CFA Institute

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February 11, 2025

Jackson M. Day
Technical Director
Financial Accounting Standards Board
801 Main Avenue (P.O. Box 5116)
Norwalk, CT 06856-5116

RE: File Reference No. 2024-ED700

Dear Mr. Day:

CFA Institute[1], in consultation with its Corporate Disclosure Policy Council ("CDPC")[2], appreciates the opportunity to comment and provide our perspectives on the Financial Accounting Standards Board's (the "Board") *Exposure Draft of the Proposed Accounting Standards Update - Government Grants (Topic 832), Accounting for Government Grants by Business Entities* ("Exposure Draft").

The Board is proposing to codify existing practice by incorporating International Accounting Standards 20, *Government Grants,* with minor amendments into Accounting Standards Codification Topic 832.

We do not support the Board's proposal because ***it does not improve the accuracy and effectiveness of financial reporting***[3] *and* ***it fails to be responsive to investor feedback that the Board received in its own outreach***, as we document in the **Appendix** which follows.

We are especially troubled by the Board's proposal to ***not require entities to disclose the captions – nor the size of the effect – on the balance sheet and income statement that are affected by a government grant*** related to an asset that is accounted for using a cost accumulation approach after the period the grant is received. ***This is decision-useful information and one of the few requests by investors***. Transparency is needed for investors to assess underlying trends and ask educated questions. We do not believe that it would be difficult to

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1 With offices in Charlottesville, VA; New York; Washington, DC; Brussels; Hong Kong SAR; Mumbai; Beijing; Abu Dhabi; and London, CFA Institute is a global, not-for-profit professional association of more than 190,000 members, as well as 160 member societies around the world. Members include investment analysts, advisers, portfolio managers, and other investment professionals. CFA Institute administers the Chartered Financial Analyst® (CFA®) Program. For more information, visit www.cfainstitute.org or follow us on LinkedIn and X.

2 The objective of the CDPC is to foster the integrity of financial markets through its efforts to address issues affecting the quality of financial reporting and disclosure worldwide. The CDPC is comprised of investment professionals with extensive expertise and experience in the global capital markets, some of whom are also CFA Institute member volunteers. In this capacity, the CDPC provides the practitioners' perspective in the promotion of high-quality financial reporting and disclosures that meet the needs of investors.

3 Sarbanes Oxley Act Sec. 108(b)(1)(B): "…the [Securities and Exchange] Commission may recognize, as 'generally accepted' for purposes of the securities laws, any accounting principles established by a standard setting body…because, at a minimum, the standard setting body is capable of improving the accuracy and effectiveness of financial reporting and the protection of investors under the securities laws."

produce this information, in the age of artificial intelligence, if it is material. ***We ask the Board to reconsider its proposal***.

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If you have any questions or seek further elaboration of our views, please contact Sandra J. Peters at sandra.peters@cfainstitute.org and Matthew P. Winters at matt.winters@cfainstitute.org.

Sincerely,

/s/ Sandra J. Peters

Sandra J. Peters, CPA, CFA
Senior Head
Global Financial Reporting Policy Advocacy
CFA Institute

/s/ Matthew P. Winters

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APPENDIX

COMPARISON OF INVESTOR FEEDBACK AND EXPOSURE DRAFT

RECOGNITION - OVERALL GUIDANCE

Investor Feedback	***Proposed Standard***
"Other stakeholders, including investors, noted that reasonable assurance may not represent an appropriate basis to support income recognition and **recommended a higher hurdle (such as reasonably certain** as used in Topic 842 [Leases])."[4]	"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 and (b) the government grant will be received."[5]
	Basis for Conclusions
	"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**."[6]

In summary Investors recommended that the Board raise the recognition threshold to delay recognition of a grant until the probability of earning the grant is higher than where it currently stands. The Board is instead proposing to maintain the threshold while replacing the deprecated term "reasonable assurance" with "probable." Despite investors' feedback, the Board does not want to change reporting outcomes from current practice.

[4] Board Meeting Handout (November 1, 2023), paragraph 67.
[5] Proposed ASC 832-10-25-1. Exposure Draft, page 17.
[6] Exposure Draft paragraph BC27.

RECOGNITION - GRANT RELATED TO AN ASSET

Investor Feedback	*Proposed Standard*
▪ "**Almost all investors support gross presentation for all grants, noting that gross presentation provides more transparency when compared with net presentation.** A few investors indicated that they would be willing to **accept net presentation if disclosures are sufficient**."[7] ▪ "**Most [FASAC] members, including investors, favored gross presentation on the balance sheet and income statement** and suggested that the Board also provide presentation requirements for the statement of cash flows. Other [FASAC] members, including preparers and practitioners, indicated that an option for net presentation, for example, for grants related to assets, should be permitted."[8] ▪ "A few TIC members stated **that investors prefer consistency in the accounting and noted that the optionality in IAS 20 could lead to less consistency among entities**. TIC members also highlighted the fundamental differences between grants related to income and grants related to assets and noted concern about optionality in presentation."[9] ▪ "In general, **[ITC] respondents that commented on presentation indicated that, regardless of their view, <u>the Board should defer to investor feedback about what type of presentation requirements would provide the most decision-useful information</u>**."[10]	▪ "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.)"[11] ▪ "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."[12] *Basis for Conclusions* ▪ "**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 <u>if sufficient information about</u>**

[7] Board Meeting Handout (November 1, 2023), paragraph 81.
[8] Board Meeting Handout (November 1, 2023), paragraph 20.
[9] Board Meeting Handout (November 1, 2023), paragraph 24.
[10] Board Meeting Handout (November 1, 2023), paragraph 80.
[11] Proposed ASC 832-10-25-5. Exposure Draft, page 17.
[12] Proposed ASC 832-10-25-7. Exposure Draft, page 18.

	government grants and the accounting model applied would be disclosed."[13] ▪ "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)."[14] ▪ "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."[15]

In summary Investors asked the Board to require (a) gross presentation or (b) net presentation with sufficient complementary disclosures. The Board proposed to permit either gross or net presentation but, if net, not requiring entities to make complementary disclosures. The Board doesn't want to change reporting outcomes.

Investors need to break out the effect of a grant from the financial statements to analyze an entity's financial performance, position, and cash flows "ex grant" because grants are generally not recurring, not part of a company's ordinary operations, and to facilitate comparisons to other periods prior to the grant and to other entities that did not receive a grant.

Gross presentation (i.e., deferred income approach on the balance sheet and grant income presented in other income on the income statement as separate captions) makes the analysis straightforward. Net presentation (i.e., deducting grant proceeds from an asset's carrying amount on the balance sheet and presenting grant income as a contra expense within an expense caption on the income statement) complicates the analysis. Net presentation, along with not requiring entities to disclose gross amounts, makes the analysis either impossible or require cumbersome assumptions and estimates.

[13] Exposure Draft paragraph BC35.
[14] Exposure Draft paragraph BC37.
[15] Exposure Draft paragraph BC38.

MEASUREMENT

Investor Feedback	***Proposed Standard***
"Most respondents, including investors and practitioners, **preferred fair value measurement for nonmonetary grants** and stated that **fair value provides the most decision-useful information for investors** and **removing the option for nominal amount would improve consistency in financial reporting**."[16]	"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**. 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**."[17]
	Basis for Conclusions
	"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**."[18]

In summary Investors stated their preference for fair value measurement of nonmonetary grants and for removing the option for nominal measurements, such as an asset recorded at $0 when its cost is fully covered by a grant. The Board disagrees, permitting a cost accumulation approach that nets grants proceeds from the asset's carrying amount, which may result in nominal (e.g., $0) measurements. The Board has proposed to require disclosure of the fair value of nonmonetary grants, but only in the period the grant is received, not on an ongoing basis.

[16] Board Meeting Handout (November 1, 2023), paragraph 72.
[17] Proposed ASC 832-10-30-1. Exposure Draft, page 18.
[18] Exposure Draft, paragraph BC32.

PRESENTATION – GRANT RELATED TO AN ASSET

<table>
<tr><th>Investor Feedback</th><th>Proposed Standard</th></tr>
<tr><td rowspan="3">
▪ “Almost all investors support gross presentation for all grants, noting that gross presentation provides more transparency when compared with net presentation. A few investors indicated that they would be willing to accept net presentation if disclosures are sufficient.”[19]
▪ “Most [FASAC] members, including investors, favored gross presentation on the balance sheet and income statement and suggested that the Board also provide presentation requirements for the statement of cash flows. Other [FASAC] members, including preparers and practitioners, indicated that an option for net presentation, for example, for grants related to assets, should be permitted.”[20]
▪ “A few TIC members stated that investors prefer consistency in the accounting and noted that the optionality in IAS 20 could lead to less consistency among entities. TIC members also highlighted the fundamental differences between grants related to income and grants related to assets and noted concern about optionality in presentation.”[21]
▪ “In general, [ITC] respondents that commented on presentation indicated that, regardless of their view, the Board should defer to investor feedback about what type of presentation requirements would provide the most decision-useful information.”[22]
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▪ “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).”[23]
▪ “A grant related to an asset that is accounted for using the cost accumulation approach… 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.”[24]
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<tr><th>Basis for Conclusions</th></tr>
<tr><td>
“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.”[25]
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[19] Board Meeting Handout (November 1, 2023), paragraph 81.
[20] Board Meeting Handout (November 1, 2023), paragraph 20.
[21] Board Meeting Handout (November 1, 2023), paragraph 24.
[22] Board Meeting Handout (November 1, 2023), paragraph 80.
[23] Proposed ASC 832-10-25-6. Exposure Draft, page 17.
[24] Proposed ASC 832-10-25-7. Exposure Draft, page 18.
[25] Exposure Draft, paragraph BC40.

In summary Investors stated their preference for (1) gross presentation and (2) removing optionality in the accounting for government grants. The Board disagrees and proposes to permit gross or net presentation for grants related to an asset. In fact, some board members preferred to solely permit net presentation because they view it as "a better reflection of the underlying economics of the transaction" for such grants. Significant to the Board's decision is the apparent costliness of removing the optionality permitted under current practice. This level of costliness is not quantified nor compared to the costliness of investors making assumptions and estimates on their own.

PRESENTATION – GRANT RELATED TO INCOME

Investor Feedback	***Proposed Standard***
▪ "**Almost all investors support gross presentation for all grants, noting that gross presentation provides more transparency when compared with net presentation.** A few investors indicated that they would be willing to accept net presentation if disclosures are sufficient."[26] ▪ "**Most [FASAC] members, including investors, favored gross presentation on the balance sheet and income statement** and suggested that the Board also provide presentation requirements for the statement of cash flows. Other [FASAC] members, including preparers and practitioners, indicated that an option for net presentation, for example, for grants related to assets, should be permitted."[27] ▪ "A few TIC members stated that **investors prefer consistency in the accounting and noted that the optionality in IAS 20 could lead to less consistency among entities.** TIC members also highlighted the fundamental differences between grants related to income and grants related to assets and noted concern about optionality in presentation."[28] ▪ "In general, **[ITC] respondents that commented on presentation indicated that, regardless of their view, the Board should defer to investor feedback about what type of presentation requirements would provide the most decision-useful information**."[29]	"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."[30] ***Basis for Conclusions*** "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."[31]

[26] Board Meeting Handout (November 1, 2023), paragraph 81.
[27] Board Meeting Handout (November 1, 2023), paragraph 20.
[28] Board Meeting Handout (November 1, 2023), paragraph 24.
[29] Board Meeting Handout (November 1, 2023), paragraph 80.
[30] Proposed ASC 832-10-45-3. Exposure Draft, page 20.
[31] Exposure Draft, paragraph BC41.

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In summary Investors stated their preference for (1) gross presentation (e.g., presenting grant income as other income on the income statement) and (2) removing optionality in the accounting for government grants. The Board disagrees and proposes to permit gross or net presentation for grants related to income; net presentation involves presenting grant income as a contra expense, such as reducing selling, general, and administrative expense for a grant that reimburses certain payroll costs. Significant to the Board's decision is the apparent costliness of removing the optionality permitted under current practice. This level of costliness is not quantified nor compared to the costliness of investors making assumptions and estimates on their own.

DISCLOSURE

Investor Feedback	*Proposed Standard*
▪ "**Almost all investors support gross presentation for all grants, noting that gross presentation provides more transparency when compared with net presentation**. A few investors indicated that they would be willing to accept net presentation if disclosures are sufficient**."[32]** ▪ "**Investors generally indicated a preference for gross presentation (compared with net)** on the financial statements to increase transparency; however, they indicated that disclosure of the gross amount may be sufficient.**"[33]**	▪ "For a grant related to an asset that is accounted for under the **cost accumulation approach** … paragraph **832-10-50-3(c) only applies** in the period in which the government grant is recognized on the balance sheet." [34] Note: 832-10-50-3(c) indicates "an entity shall disclose the following about a government grant…The line items on the balance sheet and income statement that are affected by the grant, and the amounts applicable to each financial statement line item in the current reporting period." ▪ 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.[35]
	Basis for Conclusions
	▪ "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**."[36] ▪ "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 benefi**t to investors."[37] ▪ "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**

[32] Board Meeting Handout (November 1, 2023), paragraph 81.
[33] Board Meeting Handout (November 1, 2023), paragraph 25.
[34] Proposed ASC 832-10-50-3A. Exposure Draft page 21.
[35] 832-10-50-3B. Exposure Draft page 21.
[36] Exposure Draft, paragraph BC49.
[37] Exposure Draft, paragraph BC50.

	balance sheet and income statement that are affected by the government grant after the period in which the government grant is recognized… **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."[38]

In summary Investors stated their preference for gross presentation but, if net presentation was permitted, to be "made whole" through disclosure of the impact of the government grant on the financial statements. The Board disagrees, stating that this would be too costly. The costliness is not quantified nor compared to the costliness of investors making assumptions and estimates on their own. If the cost accumulation model makes decision-useful information too costly to prepare, that should disqualify the use of that model.

[38] Exposure Draft, paragraph BC52.