ILLINOIS CPA SOCIETY

September 12, 2022

Technical Director
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

File Reference No. 2022-002

The Accounting Principles Committee of the Illinois CPA Society ("Committee") appreciates the opportunity to provide its perspective on the *Invitation to Comment—Accounting for Government Grants by Business Entities: Potential Incorporation of IAS 20, Accounting for Government Grants and Disclosure of Government Assistance, into Generally Accepted Accounting Principles*. The Committee is a voluntary group of CPAs from public practice, industry, and education. Our comments represent the collective views of the Committee members and not the individual views of the members or the organizations with which they are affiliated. The organization and operating procedures of the Committee are outlined in Appendix A to this letter.

Question 1 (**All Respondents**): *GAAP does not have specific topical authoritative guidance on the accounting for government grants by business entities. Should the FASB consider incorporating into GAAP the guidance in IAS 20 as it relates to the accounting for government grants? If yes, what aspects of IAS 20 related to recognition, measurement, and/or presentation should be incorporated and why?*

> We believe the Board should incorporate the recognition and measurement provisions of IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, into the Accounting Standards Codification. In the absence of GAAP on accounting for governmental assistance programs, many entities have analogized to IAS 20 and therefore are already familiar with that standard. We believe the scope of IAS 20 is operational.

Question 2 (**Preparers/Practitioners**):

a. *What type of government grants do you (or the companies you audit) receive?*

> The Committee members have typically seen government grants in the form of forgivable loans and grants to reimburse costs for assets or employees.

b. *How do you (or the companies you audit) recognize, measure, and present government grants received? Do you (or the companies you audit) apply IAS 20 by analogy or another model?*

> Most Committee members have seen entities apply IAS 20 to governmental grants; however, members have also seen entities apply ASC 470-50 to Paycheck Protection Plan loans and recognize the benefit of the loan in income when the obligation to repay has been extinguished.

c. *What issues or challenges, if any, have arisen (or do you anticipate would arise) in the application of IAS 20 as it relates to government grants?*

We believe the primary issue that will arise in applying the guidance in IAS 20 is determining if there is "reasonable assurance" that the recipient will comply with the conditions in the grant. IAS 20 does not provide guidance on when a recipient has "reasonable assurance" that it will comply with the conditions in the grant or the probability threshold implied by "reasonable assurance".

Question 3 (**Investors**): N/A

Question 4 (**All Respondents**): *Is the definition of the term government in IAS 20 understandable and operable, and if not, what changes would need to be made to make it operable?*

Yes, we believe the definition of the term government in IAS 20 is both understandable and operable.

Question 5 (**Preparers/Practitioners**): *What operability or auditing concerns or constraints, if any, have arisen (or do you anticipate would arise) in applying both of the following:*

a. The definition of government grants (paragraph 3 of IAS 20)

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

The Committee members have generally not experienced operability or auditing concerns or constraints relating to the definition of government grants or scope exceptions in IAS 20.

Question 6 (**Preparers/Practitioners**): *Are there challenges associated with determining whether certain forms of government assistance cannot reasonably have a value placed upon them? Please describe. Could those challenges be overcome with the use of examples?*

The Committee is not aware of challenges in determining a value associated with a government grant and expects those situations to be rare in practice.

Question 7 (**Preparers/Practitioners**): *Is the guidance clear and understandable on how to determine when a transaction with a government cannot be distinguished from the normal trading transactions of an entity? Could those challenges be overcome with the use of examples?*

The Committee is not aware of issues regarding distinguishing when a transaction with a government is in the normal course of business for that entity.

Question 8 (**Investors**): N/A

Question 9 (**Preparers/Practitioners**): *Are the recognition and measurement requirements in paragraphs 7–22 of IAS 20 operable and understandable? Please describe the nature and magnitude of costs and any operability or auditing concerns on applying those requirements, differentiating between one-time costs and recurring costs.*

As noted above, we believe applying the guidance in paragraph 7(a) of IAS 20 (reasonable assurance that the recipient will comply with the conditions of the grant) will present operability and auditability concerns, depending on how the Board decides to define "reasonable assurance".

Question 10 (**Preparers/Practitioners**): *Is the guidance operable in paragraph 19 of IAS 20 on identifying the conditions that give rise to costs and expenses to determine the periods over which a grant will be earned? Please explain why or why not.*

The Committee believes the guidance in paragraph 19 of IAS 20 is operable and agrees that the period over which a grant is recognized may differ from the period over which other grants received as part of a package of governmental grants are recognized and that such determination should be made based on the specific terms of the grants.

Question 11 (**Preparers/Practitioners**): *Should there be different accounting requirements for grants related to assets and grants related to income? If yes, is the distinction between the types of grants clear?*

The Committee believes the framework provided in IAS 20 regarding the accounting for grants related to assets and grants related to income is operable yet flexible for preparers to apply to their specific government grants depending upon their nature.

Question 12 (**Preparers/Practitioners**): *What are the challenges, if any, associated with determining the timing and pattern of the recognition of a government grant, or what do you anticipate they would be? Please explain.*

Challenges associated with timing of recognition of government grants includes an entity's ability to assert they have met or will meet the "reasonable assurance" threshold for reporting periods in the future. For instance, some grants contain claw-back provisions which require an entity to repay the grant if that entity fails to employ an average or minimum number of employees over a specified period into the future. Those periods may extend several years, and an entity's ability to assert it is reasonably assured (depending on how the Board defines that term) they will be able to meet those conditions require careful consideration of the grant provisions, entity specific factors, and external factors, some of which may be outside the entity's control. In those situations, the entity may conclude it cannot assert it is reasonably assured the grant conditions will be met until all contingencies are resolved, and therefore defer recognition of the grant proceeds until such time. That treatment seems inconsistent with the guidance in paragraph 12 of IAS 20, which requires the entity recognize the effects of the grant in the same periods in which it recognizes the costs for which the grant is intended to compensate.

Question 13 (**Preparers/Practitioners**):
a. *The term reasonable assurance is not defined in IAS 20. How is the application of reasonable assurance interpreted in practice or how do you anticipate the application would be interpreted in practice? Do you have concerns about the operability of determining reasonable assurance?*
Please explain.

We do have concerns about the operability and auditability of determining when an entity has reasonable assurance it will comply with the conditions in a grant. It is the Committee's experience that "reasonable assurance" is generally considered analogous to "probable" in US GAAP. Because reasonable assurance is not defined in US GAAP, that term may be interpreted differently in practice. Accordingly, we encourage the Board to either define that term or incorporate a threshold already in existence in US GAAP, such as "probable." Furthermore, as noted in our response to question 12 above, some entities may conclude it is not probable grant conditions will be met until all contingencies are resolved, thereby deferring recognition of grant proceeds until such time as compliance with the conditions is deemed to be probable, which may not correspond with the underlying costs or expenses recognized by the entity for which the grant relates to. The Board may want to consider if this "point in time" recognition is appropriate.

b. *Topic 606, Revenue from Contracts with Customers, indicates that one of the criteria that must be met for an entity to account for a contract with a customer is that it is probable that the entity will collect substantially all the consideration to which it will be entitled in exchange for the goods or services that will be transferred* *to the customer (see paragraph 606-10-25-1(e)). Would a similar probability threshold as that noted in paragraph 606-10-25-1(e) be a workable solution to apply the guidance in either paragraph 7(a) or 7(b) of IAS 20 for determining reasonable assurance?*

The Committee does not believe a similar probability threshold noted in paragraph 606-10-25-1(e) should be applicable to transactions within the scope of IAS 20. We note the purpose of the criteria in ASC 606-10-20-1 is to require an entity to assess whether a contract, as defined in ASC 606, exists, and represents a valid transaction. More specifically, the collectability criterion assesses if the customer has the ability and intention to pay the promised consideration. Government grants are uniquely different from commercial transactions between a customer and an entity because they are typically provided under specific laws and/or statues which obligate the government entity to pay the promised consideration if the specified criteria are met.

Question 14 (**Investors**): N/A

Question 15 (**Investors**): N/A

Question 16 (**Preparers/Practitioners**): *Which measurement approach has been applied (or do you anticipate would be applied) to account for nonmonetary government grants received? If only one measurement approach was permitted, which measurement approach would you prefer?*

The Committee supports one measurement approach to nonmonetary government grants which is the fair value model.

Question 17 (**Investors**): N/A

Question 18 (**Preparers/Practitioners**): *For grants related to assets and grants related to income, which presentation requirements have been applied or do you anticipate would be applied given the option to elect gross or net presentation? Please explain why. Are grants related to assets fundamentally different than grants related to income since acquired assets are recorded on a cost-accumulated basis?*

We believe the Board should narrow the options available for the presentation of the grant. If the grant relates to an asset, the Committee believes the grant should be recognized as a reduction of the cost of the asset to which the grant relates. The Committee believes grants related to expenses should be presented as a reduction in the cost to which the grant relates, either when the cost is recognized or, if later, when the entity concludes that compliance with the conditions of the grant is reasonably assured. We believe narrowing the presentation options will facilitate comparability between similarly situated companies.

Generally, in practice we have seen entities apply net presentation for grants related to assets versus gross presentation because the net cost capitalized for the acquired asset is considered the actual economic cost incurred by the entity. Furthermore, we note the net presentation for US GAAP purposes would align to the deferral method allowable under ASC 740-10-25-45 and 46 for investment tax credits related to depreciable assets.

Question 19 (**Preparers/Practitioners**): *IAS 20 does not provide guidance on where in the statement of cash flows an entity should present the cash inflows from the receipt of cash grants. How are government grants presented in the statement of cash flows or how do you anticipate they would be presented?*

The Committee believes the presentation of cash flows from government grants should follow the nature of the grant. For example, grants received in the form of forgivable loans, should be reflected in financing cash flows, grants received for assets, regardless of the gross versus net presentation should be reflected as investing cash flows, and grants received for income, should be reflected as operating cash flows.

Question 20 (**Investors**): N/A

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

The Committee believes the guidance on forgivable loans is clear and understandable, subject to our prior comments about interpreting when compliance with the conditions of a grant is "reasonably assured."

Question 22 (**Investors**): N/A

Question 23 (**Preparers/Practitioners**):
a. *Should the FASB consider making changes to GAAP that would require the benefit of a below-market interest rate loan from a government to be accounted for as a government grant, similar to the guidance in IFRS 9?*

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

c. *If the FASB requires recognition of the benefit of a below-market interest rate loan from the government, should such accounting be extended to other forms of government lending such as government guarantees and/or government-facilitated lending programs?*

The Committee believes the Board should require loans with a below market interest rate that qualify as a government grant be recognized at fair value, with the difference between the loan proceeds and the fair value of the loan recognized under the guidance applicable to government grants, as is the case in IAS 20.

Question 24 (**Investors**): N/A

Question 25 (**Preparers/Practitioners**):
a. *What issues or challenges, if any, have arisen (or do you anticipate would arise) when accounting for contingent assets and/or contingent liabilities relating to government grants in applying IAS 37?*
b. *What issues or challenges, if any, have arisen (or do you anticipate would arise) when accounting for contingent assets and/or contingent liabilities relating to government grants in applying Topic 450 instead of IAS 37?*

We do not believe there would be significant issues or challenges in accounting for contingencies associated with government grants. We believe the guidance in ASC 450 is well understood in practice. While there is a higher threshold for recognition of a liability under ASC 450 than under IAS 37, we do not believe that is an issued or a challenge in applying the guidance.

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

b. *What issues or challenges, if any, have arisen (or do you anticipate would arise) when accounting for a repayment of a government grant by applying Subtopic 250-10 (instead of IAS 8)?*

The Committee has not experienced this situation.

*   *   *   *   *   *

We appreciate the opportunity to provide our comments and observations on the Invitation to Comment and would be pleased to discuss them with the Board members or the FASB staff at your convenience.

Sincerely,

Matt Mitzen, CPA
Chair, Accounting Principles Committee

Jason Plourde, CPA
Vice Chair, Accounting Principles Committee

APPENDIX A
ACCOUNTING PRINCIPLES COMMITTEE
ORGANIZATION AND OPERATING PROCEDURES
2022-2023

The Accounting Principles Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from industry, education, and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of accounting standards. The Committee's comments reflect solely the views of the Committee and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to fully study and discuss exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed, and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

Public Accounting Firms:

Large: (national & regional)

Ryan Brady, CPA	Grant Thornton LLP
Ashley Carboni, CPA	KPMG LLP
Michael Couillard, CPA	Baker Tilly US, LLP
Matthew Denton, CPA	Sikich LLP
Jason Eaves, CPA	Crowe LLP
William Keirse, CPA	Ernst & Young LLP
Daniel Lisella, CPA	BDO USA, LLP
Melissa Lynch, CPA	Plante Moran, PLLC
Reid Mitchell, CPA	Wipfli LLP
Jason Plourde, CPA (Vice-Chair)	Grant Thornton LLP
Darshana Raigaga, CPA	PriceWaterhouseCoopers LLP
David Wentzel, CPA	Crowe LLP

Medium: (more than 40 professionals)

Kelly Buchheit, CPA	Ostrow Reisen Berk & Abrams, Ltd.
Danielle Martin, CPA	Porte Brown LLC
Jennifer Cataldo, CPA	Miller Cooper & Company Ltd

Small: (less than 40 professionals)

Peggy Brady, CPA	Selden Fox, Ltd.
Brian Kot, CPA	Cray Kaiser Ltd CPAs
Matt Mitzen, CPA (Chair)	Bronswick Benjamin P.C.

Educators:

John Hepp, CPA	University of Illinois at Urbana-Champaign

Industry:

John Becerril, CPA	Elkay Manufacturing
Jeffrey Ellis, CPA	FTI Consulting, Inc.
Thomas Masterson, CPA	Medix
Lisa Sezonov, CPA	Northern Trust
Richard Tarapchak, CPA	Verano
William Wang, CPA	Union Tank Car Company

Staff Liaison:

Paul Pierson, CPA	Illinois CPA Society