September 12, 2022

Director@fasb.org
File Reference No. 2022-002
Technical Director
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re 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

Dear FASB:

The views expressed herein are written on behalf of the Professional Standards Committee (PSC) of the Texas Society of CPAs (TXCPA). The PSC has been authorized by the Texas Society of CPAs' Board of Directors to submit comments on matters of interest to the membership. The views expressed in this document have not been approved by the Texas Society of CPAs' Board of Directors or Executive Board and, therefore, should not be construed as representing the views or policy of the Texas Society of CPAs. Please find our responses below on the above-referenced exposure draft.

We are supportive of FASB incorporating IAS 20 into GAAP as it pertains to accounting for government grants for business entities, given that a majority of preparers are already analogizing to it. Although IAS 20 has been applied by analogy for many years and as a result, many of the issues may have already been resolved, we note the following areas that FASB may wish to exclude or modify:

- Although the term "government" is generally understood, it is unclear whether it would be applicable to a quasi-governmental entity. As such, we believe clarification and/or examples would be helpful. Additionally, we believe it may be appropriate to exclude rate regulated grants from the scope of IAS 20.
- It would be beneficial to have additional guidance and examples for reporting the valuation of non-monetary grants and intangible forms of government assistance.
- Although the guidance is generally operable, FASB may wish to consider incorporating some of the existing guidance found in ASC 958-605 (in regard to distinguishing contributions from an exchange transaction) to assist in determining whether or not a transaction with government is a normal trading transaction.
- We believe the recognition and measurement requirements in paragraphs 7-22 of IAS 20 are operable and understandable. However, we note that the discussion of the capital approach P.13-15 of IAS 20 does not appear to be relevant as the income approach is required by IAS 20; therefore, the PSC suggests eliminating the discussion regarding the capital approach to lessen any possible confusion as to what is required.

- The PSC thinks that accounting requirements for grants related to assets and grants related to income should use the same accounting model. That is, we believe that both types of grants would follow the income approach.
- The term "reasonable assurance" is not well defined under U.S. GAAP. The PSC believes "reasonable assurance" equates to the term "probable" under U.S. GAAP and that the FASB should replace the term "reasonable assurance" with "probable" if IAS 20 is incorporated into U.S. GAAP.
- The PSC believes that the fair value approach should be exclusively used to account for non-monetary government grants and that the language discussing an alternative course should be removed.
- To improve consistency in the presentation of grant income, FASB may wish to consider eliminating potential presentation alternatives allowed by IAS 20. The PSC supports gross presentation on the income statement for grants related to income and net presentation method on the balance sheet. We observe that gross reporting on the balance sheet does not align with the definition of a liability contained in GAAP.
- There is currently diversity in practice for reporting government grants on the Statement of Cash Flows (SCF). Without specific guidance, the PSC believes that there will continue to be diversity; therefore, specific guidance to improve consistency is warranted. The PSC believes that these cash grants are a financing source and should be reported as such on the SCF. We believe netting of receipts of cash grants against cash flows from operating activities or investing activities would decrease transparency.
- The PSC does not support the accounting of a below market interest rate loan from a government as a grant. We note that U.S. GAAP does not currently require loans to be recognized at fair value. As such, a requirement to account for a below market interest rate loan as a grant would expand the scope of the proposed guidance.
- The PSC does not think that there are any issues in the application of IAS 37 to the accounting of contingent assets and contingent liabilities. The model presented in ASC 450 is well understood and established.

We appreciate the opportunity to provide input on this proposed incorporation of IAS 20 into Generally Accepted Accounting Principles.

Sincerely,

J. Ramsey Womack III, CPA
Chair, Professional Standards Committee
Texas Society of Certified Public Accountants