactions with a government,~~A government grant, as used in this Topic, ~~include assistance~~includes grants that ~~is~~are administered by domestic, foreign, local (for example, city, town, county, and municipal), regional (for example, state, provincial, and territorial), and national (federal) governments and entities related to those governments. Examples of entities related to governments include departments, independent agencies, boards, commissions, and component units. A government grant~~Government assistance~~ also can be administered by intergovernmental organizations and other types of organizations such as nongovernmental organizations or government-sponsored enterprises that have authority from a government to administer ~~assistance~~grants on its behalf.

8. Add Section 832-10-25, with a link to transition paragraph 832-10-65-2, as follows:

Recognition

General

> Overall Guidance

832-10-25-1 A **government grant** shall be recognized when it is **probable** that both of the following criteria apply:

a. An entity will comply with the conditions attached to the government grant.
b. The government grant will be received.

832-10-25-2 Receipt of a government grant does not, in and of itself, provide conclusive evidence that the conditions attached to the government grant have been or will be fulfilled.

832-10-25-3 A **forgivable loan** from a government shall be treated as a government grant when it is probable that an entity will meet the criteria in paragraph 832-10-25-1, including meeting the terms for forgiveness of the loan.

832-10-25-4 Once a government grant is recognized, any related contingent liability or contingent asset shall be accounted for in accordance with Topic 450 on contingencies.

> Grant Related to an Asset

832-10-25-5 An entity may use either of the following two approaches to account for a **grant related to an asset**:

a. Separately recognize the grant as deferred income on the balance sheet. (This is referred to as the deferred income approach.)
b. Reflect the grant in determining the carrying amount of the asset on the balance sheet. (This is referred to as the cost accumulation approach.)

832-10-25-6 A grant related to an asset accounted for using the deferred income approach shall be recognized in earnings on a systematic and rational basis over the periods in which the entity recognizes as expenses the related costs for which the government grant is intended to compensate. The expenses that are recognized for a grant related to an asset could include depreciation, gain or loss on sale, or impairment.

832-10-25-7 For a grant related to an asset accounted for using the cost accumulation approach, there is no separate subsequent recognition of the government grant proceeds in earnings because they have been reflected in the carrying amount of the asset. The carrying amount of the asset that reflects the government grant proceeds shall be used to determine depreciation or other subsequent accounting for that asset.

832-10-25-8 A government grant may take the form of a transfer of a tangible nonmonetary asset, such as land or other resources. A government grant of a tangible nonmonetary asset shall be accounted for in accordance with paragraph 832-10-25-5.

> Grant Related to Income

832-10-25-9 A **grant related to income** shall be recognized in earnings on a systematic and rational basis over the periods in which the entity recognizes as expenses the related costs for which the grant is intended to compensate.

9. Add Section 832-10-30, with a link to transition paragraph 832-10-65-2, as follows:

Initial Measurement

General

> Government Grant of a Tangible Nonmonetary Asset

832-10-30-1 If the deferred income approach is elected in accordance with paragraph 832-10-25-5(a), a **government grant** of a tangible nonmonetary asset shall be initially measured at **fair value**. If the cost accumulation approach is elected in accordance with paragraph 832-10-25-5(b), a government grant of a tangible nonmonetary asset shall be recognized at the cost to the entity.

10. Add Section 832-10-35, with a link to transition paragraph 832-10-65-2, as follows:

Subsequent Measurement

General

> Repayment of a Government Grant

832-10-35-1 A **government grant** that becomes repayable shall be accounted for as a change in estimate in accordance with Topic 250 on accounting changes and error corrections. Repayment of a **grant related to income** shall be applied first against any unamortized deferred credit recognized related to the grant. To the extent that the repayment exceeds any unamortized deferred credit or when no deferred credit exists, the repayment shall be recognized immediately in earnings. Repayment of a **grant related to an asset** shall be recognized by increasing the carrying amount of the asset (if the cost accumulation approach was used) or reducing the deferred income balance (if the deferred income approach was used) by the amount repayable. The cumulative additional depreciation (or change in previously recognized gain or loss on sale or impairment due to a change in the carrying amount) that would have been recognized in earnings to date in the absence of the government grant shall be recognized immediately in earnings.

832-10-35-2 If repayment of a grant related to an asset results in a new carrying amount of the asset, an entity shall consider the new carrying amount when evaluating the asset for impairment purposes in accordance with current generally accepted accounting principles.

11. Add Section 832-10-45, with a link to transition paragraph 832-10-65-2, as follows:

Other Presentation Matters

General

> Grant Related to an Asset

832-10-45-1 A **grant related to an asset** that is accounted for using the deferred income approach in accordance with paragraph 832-10-25-5(a) shall be presented on the balance sheet as deferred income and presented as part of earnings in either of the following ways:

a. Separately under a general heading such as other income
b. Deducted in reporting the related expense (for example, depreciation, gain or loss on sale, or impairment).

832-10-45-2 A grant related to an asset that is accounted for using the cost accumulation approach in accordance with paragraph 832-10-25-5(b) shall be presented on the balance sheet as part of the carrying amount of the asset. There shall be no separate subsequent presentation of the **government grant** proceeds in earnings because they have been reflected in the carrying amount of the asset.

> Grant Related to Income

832-10-45-3 A **grant related to income** shall be presented as part of earnings in either of the following ways:

a. Separately under a general heading such as other income
b. Deducted in reporting the related expense.

> Statement of Cash Flows

832-10-45-4 An entity shall present cash flows from a government grant in accordance with Topic 230.

12. Amend paragraphs 832-10-50-2 through 50-4 and the related heading and add paragraphs 832-10-50-3A through 50-3B, with a link to transition paragraph 832-10-65-2, as follows:

Disclosure

832-10-50-1 An entity shall provide the disclosures required by this Topic for annual periods.

832-10-50-2 The objective of disclosures about ~~an entity's transactions with a government within the scope of this Topic~~a **government grant** is to provide information that enables an investor or other financial statement user to better assess all the following:

a. The nature of the grant~~transactions~~, the related accounting policies used to account for the grant~~transactions~~, and the effect of the grant~~transactions~~ on an entity's financial statements
b. Significant terms and conditions of the grant~~transactions~~.

> Nature of the Government Grant~~Assistance~~, Related Accounting Policies, and Effect on Financial Statement Amounts

832-10-50-3 An entity shall disclose the following about ~~transactions with~~ a government grant~~within the scope of this Topic~~:

a. The nature of the grant~~transactions~~, including a general description of the ~~transactions~~grant and the form in which the ~~assistance~~grant has been received (for example, cash or ~~other~~tangible nonmonetary assets)
b. The accounting policies used to account for the ~~transactions~~grant as required by paragraph 235-10-50-1 (for example, for a **grant related to an asset**, the use of the deferred income approach or the cost accumulation approach or for a **grant related to income**, whether the grant is presented separately under a general heading or deducted in reporting the related expense)
c. The line items on the balance sheet and income statement that are affected by the ~~transactions~~grant, and the amounts applicable to each financial statement line item in the current reporting period.

832-10-50-3A For a grant related to an asset that is accounted for under the cost accumulation approach in accordance with paragraph 832-10-25-5(b), paragraph 832-10-50-3(c) only applies in the period in which the government grant is recognized on the balance sheet.

832-10-50-3B An entity shall disclose the **fair value** of a tangible nonmonetary asset that is received as a government grant in the period in which the grant is recognized on the balance sheet, even if the cost accumulation approach is applied.

> Significant Terms and Conditions

832-10-50-4 An entity shall disclose information about the significant terms and conditions of ~~transactions with~~ a government grant~~within the scope of this Topic~~. Terms and conditions that might be appropriate to disclose include, but are not limited to, any of the following:

a. The duration or period of the ~~agreement~~grant
b. Commitments made by both the reporting entity and the government
c. Provisions, if any, for recapture (for example, when the government can recapture amounts awarded), including the conditions under which recapture is allowed
d. Other contingencies.

> Restrictions

832-10-50-5 If an entity omits specific information required by paragraphs 832-10-50-1 through 50-4 because the information is legally prohibited from being disclosed, the entity shall disclose a description of the general nature of the information and indicate that the omitted disclosures are legally prohibited from being disclosed.

13. Add Section 832-10-55, with a link to transition paragraph 832-10-65-2, as follows:

Implementation Guidance and Illustrations

General

832-10-55-1 The Implementation Guidance and Illustrations Section is organized as follows:

a. Implementation guidance is provided in paragraphs 832-10-55-3 through 55-8.
b. Illustrations are provided in paragraphs 832-10-55-9 through 55-19.

> Implementation Guidance

832-10-55-2 Paragraphs 832-10-55-3 through 55-19 are an integral part of this Topic. These paragraphs provide additional guidance that addresses the application of the guidance on **government grants**.

• > Scope

832-10-55-3 Different terms can be used to describe various types of government assistance (for example, grants, awards, and subsidies). Therefore, an entity should consider the individual facts and circumstances to determine whether assistance received from a government meets the definition of a government grant and, therefore, is within the scope of this Topic.

832-10-55-4 Government grants are received in the form of monetary or tangible nonmonetary assets from a government. Examples of a government grant include the following:

a. A transfer of cash to fund future expenditures or reimburse expenditures already incurred (for example, capital expenditures, wages, training and other employee-related costs, research and development expenses, or other operating expenses)
b. A transfer of a tangible nonmonetary asset such as a capital asset (for example, a building, land, or equipment)
c. A **forgivable loan** when it is **probable** that an entity will meet the criteria in paragraph 832-10-25-1, including meeting the terms for forgiveness of the loan
d. A refundable tax credit that is not within the scope of Topic 740 on income taxes.

832-10-55-5 The scope of the guidance in this Topic is limited to transfers of monetary assets and tangible nonmonetary assets and therefore excludes the following:

a. An intangible asset or service
b. A reduction of an entity's liabilities (for example, a sales, property, or other tax abatement)
c. Government participation in the ownership of an entity
d. Contributions to business entities from nongovernmental sources within the scope of Subtopic 958-605 on not-for-profit entities—revenue recognition.

• > Recognition

832-10-55-6 In most cases, the period over which an entity recognizes the costs or expenses related to a government grant is readily ascertainable. Thus, a government grant that is intended to reimburse specific expenses should be recognized in earnings on a systematic and rational basis over the periods in which the entity recognizes the relevant expenses. Similarly, a government grant related to a depreciable asset that is accounted for under the deferred income approach in accordance with paragraph 832-10-25-5(a) should be recognized in earnings on a systematic and rational basis over the periods in which depreciation expense on that asset is recognized (in the absence of impairment or disposal).

832-10-55-7 Government grants may be received as part of a package of financial or fiscal aid that contains a number of conditions. In such cases, judgment is needed to identify the conditions related to the costs that determine the periods over which the government grant will be recognized.

832-10-55-8 A **grant related to income** that provides an entity with compensation for expenses or losses previously incurred or for the purpose of giving immediate financial support to the entity with no future related costs should be recognized in earnings in the period in which the entity meets the criteria in paragraph 832-10-25-1.

> Illustrations

• > Recognition

• • > Example 1: Grant Related to an Asset

832-10-55-9 Entity A receives a government grant of $5 million to assist with the cost of purchasing a building, which is the only condition attached to the grant. The building has a useful life of 15 years. Entity A determines that it is probable that it will purchase the building because the seller has accepted Entity A’s offer and Entity A has sufficient funding to complete the purchase.

832-10-55-10 Entity A can elect to recognize the government grant proceeds as deferred income on the balance sheet under the deferred income approach in accordance with paragraph 832-10-25-5(a) or reflect the government grant proceeds in determining the carrying amount of the building using the cost accumulation approach in accordance with paragraph 832-10-25-5(b).

832-10-55-11 If Entity A elects the deferred income approach, it should recognize the government grant proceeds as deferred income. Once the building is placed into service, Entity A begins recognizing the $5 million of government grant proceeds in earnings on a systematic and rational basis over the 15-year period in proportion to the depreciation expense recognized in accordance with paragraphs 832-10-25-6 and 832-10-55-6. Entity A should revise the pattern of recognition if the building is disposed of or impaired.

832-10-55-12 If Entity A elects the cost accumulation approach, it should recognize the government grant proceeds as an adjustment to the cost basis of the building. Once the building is placed into service, there is no subsequent separate recognition of the government grant proceeds in earnings. The carrying amount of the building, which reflects the government grant proceeds, should be used to determine the depreciation expense or subsequent accounting in accordance with paragraph 832-10-25-7.

• • > Example 2: Grant Related to Income

832-10-55-13 Entity B receives a government grant of $2 million for qualifying expenses associated with research and development of a new drug. Entity B will receive cash from the government on a cost-reimbursement basis by submitting proof that it has incurred qualifying expenditures. Entity B determines that it is probable that it will comply with the condition of the government grant (to incur qualifying expenditures) on the basis of its detailed project plan and budget. However, Entity B also determines that it is not probable that the grant will be received until the qualifying expenses are incurred. Therefore, the recognition criteria in paragraph 832-10-25-1 will not be met until the qualifying expenses are incurred.

832-10-55-14 Entity B incurs the qualifying expenses over a 2-year period and recognizes the $2 million government grant proceeds on a systematic and rational basis over the 2-year period as those costs are incurred in accordance with paragraphs 832-10-25-9 and 832-10-55-6. That is, no government grant proceeds would be recognized in earnings until Entity B incurs the related expenses.

832-10-55-15 Entity B can elect to present the government grant proceeds either separately under a general heading such as other income in accordance with paragraph 832-10-45-3(a) or as a reduction of the related expenses in accordance with paragraph 832-10-45-3(b).

• • > Example 3: Allocation of Government Grant Proceeds among Multiple Conditions

832-10-55-16 Entity C obtains a government grant of $20 million to construct a new headquarters facility. The terms of the government grant stipulate that the $20 million is intended to compensate Entity C for the costs of constructing the new facility and hiring 1,000 employees for the new facility by the end of a 2-year period. The hired employees are expected to be employed at the facility for at least 36 months after the end of the 2-year period. If Entity C does not incur capital expenditures to construct the new facility or does not hire and retain 1,000 employees at the new facility for the requisite period, then Entity C must repay the government grant in full.

832-10-55-17 Entity C evaluates the terms and conditions of the grant agreement and determines that both construction of the new facility and hiring and retaining 1,000 employees at the new facility are conditions of the grant. Entity C determines that it is probable that it will comply with both conditions of the government grant and that it will receive the grant.

832-10-55-18 Entity C identifies the related costs for which the government grant is intended to compensate. Entity C determines that it expects to incur $30 million in costs to construct the new facility and $10 million in costs to hire and retain 1,000 employees at its new facility by the end of the 2-year period and retain that level of employment for an additional 36 months.

832-10-55-19 No single approach is prescribed for allocating the proceeds of a government grant when multiple conditions exist in a government grant agreement. Allocation approaches may vary from one entity to another. Entity C allocates the $20 million grant on a proportionate cost basis. Therefore, $15 million of the grant is accounted for as a **grant related to an asset** (the construction of the new facility), and $5 million is accounted for as a grant related to income (hiring and retaining 1,000 employees). Alternatively, Entity C could have evaluated the grant agreement and, on the basis of the facts and circumstances, concluded that one of the conditions in the agreement is the primary condition. In that instance, Entity C would allocate the grant entirely to the primary condition.

14. Add paragraph 832-10-65-2 and its related heading as follows:

Transition and Open Effective Date Information

> Transition Related to Accounting Standards Update No. 202X-XX, *Government Grants (Topic 832): Accounting for Government Grants by Business Entities*

832-10-65-2 The following represents the transition and effective date information related to Accounting Standards Update No. 202X-XX, *Government Grants (Topic 832): Accounting for Government Grants by Business Entities:*

Effective date and early adoption

a. The pending content that links to this paragraph shall be effective for a **public business entity** for annual reporting periods beginning after [date to be inserted after exposure] and interim reporting periods within those annual reporting periods.
b. For an entity other than a public business entity, the pending content that links to this paragraph shall be effective for annual reporting periods beginning after [date to be inserted after exposure] and interim reporting periods within those annual reporting periods.
c. Early adoption of the pending content that links to this paragraph [is or is not] permitted.

Transition method and transition disclosures

d. An entity shall apply the pending content that links to this paragraph either:
    1. Prospectively to **government grants** that are not complete as of the effective date and government grants that are entered into after the effective date.
    2. Retrospectively through a cumulative-effect adjustment to the opening balance of retained earnings at the beginning of the earliest period presented.
e. For purposes of the transition guidance in (d)(1):
    1. A government grant is considered complete when all of the government grant proceeds have been recognized before the effective date of the pending content that links to this paragraph.
    2. No prior-period results shall be restated, and there shall be no cumulative-effect adjustment to opening retained earnings at the beginning of the year of adoption.
    3. In the first period that includes the date of initial application, an entity shall disclose the nature of and reason for the accounting change.

Amendments to Subtopic 805-20

15. Amend paragraphs 805-20-25-16 through 25-17 and add paragraphs 805-20-25-28D through 25-28G and their related heading, with a link to transition paragraph 832-10-65-2, as follows:

Business Combinations—Identifiable Assets and Liabilities, and Any Noncontrolling Interest

Recognition

> Exceptions to the Recognition Principle

805-20-25-16 This Topic provides limited exceptions to the recognition and measurement principles applicable to business combinations. Paragraphs 805-20-25-17 through 25-28G~~25-28C~~ specify the types of identifiable assets and liabilities that include items for which this Subtopic provides limited exceptions to the recognition principle in paragraph 805-20-25-1. The acquirer shall apply the specified GAAP or the specified requirements rather than that recognition principle to determine when to recognize the assets or liabilities identified in paragraphs 805-20-25-17 through 25-28G~~25-28C~~. That will result in some items being recognized either by applying recognition conditions in addition to those in paragraphs 805-20-25-2 through 25-3 or by applying the requirements of other GAAP, with results that differ from applying the recognition principle and conditions in paragraphs 805-20-25-1 through 25-3.

805-20-25-17 Guidance is presented on all of the following exceptions to the recognition principle:

a. Assets and liabilities arising from contingencies
b. Income taxes
c. Employee benefits
d. Indemnification assets
e. Leases
f. **Contract assets** and **contract liabilities**.
g. Government-grant-related liabilities.

• > Government-Grant-Related Liabilities

805-20-25-28D At the acquisition date, when an entity has fully complied with the conditions attached to a **government grant** (a **grant related to an asset** or a **grant related to income**), the acquirer shall not recognize deferred income.

805-20-25-28E At the acquisition date, if an entity has not fully complied with the conditions attached to an acquired grant related to an asset, the acquirer shall account for the grant related to an asset in accordance with this Topic, except for any liability to repay grant proceeds that is recognized in accordance with paragraph 805-20-25-28G.

805-20-25-28F At the acquisition date, if an entity has not fully complied with the conditions attached to an acquired grant related to income but the acquirer determines that it is **probable**, in accordance with paragraph 832-10-25-1, that the conditions attached to the government grant will be met, the acquirer shall account for any deferred income from the grant related to income in accordance with Topic 832 on government grants. Any acquired grant-related assets shall be accounted for in accordance with Topic 805.

805-20-25-28G At the acquisition date, if an acquirer has a liability to repay government grant proceeds, that liability shall be recognized in accordance with paragraphs 450-20-25-1 through 25-5.

16. Amend paragraphs 805-20-30-10 through 30-12 and add paragraph 805-20-30-31 and its related heading, with a link to transition paragraph 832-10-65-2, as follows:

Initial Measurement

> Exceptions to the Measurement Principle

805-20-30-10 Paragraph 805-20-25-16 notes that the Business Combinations Topic provides limited exceptions to the recognition and measurement principles applicable to business combinations. Paragraphs 805-20-30-12 through 30-31~~30-30~~ specify the types of identifiable assets and liabilities that include items for which this Subtopic provides limited exceptions to the paragraph 805-20-30-1 measurement principle. The acquirer shall apply the specified GAAP or the specified requirements rather than that measurement principle to determine how to measure the assets or liabilities identified in paragraphs 805-20-30-12 through 30-31~~30-30~~. That will result in some items being measured at an amount other than their acquisition-date fair values.

805-20-30-11 As noted in paragraph 805-20-25-17, income taxes, employee benefits, indemnification assets, leases, ~~and~~ **contract assets** and **contract liabilities**, and government-grant-related liabilities are also exceptions to the recognition principle in paragraph 805-20-25-1.

805-20-30-12 Guidance is presented on all of the following exceptions to the measurement principle:

a. Income taxes
b. Employee benefits
c. Indemnification assets
d. Reacquired rights
e. Share-based payment awards
f. Assets held for sale
g. Certain assets and liabilities arising from contingencies
h. Leases
i. **Purchased financial assets with credit deterioration**
j. Contract assets and contract liabilities.
k. Government-grant-related liabilities.

• > Government-Grant-Related Liabilities

805-20-30-31 Initial measurement of a liability to repay government grant proceeds recognized in accordance with paragraph 805-20-25-28G shall be at the amount that can be reasonably estimated.

Amendments to Subtopic 958-605

17. Amend paragraph 958-605-15-6(d), with a link to transition paragraph 832-10-65-2, as follows:

Not-for-Profit Entities—Revenue Recognition

Scope and Scope Exceptions

Contributions Received

> Transactions

958-605-15-6 The guidance in the Contributions Received Subsections does not apply to the following transactions and activities:

d. Transfers of assets from government entities to business entities. Topic 832 provides the accounting for **government grants** to business entities.

Amendments to Subtopic 958-805

18. Add paragraph 958-805-25-21A, with a link to transition paragraph 832-10-65-2, as follows:

Not-for-Profit Entities—Business Combinations

Recognition

Acquisition by a Not-for-Profit Entity

> Recognizing the Identifiable Assets Acquired, the Liabilities Assumed, and Any Noncontrolling Interest in the Acquiree

• > Additional Exceptions to the Recognition Principle

958-805-25-21 This Subsection provides the following limited exceptions to the recognition principle in paragraph 805-20-25-1, which are incremental to the exceptions provided by paragraphs 805-20-25-16 through 25-28:

a. Donor relationships
b. **Collections**
c. **Conditional promises to give.**

<u>**958-805-25-21A** The exception to the recognition principle in paragraphs 805-20-25-28D through 25-28G for government-grant-related liabilities is not applicable to entities that apply the guidance within this Subtopic.</u>

The amendments in this proposed Update were approved for publication by four members of the Financial Accounting Standards Board. Dr. Botosan, Mr. Cannon, and Dr. Joseph voted against publication of the amendments. Their alternative views are set out at the end of the basis for conclusions.

Members of the Financial Accounting Standards Board:

Richard R. Jones, *Chair*
Hillary H. Salo, *Vice Chair*
Christine A. Botosan
Frederick L. Cannon
Susan M. Cosper
Marsha L. Hunt
Dr. Joyce T. Joseph

Background Information, Basis for Conclusions, and Alternative Views

Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this proposed Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

BC2. The Board is issuing the amendments in this proposed Update to provide recognition, measurement, and presentation guidance for government grants received by business entities. Current GAAP does not provide specific authoritative guidance about the recognition, measurement, and presentation of a grant received by a business entity from a government.

Background Information

BC3. In the absence of specific guidance in GAAP on the accounting for government grants, many business entities analogize to other guidance such as IAS 20 or, less commonly, Topic 450, Contingencies, or Subtopic 958-605.

BC4. The FASB considered whether to add a project on the accounting for government grants to its technical agenda in 2014 but decided to add a project focused on developing disclosure requirements for the broader category of government assistance. In November 2015, the Board issued the proposed Accounting Standards Update, *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance*. Overall, stakeholders supported the effort to increase the transparency of government assistance. Some stakeholders urged the Board to expand the project to include recognition, measurement, and presentation guidance. The Board decided that the project should continue to focus on disclosure requirements to provide comparable and transparent information to investors. Thus, the Board narrowed the scope of the final amendments in Accounting Standards Update No. 2021-10, *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance,* to transactions with a government that are accounted for by applying a grant or contribution accounting model by analogy to other accounting guidance (for example, using the provisions of IAS 20 or Subtopic 958-605).

BC5. The Board continued to seek feedback from stakeholders on whether developing recognition, measurement, and presentation guidance for government grants provided to business entities in GAAP should be a priority. The 2021 Agenda Consultation included questions on whether the Board should pursue a project on the recognition and measurement of government grants and, if so, whether the Board should leverage an existing grant or contribution accounting model (such as the model in IAS 20 or Subtopic 958-605) or develop a new accounting model. In response to the 2021 Agenda Consultation, some respondents (particularly, practitioners and preparers) stated that the lack of specific authoritative guidance in GAAP on accounting for government grants by business entities has led to significant diversity in practice. Other respondents stated that there is not a pervasive need to provide guidance because business entities are able to apply other guidance, such as IAS 20, by analogy.

BC6. Many respondents that provided specific feedback on the accounting for government grants in the 2021 Agenda Consultation, including investors, practitioners, preparers, and state certified public accounting societies, preferred that the Board leverage certain elements of the guidance in IAS 20. Respondents did not suggest that the Board create a new model for the recognition and measurement of government grants for business entities; rather, respondents expressed concern that the expected costs incurred to create a new model may outweigh the expected benefits because other accounting models for government grants already exist and are being applied by business entities.

BC7. In June 2022, in response to feedback received on the 2021 Agenda Consultation, the FASB staff issued the 2022 GG ITC. The purpose of the 2022 GG ITC was to solicit broad stakeholder feedback on the recognition, measurement, and presentation requirements of IAS 20. To facilitate stakeholder feedback, IAS 20 was used to provide an existing accounting framework for government grants. Thirty-one stakeholders provided feedback on the 2022 GG ITC, including practitioners, preparers, trade groups, state societies, professional associations, and an academic. In addition to comment letter feedback, the FASB completed additional targeted outreach with certain stakeholders and discussed the 2022 GG ITC with FASB advisory committees and councils, including the Financial Accounting Standards Advisory Council (FASAC), Small Business Advisory Committee (SBAC), Private Company Council (PCC), and Investor Advisory Committee (IAC).

BC8. Many respondents to the 2022 GG ITC supported the Board in considering leveraging the guidance in IAS 20 in developing accounting guidance for government grants in GAAP. Respondents to the 2022 GG ITC also highlighted certain areas of IAS 20 that have been challenging in practice, such as the allocation of government grant proceeds (for example, when a government grant contains more than one condition) and determining when the reasonable assurance threshold is met. The Board did not receive comment letters from investors on the 2022 GG ITC. Some Board members believe this is in part because investors received sufficient transparency from the disclosures provided as a result of the amendments in Update 2021-10. However, the 2022 GG ITC was supplemented with discussions with FASB advisory committees and councils that include investors. In November 2023, in response to the feedback received from stakeholders and research performed by the FASB staff, the Board added a project to its technical agenda on the recognition, measurement, and presentation of government grants.

BC9. The Board decided that leveraging the guidance in IAS 20 with targeted improvements would improve GAAP and reduce diversity. The Board observed that the amendments in this proposed Update would result in standardized authoritative accounting guidance for government grants that is consistent with the majority of current practice and responsive to stakeholder feedback. Furthermore, the proposed amendments would clarify GAAP by providing authoritative guidance that would eliminate the need for accounting by analogy and reduce the number of approaches applied in practice. There is no specific authoritative guidance about accounting for government grants received by business entities, and multiple different accounting models for government grants have been applied. Providing recognition, measurement, and presentation guidance in GAAP for government grants received by business entities would create greater consistency because business entities would no longer have to analogize to other accounting models.

BC10. The Board considered whether to develop a performance-based model consistent with the principles in Subtopic 958-605 and Topic 606, Revenue from Contracts with Customers. As noted above, in feedback received on the 2021 Agenda Consultation and the 2022 GG ITC, stakeholders generally supported leveraging the existing accounting model in IAS 20 and did not support creating a new model. The Board observed that the guidance in Subtopic 958-605 related to government grants is a model specifically designed for not-for-profit entities (NFPs) and that paragraph 958-605-15-6 excludes from its scope transfers of assets from governmental entities to business entities because of differences between the nature of NFP activities and the activities of a business entity. Thus, the Board does not believe that requiring business entities to apply a model for government grants that was developed to reflect the unique nature of an NFP is a preferable approach, especially when considering the benefits of global convergence and the consistency with the majority of practice afforded by pursuing an approach that leverages IAS 20. The Board also believes that an NFP receiving a government grant is consistent with an NFP's core business model of soliciting contributions and funding from third parties, whereas government grants are more likely to be incidental to the business of for-profit entities.

BC11. In addition, the Board concluded that it was not preferable (and perhaps not achievable) to develop an accounting model based on the guidance in Topic 606 because the accounting model in that Topic is predicated on a commensurate exchange of value in an exchange transaction—a premise that does not exist in government grant transactions. The Board noted that the timing and pattern of recognition of a government grant would result in substantially the same outcome using principles in IAS 20 or a performance-based model for a government grant that is primarily related to expense reimbursement. However, the Board acknowledged that there could be some differences in timing of recognition for a government grant in which entitlement to government grant proceeds does not occur until conditions of the grant have been met. The Board also noted that a performance-based model would (a) result in a change for many business entities that are analogizing to IAS 20 and (b) reduce comparability with financial statements prepared using International Financial Reporting Standards Accounting Standards (IFRS Accounting Standards).

Basis for Conclusions

Benefits and Costs

BC12. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Board's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC13. The amendments in this proposed Update would provide the benefit of establishing specific authoritative guidance in GAAP for government grants that is consistent with current practice for most business entities. Doing so would provide decision-useful information for investors because transactions that meet the definition of a government grant would be clearly identified and accounted for under the proposed amendments. The proposed amendments would reduce diversity in practice and increase consistency across business entities by eliminating accounting by analogy. The proposed amendments also would benefit multinational entities and investors that compare entities globally by promoting convergence with international accounting standards.

BC14. The amendments in this proposed Update provide certain elections for the accounting for a grant related to an asset and the income statement presentation for a grant related to income. The Board received input that this optionality would allow an entity to present different types of government grants differently, which could better reflect the economics of the grant and the effect of the grant on an entity's business or operations. Although optionality could result in less comparability (when compared with prescribing a single approach for all government grants), the Board concluded that this cost would be limited because (a) investors would have transparent information about the government grants and the accounting model applied through disclosure and (b) compared with the multiple accounting models applied in practice today, the number of alternative accounting approaches, and applications of those alternative approaches, would be reduced.

BC15. The Board does not anticipate that entities would incur significant costs as a result of the amendments in this proposed Update. For some business entities, the proposed amendments may be a change from their current accounting policies for government grants if the entities apply Subtopic 958-605 by analogy or otherwise change their accounting policies upon adoption of the proposed amendments. In addition, the Board made certain targeted changes to the guidance in IAS 20 in developing the proposed amendments. The Board anticipates that entities currently analogizing to IAS 20 may need to evaluate the proposed amendments to assess these changes and, in some cases, revise their accounting policies.

Scope

Entities

BC16. The amendments in this proposed Update would apply to business entities that receive a government grant, except for NFPs within the scope of Topic 958, Not-for-Profit Entities, and employee benefit plans within the scope of Topic 960, Plan Accounting—Defined Benefit Pension Plans, Topic 962, Plan Accounting—Defined Contribution Pension Plans, and Topic 965, Plan Accounting—Health and Welfare Benefit Plans. The Board decided to exclude NFP entities from the scope of the proposed amendments because guidance exists in Topic 958 for those entities for government grants that meet the definition of a contribution. The Board also decided to exclude employee benefit plans from the scope of the proposed amendments because research indicated that employee benefit plans generally do not receive a significant amount of government grants.

Government Grants

BC17. The Board defined a government grant as a transfer of a monetary asset or a tangible nonmonetary asset from a government to a business entity. This definition is based on the scope of IAS 20 with certain targeted changes. The Board extensively considered the scope of guidance on government grants during the development of Update 2021-10 and considered and rejected multiple variations of a potential definition of a government grant because of concerns that those definitions were not operable. For example, a more expansive definition that attempted to include intangible rights (including services or rights to services) could prove to be inoperable given that one of the primary functions of a government is to provide services or assistance to stakeholders. Because of this feedback, the Board decided to leverage the definition of a government grant in IAS 20, with certain changes, because it would identify the population of government grants whose accounting, according to most stakeholders, should be improved and because it was generally viewed as operable.

BC18. The Board determined that the following transactions with a government would be excluded from the scope of the amendments in this proposed Update:

a. Exchange transactions, such as transactions within the scope of Topic 606 and Subtopic 610-20, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets, including exchange transactions that may be at a significant discount to fair value
b. Transactions within the scope of Topic 740, Income Taxes (for example, nonrefundable, nontransferable income tax credits)
c. The benefit of below-market interest rate loans
d. Government guarantees.

The Board noted that an agreement with a government may include elements that are partially within the scope of Topic 832 and partially within the scope of other Topics, including those listed in paragraph 832-10-15-4A of this proposed Update. The proposed amendments apply only to the transaction within the agreement that relates to the government grant.

BC19. The Board determined that the description of a government included in paragraph 832-10-15-5, which was finalized by the Board in Update 2021-10, is comprehensive and should apply to the scope of the amendments in this proposed Update. Consistent with the Board's reasoning in Update 2021-10, the Board concluded that the description of a government is broad enough to ensure that grants received from most, if not all, types of governmental entities or other related organizations should be included in the scope of the proposed amendments. In addition, the Board observed that it has not received feedback from stakeholders indicating any concerns about the description of a government since the issuance of Update 2021-10.

Monetary and Tangible Nonmonetary Assets

BC20. The Board determined that the scope of the amendments in this proposed Update should be limited to a transfer of a monetary asset (for example, cash to fund certain expenses or a refundable tax credit that is not within the scope of Topic 740) and a tangible nonmonetary asset (for example, land, a building, a machine, or equipment) from a government to a business entity. A transfer of a monetary asset or a tangible nonmonetary asset would be included in the scope of IAS 20 and would not be operationally challenging to identify and measure.

BC21. The Board decided to specify that a forgivable loan from a government would be treated as a government grant when a business entity concludes that the proposed recognition criteria are met; that is, when it is probable that the entity will meet the terms of forgiveness of the loan. The Board determined that a forgivable loan is economically equivalent to a government grant of cash; in both cases, conditions could be applied to determine whether a loan would be subsequently forgiven or whether a government grant would not need to be repaid.

Intangible Assets and Services

BC22. The Board decided not to include a transfer of an intangible asset or a service from a government to a business entity in the scope of the amendments in this proposed Update. Intangible resources provided by governments often include licenses, patent protection (or other similar asset protection), approvals, credits (for example, environmental credits), and access to certain facilities (for example, free rent or leases that have a reduced rent). Governments also provide services such as air traffic control, security, utilities, transportation and access to roadways, training, and others that are integral to the mission of many government entities. Given the broad range of resources that could be considered intangible assets and services provided by a government to a business entity and the integrated nature of many of those activities to the core operations of governments, the Board concluded that (a) including such resources in the scope of the proposed amendments would generate significant implementation questions from stakeholders, (b) identifying all of the ways in which a government provides a benefit or assistance to business entities would not be practical, and (c) determining the fair value of certain intangibles and services would be costly and complex, if not impossible.

Exchange Transactions

BC23. The definition of a government grant in IAS 20 excludes "transactions with government which cannot be distinguished from the normal trading transactions of the entity" (footnote reference omitted). Feedback from respondents to the 2022 GG ITC indicated that, in practice, this scope exclusion can be challenging to apply consistently because IAS 20 does not specify what is meant by *normal trading transactions*. Stakeholders suggested that the Board consider excluding exchange transactions from the scope of the amendments in this proposed Update. In response to feedback received, the Board decided that the scope of the proposed amendments would exclude exchange transactions, including exchange transactions that may be at a significant discount to fair value (that is, below market exchange transactions) and transactions within the scope of Topic 606 and Subtopic 610-20.

Income Taxes

BC24. The Board decided to exclude transactions that are within the scope of Topic 740 from the scope of the amendments in this proposed Update. Respondents to the 2022 GG ITC were generally supportive of the scope exclusion in paragraph 2(b) of IAS 20, which excludes "government assistance that is provided for an entity in the form of benefits that are available in determining taxable profit or tax loss, or are determined or limited on the basis of income tax liability." In addition, the Board noted that GAAP contains comprehensive accounting and disclosure guidance for income taxes, including investment tax credits.

The Benefit of Below-Market Interest Rate Loans and Government Guarantees

BC25. The Board decided to exclude the benefit of below-market interest rate loans and government guarantees from the scope of the amendments in this proposed Update because they do not meet the definition of a government grant. Generally, in practice, business entities do not calculate and recognize the benefit of a below-market interest rate loan or the benefit of a financial guarantee from a government entity in their financial statements. The Board observed that almost all respondents to the 2022 GG ITC indicated that the benefit of a loan with a below-market interest rate and a government guarantee should not be accounted for as a government grant because doing so could introduce significant cost and complexity for business entities that receive such loans and guarantees. Thus, the Board does not believe that the benefit, if any, of reporting a hypothetical additional cost of financing (that is, the amount that would potentially exist in the absence of government assistance) and a corresponding amount of grant income would justify the significant cost to provide such information.

Recognition

Recognition Threshold

BC26. The amendments in this proposed Update would require that a government grant be recognized when it is probable that (a) an entity will comply with the conditions of the grant and (b) the grant will be received. IAS 20 uses a recognition threshold of *reasonable assurance*. The Board considered stakeholder feedback indicating that there is diversity in practice on how to apply the concept of *reasonable assurance* because IAS 20 does not provide specific guidance on the application of this threshold and *reasonable assurance* is not defined or widely used in GAAP. The Board observed that *reasonable assurance* is generally interpreted to be consistent with the term *probable* as defined in the Master Glossary. The Board decided that a *probable* recognition threshold for government grants would be more operable to apply when compared with using *reasonable assurance* because it is well understood in practice and aligns with the guidance in Topic 450 and Topic 606.

BC27. The Board considered using the alternative of *reasonably certain* as the recognition threshold. Some stakeholders expressed a preference for a high threshold for government grant proceeds to be recognized and noted that a *reasonably certain* recognition threshold would align with recent guidance such as that in Topic 842, Leases. The Board discussed that a recognition threshold of *reasonably certain* may be a shift in practice for many business entities that currently analogize to IAS 20 and interpret *reasonable assurance* to be consistent with *probable*. The Board acknowledged that using *reasonably certain* as a recognition threshold may not have a significant impact on the timing of recognition; however, in certain instances, it could result in delayed recognition of government grant proceeds received (depending on the conditions) compared with existing practice. The Board decided to use *probable* to be consistent with how most entities are currently applying the guidance in IAS 20 in practice.

Timing and Pattern of Recognition

BC28. The amendments in this proposed Update would require a grant related to an asset accounted for under the deferred income approach and a grant related to income to be recognized 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. The Board considered stakeholder feedback indicating that the recognition requirements in IAS 20 are generally operable and understandable and that many business entities currently analogize to IAS 20 in practice.

Allocation of Government Grant Proceeds

BC29. Some respondents to the 2022 GG ITC observed challenges associated with accounting for government grants that contain more than one condition. The Board noted that, historically, stakeholders have developed accounting policies when applying the guidance in IAS 20 to government grants with multiple conditions. Given the feedback from stakeholders that have been applying the guidance in IAS 20 in practice, the Board decided not to provide specific guidance on the allocation of government grant proceeds to multiple conditions. Rather, the Board decided to provide limited implementation guidance and examples to illustrate the application of the recognition guidance. The amendments in this proposed Update emphasize that entities need to apply judgment in such circumstances. The Board acknowledges that not prescribing a specific approach may result in diversity in practice and that multiple approaches may be appropriately applied in practice, including allocating grant proceeds to conditions on a proportionate cost basis or to an individual condition based on the primary condition of the grant.

Grant of a Tangible Nonmonetary Asset

BC30. The Board concluded that the direct grant of a tangible nonmonetary asset by a government is a grant related to an asset. There are two acceptable approaches to account for the grant of a tangible nonmonetary asset. Under the deferred income approach, the Board decided that a grant of a tangible nonmonetary asset would be initially measured at fair value and recognized as deferred income. Alternatively, an entity may elect to account for a government grant of a tangible nonmonetary asset using the cost accumulation approach. For a government grant of a tangible nonmonetary asset accounted for under the cost accumulation approach, the grant would be initially measured at the cost, if any, to the entity.

BC31. The Board observed that allowing either the deferred income approach or the cost accumulation approach to account for a government grant related to a tangible nonmonetary asset would be consistent with the deferral method of accounting for an investment tax credit in accordance with Topic 740 (originally included in APB Opinion No. 2, *Accounting for the Investment Credit*). Under that method, an investment tax credit is reflected in earnings over the productive life of an acquired property either by reducing the carrying amount of the related asset, which the income tax guidance states may be preferable in many cases, or by recognizing deferred income that is subsequently amortized to income tax expense over the life of the acquired property.

BC32. While IAS 20 provides for accounting for such grants at fair value, it also provides the option to measure nonmonetary assets at a nominal amount as well as a presentation alternative to reduce the fair value of the asset by an amount equal to the fair value of the government grant. The Board observed that the nominal approach is rarely applied in practice, which was noted in responses to the 2022 GG ITC. The Board also noted that it is predominant practice to reduce the reported value of the tangible nonmonetary asset under the presentation alternative. Rather than requiring a two-step nominal approach (that is, recognize a granted tangible nonmonetary asset at fair value and then reduce the reported fair value by the amount of the government grant), the Board concluded that the cost accumulation approach is more consistent with the entry price notion in Chapter 6, *Measurement*, of FASB Concepts Statement No. 8, *Conceptual Framework for Financial Reporting*. However, the Board did not specify a preferable approach for a government grant of a tangible nonmonetary asset, and a business entity may elect to apply the cost accumulation approach or the deferred income approach.

Grant Related to an Asset and Grant Related to Income

Grant Related to an Asset

BC33. IAS 20 describes two acceptable presentation approaches for a grant related to an asset. One approach recognizes the grant as deferred income that is recognized in profit or loss on a systematic basis over the useful life of the asset. The other approach deducts the grant in calculating the carrying amount of the asset. The grant is recognized in profit or loss over the life of a depreciable asset as a reduced depreciation expense.

BC34. The Board decided to retain this guidance but believes that the alternatives related to the accounting for assets and liabilities for a grant related to an asset are better described as recognition guidance than as presentation alternatives. Thus, the guidance in the amendments in this proposed Update for a grant related to an asset is described as a recognition alternative. The Board also noted that a grant related to an asset is economically similar to an investment tax credit (because both are government actions intended to support an entity's acquisition of an asset) and that Topic 740 concluded that it is preferable to account for an investment tax credit over the productive life of the acquired asset.

BC35. The Board believes that the financial reporting outcomes should be consistent with IAS 20. The Board determined that allowing flexibility for an entity to account for different types of government grants differently could better reflect the economics of the grant and the effect of the grant on the entity's business or operations. Many stakeholders (primarily preparers and practitioners) responding to the 2022 GG ITC indicated a preference for retaining the optionality permitted in IAS 20. In addition, during targeted outreach meetings and discussions with FASB advisory committees and councils, some investors stated that they would prefer the deferred income approach but they noted that they could support having an option if sufficient information about government grants and the accounting model applied would be disclosed.

BC36. The amendments in this proposed Update would permit an entity to recognize a grant related to an asset on the balance sheet either by recognizing the government grant proceeds as deferred income under the deferred income approach or by reflecting the government grant proceeds in determining the carrying amount of the asset under the cost accumulation approach. If a grant related to an asset is recognized separately on the balance sheet in accordance with the deferred income approach, government grant proceeds could be presented in earnings as an adjustment to expenses recognized over the useful life of the related asset (which could include depreciation expense, gain or loss on the sale of the asset, or impairment expense, among others) or separately as other income. For a grant related to a depreciable asset that is presented under a cost accumulation approach on the balance sheet, the value of the government grant would be reflected in earnings as part of the ongoing accounting for the asset (for example, over the useful life of the related asset through depreciation, gain or loss on sale, or impairment) because it is fully reflected in the carrying amount of the asset in the period the grant is received.

BC37. Some Board members observed that a cost accumulation approach better reflects the economics of the asset acquired and the related government grant received because it reflects the costs that were actually incurred by a business entity to acquire or construct the asset. Some Board members also observed that recognizing a grant related to an asset using a cost accumulation approach is consistent with the accounting for an investment tax credit as a reduction of the amount at which the acquired property is stated (which Topic 740 indicates is preferable in many cases).

BC38. Board members also observed that the separate recognition of a grant related to an asset as deferred income is inconsistent with Chapter 4, *Elements of Financial Statements,* of Concepts Statement 8 because the deferred income would, in many cases, fail to meet the definition of a liability. In contrast, under the cost accumulation approach, an entity would recognize an asset that is consistent with the definition of an asset in Chapter 4 and that is measured consistently with the entry price system in Chapter 6.

BC39. Other Board members supported separate recognition of a grant related to an asset as deferred income based on their view that it may be more transparent and may better reflect the economic impact of a government grant, depending on the nature of the grant and business practices of an entity.

BC40. The Board considered requiring business entities to present a grant related to an asset using a cost accumulation approach. Although some Board members view the cost accumulation approach as a better reflection of the underlying economics of the transaction, the Board concluded that the shift away from permitting optionality currently allowed in IAS 20 could result in a significant cost burden for entities that have previously elected to account for government grant proceeds separately as deferred income by analogy to IAS 20. Additionally, some investors have stated that the deferred income approach would result in better financial information when compared with the cost accumulation approach. Therefore, the Board concluded that retaining the option to present government grants on a separate basis as deferred income is responsive to that feedback.

Grant Related to Income

BC41. The amendments in this proposed Update would permit a business entity to present a grant related to income either (a) separately under a general heading such as other income or (b) deducted from the related expense for which the grant is intended to compensate. The Board decided that allowing optionality for the income statement presentation of a grant related to income would be consistent with current practice and allow flexibility for an entity to present different types of government grants differently, which could better reflect the economics of the grant and the effect of the grant on the entity's business or operations.

Repayment of a Government Grant

BC42. The Board determined that a government grant that becomes repayable should be accounted for in accordance with Topic 250, Accounting Changes and Error Corrections. In reaching that decision, the Board considered stakeholder feedback received from the 2022 GG ITC that indicated that Topic 250 is widely understood and applied in practice. When a government grant becomes repayable in the form of a loan, a business entity should account for that loan in accordance with Topic 470, Debt, or other applicable guidance, with interest expense, if any, recognized over the remaining life of that loan.

Contingent Assets and Liabilities

BC43. The Board determined that once a government grant is recognized, any related contingent liability or contingent asset should be accounted for in accordance with Topic 450 on contingencies. In reaching that decision, the Board considered stakeholder feedback received from the 2022 GG ITC that indicated that the guidance in Topic 450 is widely understood and applied in practice and should be applied to contingent assets and liabilities related to government grants.

Statement of Cash Flow Presentation

BC44. The Board determined that cash inflows from the receipt of a government grant should be classified in accordance with Topic 230, Statement of Cash Flows. The Board decided not to provide guidance that prescribed a cash flow classification for the cash inflows of a grant related to an asset or a grant related to income. Instead, the Board noted that applying the guidance in Topic 230 would result in classifying cash flows from government grants on the basis of the nature of the grant (that is, whether the cash flows from a government grant result from operating, investing, or financing activities). For example, when applying the guidance in Topic 230, a business entity may classify proceeds from a grant related to income as a cash flow from an operating activity or as a cash flow from a financing activity. Similarly, when applying Topic 230, a business entity may classify proceeds from a grant related to an asset as a cash flow from an operating activity, an investing activity, or a financing activity. Stakeholders have indicated that applying the principles in Topic 230 would be consistent with current practice and should not be costly or complex to apply.

Disclosure

BC45. The Board decided to leverage the existing disclosures in Topic 832, which were initially applied to transactions with a government that are accounted for by applying a grant or contribution accounting model by analogy. The Board decided to revise the scope of those disclosures so that they would be applied to a government grant received by a business entity, consistent with the scope of the amendments in this proposed Update.

BC46. The Board observed that the existing disclosure requirements in Topic 832 are comprehensive and were developed through extensive Board deliberations. The Board noted that investors and other financial statement users of public and private company financial statements support the current disclosures because they provide decision-useful information about the effect of a government grant on a business entity's financial statements.

BC47. The Board decided not to continue to require that the existing disclosures be applied to transactions with a government that are accounted for by applying a grant or a contribution accounting model by analogy. The amendments in this proposed Update would provide authoritative guidance on recognition, measurement, and presentation of government grants, eliminating the application of other GAAP by analogy. In addition, the 2022 GG ITC sought input about the accounting for government grants as it is included in IAS 20 (paragraphs 7–33 of IAS 20) and not the broader category of *government assistance* that is included in IAS 20 (paragraphs 34–38 of IAS 20).

BC48. Paragraph 832-10-50-3(b) requires a business entity to disclose the accounting policies used to account for government grants as required by paragraph 235-10-50-1. Paragraph 250-10-45-1 states that GAAP has a presumption that once an entity adopts an accounting principle, that principle should not be changed in accounting for events and transactions of similar types. Therefore, the Board believes that a business entity must choose an accounting policy to be applied consistently for similar types of grants.

BC49. The Board decided to affirm that the disclosures in Topic 832, including the amendments to those disclosures in this proposed Update, should be required for annual reporting periods. The Board also decided that the disclosures would not be required in interim periods. The Board concluded that requiring specific disclosures on an interim basis would increase costs for preparers without a commensurate increase in the benefit to investors.

BC50. The Board decided to require that a business entity disclose the fair value of a government grant of a tangible nonmonetary asset in the period in which the grant is recognized. The Board observed that determining the fair value of a tangible nonmonetary asset should be relatively straightforward. In addition, the Board observed that disclosing the fair value of a government grant of a tangible nonmonetary asset is consistent with current practice and would provide decision-useful information for investors. The Board decided to limit the disclosure to the period in which the government grant is recognized, noting that the ongoing cost to provide such a disclosure in subsequent periods would outweigh the benefit to investors.

BC51. For a grant related to an asset that is accounted for using a cost accumulation approach, the Board believes that the existing disclosure requirements, including the accounting policies used to account for the grant, the significant terms and conditions associated with the grant, and the amount of grant proceeds (disclosed in the period the grant is recognized), would provide investors with sufficient information.

BC52. For a grant related to an asset that is accounted for using a cost accumulation approach, the Board decided that a business entity should not be required to disclose the line items on the balance sheet and income statement that are affected by the government grant after the period in which the government grant is recognized. Specifically, the Board did not want to require disclosure of the depreciation expense, gain or loss on the sale of an asset, or impairment expense that would have been recorded initially or on an ongoing basis if the entity had not received the government grant or had applied the deferred income approach. Some Board members did not support this additional disclosure because it would have required that an entity incur costs to apply two different accounting approaches for the duration of the asset's useful life to determine the hypothetical information to be disclosed. For example, for an asset with a 25-year useful life, the Board did not want to require disclosure of the depreciation expense that would have been recorded in Year 20 of the asset's life as if another approach to account for the government grant had been applied. As another example, for an asset that was received as a grant 15 years ago that was sold in the current period, the Board did not want to require disclosure of how the gain or loss on sale would have been different if a different approach to account for the government grant had been applied. The Board noted that requiring disclosure as if an entity had applied a different accounting treatment would place undue cost and burden on preparers that elect a cost accumulation approach because they would be required to maintain and track information for disclosure purposes that is not needed for recognition or measurement of the government grant.

Recognition and Measurement of a Government Grant Acquired in a Business Combination

BC53. The Board considered whether Topic 805, Business Combinations, provides sufficient guidance for a business entity to determine how to recognize and measure grant-related assets acquired and liabilities assumed in a business combination.

BC54. The amendments in this proposed Update would require that grant-related assets acquired in a business combination be recognized and measured at fair value in accordance with the guidance in Subtopic 805-20, Business Combinations—Identifiable Assets and Liabilities, and Any Noncontrolling Interest. The Board concluded that grant-related assets would not be challenging or costly to identify or measure in accordance with that guidance.

BC55. The Board noted that recognizing and measuring government-grant-related liabilities at fair value in accordance with Subtopic 805-20 may be challenging because government grants are not transactions with market participants. Therefore, the Board decided to propose specific guidance for the recognition and measurement of government-grant-related liabilities assumed in a business combination.

BC56. An acquirer that assumes government-grant-related liabilities in a business combination would need to determine whether to recognize (a) deferred income in accordance with Topic 832 or (b) a liability to repay government grant proceeds that have been received. The Board decided that an acquirer should recognize deferred income in accordance with Topic 832 if, at the acquisition date, the entity has not fully complied with the conditions of a grant related to income and it is probable that the conditions of the government grant will be satisfied, in accordance with paragraph 832-10-25-1. Under the amendments in this proposed Update, the deferred income amount recognized by the acquirer would likely be the same as the deferred income amount recognized by the acquiree immediately before the acquisition date. However, if the acquirer believes that it will have to pay back any portion of government grant proceeds that were previously received by the acquiree, the acquirer would be required to recognize a liability related to that repayment at the acquisition date. The Board noted that in those situations, the acquirer should recognize and measure that liability to repay the grant proceeds in accordance with Topic 450. The Board acknowledged that there may be other types of liabilities (not related to repayment of the government grant proceeds) that directly or indirectly relate to an acquired government grant at the acquisition date. All other types of liabilities (not related to the repayment of government grant proceeds) should be accounted for in accordance with Topic 805 at the acquisition date.

BC57. The Board concluded that providing specific guidance for government-grant-related liabilities assumed in a business combination would reduce cost and complexity for preparers, while also reducing diversity in practice.

Private Company Considerations

BC58. The Board decided not to propose alternative accounting requirements for nonpublic business entities. The Board considered the *Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies,* and consulted with the Private Company Council (PCC). The Board concluded through discussions with the PCC that users of financial statements of nonpublic business entities have many of the same needs for decision-useful information about government grants as investors in public business entities. In addition, stakeholder feedback received cited the need for consistent accounting guidance for all business entities. Therefore, the Board concluded that the proposed recognition, measurement, and presentation guidance would provide investors with decision-useful information in a cost-effective manner for both public business entities and nonpublic business entities.

Effective Date and Transition

BC59. The Board decided that the amendments in this proposed Update should be applied either (a) prospectively to government grants that either are incomplete or are entered into after the effective date or (b) retrospectively through a cumulative-effect adjustment to the opening balance of retained earnings at the beginning of the earliest period presented.

BC60. A complete government grant is a grant for which all proceeds have been previously recognized in accordance with current guidance before the effective date of the amendments in this proposed Update. For a grant related to an asset that was accounted for by reflecting the grant in determining the carrying amount of the asset, government grant proceeds are considered recognized when the grant is reflected in the carrying amount of the asset on the balance sheet. For all other government grants, grant proceeds are considered recognized when all of the proceeds related to the grant have been recognized in the income statement.

BC61. Under prospective application, no prior-period results would be restated, and there would be no cumulative-effect adjustment to the opening balance of retained earnings at the beginning of the year of adoption of the amendments in this proposed Update. However, the Board decided to require certain disclosures in accordance with Topic 250. An entity would be required to disclose the nature of and reason for the accounting change. The Board decided that applying the proposed amendments prospectively to a government grant that is not complete and a government grant entered into after the effective date would provide comparable information in a cost-effective manner.

BC62. The Board considered that some entities may prefer to apply the amendments in this proposed Update retrospectively so that similar government grants are accounted for consistently. The Board therefore decided to permit, but not require, retrospective application of the proposed amendments. Under retrospective application, an entity would recognize a cumulative-effect adjustment to the opening balance of retained earnings at the beginning of the earliest period presented. The opening adjustment to retained earnings would capture the effect on retained earnings for all previously existing government grant arrangements. Furthermore, the entity would restate the financial results for all years presented to reflect the effect of the proposed amendments.

BC63. The Board will determine the effective date and whether early application should be permitted after it considers stakeholder feedback on the amendments in this proposed Update.

Comparison with IFRS Accounting Standards

BC64. In April 2001, the International Accounting Standards Board (IASB) adopted IAS 20, which had originally been issued by the International Accounting Standards Committee (IASC) in April 1983. The recognition, measurement, and presentation guidance in IAS 20 applies only to government grants, while the disclosures in IAS 20 are required for both government grants and other forms of government assistance.

BC65. The amendments in this proposed Update and the requirements in IAS 20 are broadly similar. Differences in disclosures between IAS 20 and Update 2021-10 are discussed in the basis for conclusions of that Update. The following are some key differences between the proposed amendments and IAS 20.

a. Scope. The proposed amendments would apply to a smaller population of government grants than government grants as defined by IAS 20. For example, the scope of IAS 20 includes the benefit of a below-market interest rate loan, which is not within the scope of the proposed amendments.
b. Recognition Threshold. The proposed amendments would require recognition based on an assessment of whether the criteria are *probable* of being met. IAS 20 requires an entity to assess whether there is *reasonable assurance* that the criteria will be met.

Among other differences, the proposed amendments describe and refine certain IAS 20 presentation alternatives as recognition alternatives.

Alternative Views

BC66. Dr. Botosan, Dr. Joseph, and Mr. Cannon disagree with the issuance of the amendments in this proposed Update.

BC67. Dr. Botosan agrees that the lack of GAAP for government grants received by business entities and the resulting noncomparability in the financial reporting of such grants are problems that must be addressed. However, Dr. Botosan does not agree that the Board's proposal to subsume IAS 20 into GAAP with minor modifications is an appropriate solution.

BC68. Dr. Botosan believes that subsuming into GAAP a deficient standard that violates the FASB's Conceptual Framework and codifies widespread diversity in practice is contrary to the FASB's mission. IAS 20 is an old standard based on out-of-date principles. It was issued by the IASC in 1983 not to improve financial reporting, but to codify existing international diversity in practice.

BC69. IAS 20 violates important aspects of the FASB's Conceptual Framework—specifically, the liability definition and the recognition principles that the Board recently agreed to in Chapter 4, which was issued in December 2021, and Chapter 5, *Recognition and Derecognition*, issued in August 2023, of Concepts Statement 8. When, under the proposed deferred income approach, a deferred grant liability continues to be recognized after the conditions of the grant are met, the Board violates its liability definition because no present obligation to transfer an economic benefit exists. And when a granted asset is not recognized under the proposed cost accumulation approach, the Board violates its principles of recognition because an asset exists that (a) meets the definition of an element, (b) is measurable and has a relevant measurement basis, which investors have said is fair value, and (c) can be depicted and measured with faithful representation.

BC70. In addition, in Dr. Botosan's view, the amendments in this proposed Update are completely unresponsive to investors' needs and feedback.

a. Investors requested gross presentation on the balance sheet and the income statement. The proposed amendments allow for net presentation on both the balance sheet and the income statement.
b. Investors requested that a granted asset be measured at fair value. Under the proposed cost accumulation approach, a granted asset is not

measured at fair value but at fair value less grant income, which may result in the granted asset being measured at zero or a nominal value.

c. Investors requested that optionality be reduced and comparability be increased. The proposed amendments codify almost all the existing diversity in practice and do almost nothing to enhance comparability.
d. Investors requested that all grants be accounted for similarly. Under the proposed amendments, financial reporting would vary by type of grantor (government versus nongovernment entity), by type of grantee (business versus NFP), and by type of grant (asset versus income grant).
e. Investors requested that all grants to business entities be accounted for using the same model. The proposed amendments provide for at least five different models:
    1. The cost accumulation approach for asset grants from government entities
    2. The deferred income approach for asset grants from government entities
    3. The net expense presentation approach for income grants from government entities
    4. The gross presentation approach for income grants from government entities
    5. The Subtopic 958-605 approach for grants from nongovernment entities.
f. Investors requested sufficient information in the period of the grant and on an ongoing basis to (1) address the noncomparability that would persist under the proposed amendments and (2) understand the effects of government grants on expected cash flows. For a grant of a tangible nonmonetary asset accounted for under the cost accumulation approach, this would include, at a minimum, disclosure in the period of the grant and on an ongoing basis of the asset's grant-date fair value as well as the disclosures required by paragraph 832-10-50-3(c). However, the Board decided not to require disclosure of the asset's grant-date fair value on an ongoing basis. In addition, the Board decided to exempt asset grants accounted for under the cost accumulation approach from the disclosures required by paragraph 832-10-50-3(c) on an ongoing basis. Consequently, under the proposed amendments investors would not receive the information necessary to address the noncomparability problem or understand the longer term effects of government grants on expected cash flow.

BC71. Dr. Botosan agrees that creating a new model to account for government grants would not be cost beneficial. She also believes that doing so would be unnecessary because existing GAAP includes a model in Subtopic 958-605 that already applies to grants that business entities receive from nongovernment entities and is superior in all respects to the IAS 20 model. Therefore, Dr. Botosan would prefer to address the lack of GAAP for government grants received by business entities by extending to those grants the Subtopic 958-605 model that business entities apply to grants from nongovernment entities.

BC72. Under Subtopic 958-605, business entities recognize a grant from a nongovernment entity in income when the conditions of the grant have been substantially met or explicitly waived. In Dr. Botosan’s view, this approach would better reflect the economics of a grant that is received, whether it is received from a government or nongovernment entity, or the recipient is a business or a nonbusiness entity, or it pertains to an asset or income item. This approach, which is conceptually a performance obligation approach, is more aligned than the proposed IAS 20 approach with income recognition under Topic 606 and Subtopic 610-20. In addition, Subtopic 958-605 was updated and strengthened by the Board as recently as 2018. In addition, unlike the proposed IAS 20 approach, Subtopic 958-605 does not result in the creation of liabilities that violate the Board’s liability definition and does not result in the nonrecognition of assets in violation of the Board’s recognition principles. In addition, the Subtopic 958-605 approach would be responsive to investors’ needs and feedback.

a. Investors requested gross presentation on the balance sheet and the income statement. Subtopic 958-605 requires gross presentation on both the balance sheet and the income statement.
b. Investors requested that a granted asset be recognized and measured at fair value. Subtopic 958-605 requires that a granted asset be recognized and measured at fair value.
c. Investors requested that optionality be reduced and comparability be increased. Subtopic 958-605 would eliminate the existing diversity in practice and enhance comparability.
d. Investors requested that all grants be accounted for similarly. Under Subtopic 958-605, all grants received by business entities would be accounted for similarly and the accounting for grants would be agnostic to the type of grantor, type of grantee, and type of grant.

e. Investors requested that all grants be accounted for using one model. Under Subtopic 958-605, all grants would be accounted for under one model.
f. Investors requested sufficient information in the period of the grant and on an ongoing basis to understand the effects of government grants on expected cash flow. The recognition and measurement provisions of Subtopic 958-605 combined with existing Topic 832 disclosures would address that need.

BC73. Dr. Botosan generally supports convergence with international accounting standards because global comparability benefits investors. In this case, however, the extensive optionality in IAS 20 yields global noncomparability. Thus, in Dr. Botosan's view, the claim that the amendments in this proposed Update would benefit investors that compare entities globally is mistaken.

BC74. The majority posit that permitting optionality in the financial reporting of government grants to business entities would allow entities to better reflect the economics of the grant and the effect of the grant on the entity. Dr. Botosan generally supports optionality when necessary to better convey economic differences because doing so aids comparability. For example, Dr. Botosan agrees with the economic rationale in the basis for conclusions of FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, that the option to measure certain financial assets and liabilities at fair value enables entities to better reflect in income differential exposure to economic volatility. In this case, however, an economic rationale for the proposed optionality is not provided. Neither the nature of the economic differences that necessitates the proposed optionality nor how that optionality would be utilized to better reflect those differences is explained. In Dr. Botosan's view, the economic rationale is missing because it does not exist. Instead, the proposed optionality would harm comparability by providing entities with a free choice among alternatives untethered to any true economic differences.

BC75. In paragraph BC37, the Board notes that recognizing a grant related to an asset using the cost accumulation approach is consistent with the preferred approach to account for an investment tax credit in Topic 740 (originally included in Opinion 2). Dr. Botosan notes, however, that this guidance also allows an investment tax credit to be recognized in earnings as a reduction of federal income taxes in the period in which the credit arises, under the flow-through method. This outcome would be more consistent with the outcome produced by application of Subtopic 958-605. Thus, either the Board's IAS 20 approach or Dr. Botosan's preferred approach can be deemed to be "consistent" with the guidance in Opinion 2. That said, Dr. Botosan is skeptical that a standard-setting decision from 1962, before the existence of the FASB, its Conceptual Framework, or a decision-usefulness objective for financial reporting, provides a sound foundation for modern-day standard-setting decisions.

BC76. In closing, Dr. Botosan believes that the long-term expected cost of incorporating into GAAP IAS 20's unnecessarily complex accounting, which produces nonconceptual, noncomparable, non-decision-useful information to the detriment of investors, would grossly exceed any short-term implementation cost savings from allowing business entities to continue to apply IAS 20 as modified by the amendments in this proposed Update.

BC77. Dr. Joseph and Mr. Cannon do not support issuing the amendments in this proposed Update without including disclosures requested by investors to (a) understand the ongoing operating margins and potential future cash flows of business entities with and without the government grants and (b) compare business entities that use the different options allowed under the proposed amendments. Dr. Joseph and Mr. Cannon are supportive of the proposed amendments with adequate disclosures because they believe that the lack of GAAP for government grants that are received by business entities is important to address and that the proposed amendments, even with their optionality, would provide benefits that would justify the expected costs.

BC78. Direct government grants to business entities have increased this decade because of pandemic subsidies and the Inflation Reduction Act of 2022, as well as growing local government support for business entities to achieve public policy outcomes. As a result, investor experience with the impact of government grants on financial statements has increased. In the view of Dr. Joseph and Mr. Cannon, investors supported the gross presentation approach because it would provide the greatest transparency and could be adjusted to a cost accumulation, or net approach, as necessary. Furthermore, gross presentation, as their desired single approach, would provide investors with consistency in the reported information across business entities. Barring transparent and consistent application of gross presentation, investor analysis is obscured. This can create additional costs for investors as they attempt to create analytical adjustments to the GAAP reported amounts with inadequate information or are entirely unable to adjust. That may introduce unnecessary assumptions and estimations or incompleteness into their analyses of grant assets and income.

BC79. Investors need the tools necessary to understand the impact of government grants on operating metrics. Dr. Joseph and Mr. Cannon believe that the disclosure package proposed by the staff, but rejected by the Board, would have provided those tools (see paragraph BC52). The staff's proposed disclosures of government grants accounted for under the cost accumulation approach would have allowed investors to monitor the impact of government grants on operating margins on an ongoing basis. Under the cost accumulation approach, operating margins do not reflect the depletion of assets received as government grants, thus inflating the operating margins and return on assets. Those margins are unsustainable if further government grants are not received to replace those assets. Investors need to know what the operating margins would have been without the government grant to understand the sustainability of operating margins, a critical metric in analyzing future cash flows.

BC80. Under the cost accumulation approach, the return on assets metric would not reflect those assets being used in business entities' operations. Those tangible nonmonetary assets would require ongoing maintenance expenditures and eventually will become obsolete, and a future capital outlay may be required. However, without transparent disclosures as proposed by the staff, an investor may not be aware of the existence of the asset in business entities' operations. The staff's proposed disclosures would have required business entities to show the depletion of the government grant assets they receive, allowing investors to understand operating margins and return on assets with and without the government grant. Those disclosures are not available from other sources and, in the views of Dr. Joseph and Mr. Cannon, are not "hypothetical" or "pro forma" because business entities are required to provide the fair value of government grants for tangible nonmonetary assets under the amendments in this proposed Update in the year of the government grant and because those entities should understand their useful lives. Furthermore, Dr. Joseph and Mr. Cannon believe that these disclosures are best practice today and that a number of firms provide the information to their investors based on their understanding of current disclosure requirements.

BC81. Since Topic 832 became effective for annual periods beginning after December 15, 2021, disclosure of the nature of the government assistance, related accounting policies, and the effect on financial statement amounts are required disclosures. Notably, the line items on the balance sheet and income statement that are affected by transactions and the amounts applicable to each financial statement line item in the *current reporting period* are required to be reported. As stated in paragraph BC46 of this proposed Update, investors support the current disclosure requirements in Topic 832 because they provide decision-useful information about the effect of a government grant on a business entity's financial statements. However, the proposed amendment in paragraph 832-10-50-3A changes the frequency of the existing disclosure whereby entities would be required to disclose the requirements in paragraph 832-10-50-3(c) only *in the period in which the government grant is recognized.* Dr. Joseph and Mr. Cannon view the staff's recommended disclosures that were excluded from the proposed amendments as *clarifying*—not altering—the existing Topic 832 disclosure requirements. Currently, there are preparers providing balance sheet and income statement line-item amounts when the cost accumulation approach is applied that demonstrate operability and best practices. Therefore, in Dr. Joseph's and Mr. Cannon's view, excluding the staff's disclosure recommendations from the proposed amendments could potentially result in a loss of information due to reduced transparency for investors' future cash flow projections and comparative business analyses.

BC82. In conclusion, Dr. Joseph and Mr. Cannon believe that it was critical to include the staff's recommended disclosures in the amendments in this proposed Update because they would provide information necessary for investors to forecast future cash flows. Specifically, the proposed amendments should have included the staff's proposed disclosures that would reflect in *each reporting period* (a) the amount of the grant that was recognized as a reduction of the value of the asset and the related balance sheet line item, (b) the amount by which income statement line items, including depreciation expense, would have been different without the grant, and (c) the grant-date fair value of tangible nonmonetary asset government grants accounted for under the cost accumulation approach. Including those staff-recommended disclosures in the proposed amendments would have allowed investors to provide input on their efficacy and preparers to provide input on their operability. Without inclusion of those disclosures in this proposed Update, Dr. Joseph and Mr. Cannon cannot support its issuance.

Amendments to the GAAP Taxonomy

The provisions of this Exposure Draft, if finalized as proposed, would require improvements to the GAAP Financial Reporting Taxonomy and SEC Reporting Taxonomy (collectively referred to as the “GAAP Taxonomy”). We welcome comments on these proposed improvements to the GAAP Taxonomy at xbrled@fasb.org. After the FASB has completed its deliberations and issued a final Accounting Standards Update, the proposed improvements to the GAAP Taxonomy will be finalized as part of the annual release process.