

March 19, 2025

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

File Reference No. 2024 - ED700

Dear Mr. Day:

RSM US LLP is pleased to provide feedback on the Financial Accounting Standards Board's (FASB or Board) proposed Accounting Standards Update (ASU), *Government Grants (Topic 832): Accounting for Government Grants by Business Entities* (proposed Update or proposal).

We support the Board's proposal and efforts to establish authoritative guidance regarding the accounting for government grants received by business entities. We believe the proposed guidance is clear, operable and auditable as evidenced by the fact that it generally aligns with International Accounting Standard (IAS) 20, *Accounting for Government Grants and Disclosure of Government Assistance*, which has been applied in practice for many years. However, as we discuss below, we believe the Board should remove some of the optionality from the proposed Update to achieve greater comparability across entities. We acknowledge that this would create a divergence between International Financial Reporting Standards (IFRS) and U.S. generally accepted accounting principles (GAAP); however, given the optionality permitted under IAS 20, we do not believe convergence with IFRS would increase comparability. We would therefore recommend prioritizing comparability across entities that apply U.S. GAAP.

Our responses to the questions posed in the proposed Update, other than those specifically directed solely at investors or preparers, are included in the remainder of this letter.

Responses to Questions for Respondents

Question 1

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

We believe the proposed scope is understandable and operable. We agree that the scope should not include not-for-profit entities, as there is existing guidance for government grants received by these entities codified in Topic 958, *Not-for-Profit Entities*. We concur with the Board's decision to exclude employee benefit plans, as these entities do not generally receive significant government grants.

We also believe the population of government grants included in the scope of the proposed amendments is appropriate. However, we note that there are situations in which business entities, particularly start-up enterprises, may receive grants from not-for-profit entities. Given that there is currently no authoritative

guidance on this topic, we would suggest that the Board consider expanding the scope of the proposal to include these types of grants.

We agree with the Board's decision to exclude intangible assets, as we believe this would be inoperable given the broad range of resources that could be considered intangible assets provided by a government. We further agree with the exclusion of exchange transactions and transactions within the scope of Topic 740, *Income Taxes*, as we believe existing guidance is sufficient for the accounting and reporting of these transactions.

Finally, we understand that the Board decided to exclude the benefit of below-market interest rate loans from the scope of the amendments in the proposed Update because they do not meet the definition of a government grant, and the Board believes inclusion of such arrangements could introduce additional cost and complexity for business entities that receive such loans and guarantees. However, we observe that below-market interest rate loans are common among not-for-profit entities and the accounting for these arrangements has not caused undue cost or complexity for those entities. Accordingly, we suggest that the Board consider incorporating the guidance applied by not-for-profit entities, as described in *AICPA Audit and Accounting Guide-Not-For-Profit Entities*, paragraphs 5.170 through 5.172, to any proposed amendments that may be codified.

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.

We believe the proposed amendments are generally clear, operable and auditable. We agree with the use of the probable threshold as opposed to "reasonable assurance," given that probable is a term and concept that is understood in practice and aligns with language used elsewhere in U.S. GAAP; however, we recommend adding additional implementation guidance for the assessment of probability when evaluating the accounting for grants that rely on qualifying expenses.

Example 2 in the proposed Update appears to imply that qualifying expenses must be incurred for the entity to determine that it is probable the grant will be received. It is unclear if that is the Board's intention. To clarify how the probability threshold should be assessed in these circumstances, we recommend that the Board expand Example 2 to include factors considered in reaching this conclusion. Additionally, we recommend adding another example that illustrates a scenario where it would be reasonable to conclude the expenses are probable of being incurred and, therefore, the related grant is probable of being received and should be recognized before the related expenses are actually incurred.

For instance, consider an entity that receives a recurring annual grant and has a history of incurring qualifying expenditures and receiving reimbursement for the maximum allowable amount under the grant. Should the correct application of paragraph 832-10-25-1 result in the entity recognizing income when the grant is awarded, based on the reasonable assumption that it is probable the entity will incur future qualifying expenses and consequently receive reimbursement payments? If this interpretation is correct, it would be helpful to include such an example in the final ASU.

Alternatively, to establish more objective criteria that could be consistently applied across entities, we would also support establishing guidance that cost-reimbursement type grants should not be recognized as income prior to the related expenses being incurred.

Question 3

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

We believe the distinction between the types of grants is clear. However, because the proposed Update would permit a grant related to an asset to be accounted for under the same deferred income approach applied to grants related to income or under the proposed cost accumulation model, we do not believe that distinguishing between grants related to assets and grants related to income will result in decision-useful information. If this distinction is important to investors and any final ASU retains the different accounting requirements for a grant related to an asset and a grant related to income, we recommend that the Board select one alternative for accounting for a grant related to an asset and eliminate the optionality currently proposed (please refer to our response in Question 4 below for additional discussion). The multiple alternatives add unnecessary complexity, and we believe this would result in inconsistent application of the proposed guidance and a lack of comparability across entities.

Question 4

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

- a. Is the deferred income approach operable and understandable? Please explain why or why not.
- b. Is the cost accumulation approach operable and understandable? Please explain why or why not.
- c. Should there be two approaches to account for a grant related to an asset? Please explain why or why not. If not, what approach do you prefer?
- d. Should there be separate recognition or presentation requirements (and implementation guidance) for a grant related to a nondepreciable asset (for example, land)? If yes, should the guidance align with IAS 20 or would you suggest an alternative approach and why?

We believe that both the deferred income approach and the cost accumulation approach are operable and understandable. Both approaches are currently used by entities that apply IAS 20 and there have not been significant difficulties in practice when applying either approach. However, as noted in our response to Question 3, we do not believe there should be two approaches to account for a grant related to an asset. We would prefer the deferred income approach, as we believe it leads to greater transparency. We also note that the application of the cost accumulation approach could result in the same assets being capitalized at different amounts depending solely upon the source of funding. This may lead investors to have an inaccurate understanding of the cost amounts attributable to each of the major categories of property, plant and equipment. If the Board decides to require application of the deferred income approach, we believe there should be separate recognition and presentation requirements for nondepreciable assets to avoid the creation of a perpetual liability, absent a future impairment event.

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?

Yes, we believe a business entity should 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. We understand this is the intention of the Board in the proposed Update; however, we note that while the discussion of the deferred income approach for a grant related to an asset describes recording the grant as deferred income on the balance sheet (proposed paragraph 830-10-25-5(a)) and then how this deferred income would be recognized into income, this is not explicitly noted for a grant related to income. Accordingly, we suggest amending the guidance in paragraph 832-10-5-9 on grants related to income to clarify that the amount of the grant would first be deferred before describing how it would be recognized into income.

Additionally, we have encountered government grants that are awarded after all costs have been incurred, which may be in a subsequent reporting period. In such cases, we believe the entire amount of the grant should be recognized in income immediately. If the Board agrees, we suggest clarifying this accounting through additional guidance or illustrating the concept with an example.

Question 6

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

We believe a business entity should be required to initially measure a government grant of a tangible nonmonetary asset at fair value, regardless of the approach selected. We believe this would result in greater comparability across entities and is consistent with how receipt of nonmonetary assets is measured under Topic 845, *Nonmonetary Transactions*; Topic 805, *Business Combinations*; and Topic 606, *Revenue from Contracts with Customers*.

Question 7

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

We believe the proposed amendments are clear, operable and auditable. However, as noted in our response to Question 5, we have encountered government grants that are awarded after all costs have been incurred, which may be in a subsequent reporting period. In these scenarios, deducting the grant from the related expense within earnings would not be feasible. We believe the Board should address how this scenario should be presented in earnings when option (b) is elected. Further, we recommend that a single approach be required when presenting the earnings effect of a grant related to an asset. We

believe the optionality in the proposed Update would result in a lack of comparability across entities. Our recommendation would be to require that earnings be presented separately. We believe this is more transparent; provides more decision-useful information; and is consistent with other guidance in U.S. GAAP, which generally prohibits offsetting except in limited circumstances.

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.

While we believe the proposed amendments are clear, operable and auditable, we are concerned about the lack of transparency and do not believe that the approach would provide decision-useful information. In subsequent periods, readers of the financial statements would no longer see the impact on earnings related to the government grants, as it would be embedded in line items such as depreciation and impairment charges. Additionally, we have concerns regarding the optionality for entities to select different methods and the resulting inability to compare results across entities, as it adds unnecessary complexity and will decrease the usefulness of the information to investors.

Question 9

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

We believe the proposed amendments are clear, operable and auditable; however, as noted in our response to Questions 5 and 7, we have encountered government grants that are awarded after all costs have been incurred, which may be in a subsequent reporting period. In these scenarios, deducting the grant from the related expense within earnings would not be feasible. We believe the Board should address how this scenario should be presented in earnings when option (b) is elected. Furthermore, we believe that requiring a single approach would increase comparability across entities and provide more decision-useful information. As noted in our response to Question 7, our recommendation is to require that earnings be presented separately. We believe this is more transparent; provides more decision-useful information; and is consistent with other guidance in U.S. GAAP, which generally prohibits offsetting except in limited circumstances.

Question 10

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

We defer to investors as to whether the disclosures in Topic 832 provide 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.

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

We believe that requiring entities to disclose either of the alternatives noted above would require entities to incur additional costs to maintain a second set of accounting records to track what the impact would have been had they elected to apply a different approach, which would lead to additional audit cost involved in assessing whether entities have appropriately applied both recognition methods. We defer to preparers of financial statements as to the specifics of what would be required to track the accounting for an alternative basis of recognition.

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.

The proposed implementation guidance, including the illustrative examples, is understandable and operable. We noted, however, that all the examples in the proposed Update relate to government grants paid entirely in cash. We recommend that any final ASU include an example illustrating the receipt of a tangible nonmonetary asset to assist preparers in the application of the guidance to these transactions.

Additionally, as noted in our responses to Question 2 and Question 5, we recommend adding additional implementation guidance for the assessment of probability and an example illustrating the recognition of government grants that are awarded subsequent to costs being incurred.

Question 13

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

We believe the proposed amendments on how to account for government-grant-related liabilities assumed in a business combination are understandable and operable; however, we recommend including an example to illustrate the application of the proposed guidance in a business combination.

Question 14

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

We believe the proposed transition guidance is operable and do not believe there should be different transition guidance for government grants acquired in a business combination.

Question 15

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

We generally defer to the preparers of financial statements as to how much time would be needed to implement the proposed amendments, including whether the effective date for entities other than public business entities should be different from the effective date for public business entities. We generally believe providing nonpublic business entities with additional time to learn from the transition experiences and interpretations of public business entities is helpful for those entities. However, given the nature of this proposal as currently drafted is to codify existing practice, we do not expect it to require significant effort to implement. We also believe early adoption should be permitted for all entities because we see no significant detriments in allowing entities to do so.

Question 16

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

We defer to investors as to whether the proposed amendments provide decision-useful information. We believe the amendments would clarify the appropriate accounting, but we do not believe they would increase consistency among business entities or reduce diversity in practice due to the optionality included throughout the proposal.

Question 17

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

We defer to financial statement preparers and investors as to whether the proposed amendments will impose significant incremental costs. We do not expect the proposed amendments to impose significant incremental audit costs, given that they would essentially be codifying the guidance in IAS 20, which most business entities are already applying by analogy. However, if any final ASU includes the additional disclosure requirements discussed in Question 11, entities will incur additional costs to maintain a second set of accounting records to track what the impact would have been had they elected to apply a different approach. In turn, this would lead to additional audit cost involved in assessing whether entities have appropriately applied both recognition methods.

Other matters for the Board's consideration

In addition to the matters discussed above, we suggest the following edits or clarifications to the proposed Update:

- In proposed paragraph 832-10-25-7, we suggest the Board clarify that subsequent recognition is occurring (albeit not separately) due to lower depreciation expense and potential impairment charges recognized over time or in a future reporting period.
- In proposed paragraph 832-10-45-4, we suggest the Board either add guidance that expands or differs from that included in Topic 230, *Statement of Cash Flows*, or remove this paragraph; we do not believe it is necessary to add a reference to Topic 230 every time it applies, and adding it could have unintended consequences as entities may begin to assume that it only needs to be applied if specifically referenced within a particular Topic.
- In proposed paragraph 805-20-25-28D, we suggest the Board clarify that in addition to not recording deferred income, entities should not reduce the value of the asset if the grant was previously accounted for using the cost accumulation approach.
- The term "primary condition" is used throughout the proposed Update. We believe it would be helpful to either define this term or include further discussion on what is meant by this in the Basis for Conclusions.

We appreciate this opportunity to provide feedback on the proposed Update and would be pleased to respond to any questions the Board or its staff may have concerning our comments. Please direct any questions to Julia Amstutz at 309.497.1261 or Joseph Cascio at 212.372.1139.

Sincerely,

RSM US LLP

RSM US LLP