FASB Accounting Standards Update

No. 2025-10
December 2025

Government Grants (Topic 832)

Accounting for Government Grants Received by Business Entities

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board

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.

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Financial Accounting Standards Board
801 Main Avenue ▪ Norwalk, CT ▪ 06851

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Summary

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

The FASB is issuing this Update to improve generally accepted accounting principles (GAAP) by establishing authoritative guidance on the accounting for government grants received 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 Topic 450, Contingencies, and Subtopic 958-605, Not-for-Profit Entities—Revenue Recognition. When applying that guidance by analogy, business entities may not apply all aspects of that guidance. Stakeholders 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, stakeholders continued to highlight the lack of specific guidance about recognition, measurement, and presentation 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), 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), and the 2024 proposed Accounting Standards Update, *Government Grants (Topic 832): Accounting for Government Grants by Business Entities*, 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 Is Affected by the Amendments in This Update?

The amendments in this Update apply to business entities (specifically, all entities except for not-for-profit entities and employee benefit plans) that receive a government grant. A government grant is defined as a transfer of a monetary asset or a tangible nonmonetary asset, other than in an exchange transaction (including an exchange transaction that may be at a significant discount to fair value), from a government to a business entity. The amendments do not apply to income taxes, the benefit of below-market interest rate loans, and government guarantees.

What Are the Main Provisions?

The amendments in this Update establish the accounting for a government grant received by a business entity, including guidance for (1) a grant related to an asset and (2) a grant related to income. A grant related to an asset is a government grant, or part of a government grant, that is conditioned on the purchase, construction, or acquisition of an asset (for example, a long-lived asset or inventory). A grant related to income is a government grant, or part of 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 Update require that a government grant received by a business entity should not be recognized until:

1. It is probable that (a) a business entity will comply with the conditions attached to the grant and (b) the grant will be received.
2. A business entity meets the recognition guidance for a grant related to an asset or a grant related to income.

The amendments in this Update require that a grant related to an asset be recognized on the balance sheet as a business entity incurs the related costs for which the grant is intended to compensate, either as:

1. Deferred income (the deferred income approach)
2. An adjustment to 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 for which the deferred income approach is elected should be recognized in earnings on a systematic and rational basis over the periods in which a business entity recognizes as expenses the costs for which the grant is intended to compensate.

When a business entity elects the cost accumulation approach for a grant related to an asset, there is no separate subsequent recognition of the government grant proceeds in earnings. The carrying amount of the asset that reflects the government grant proceeds would be used to determine depreciation or other subsequent accounting for that asset.

The amendments in this Update require that a business entity present a grant related to income and a grant related to an asset for which the deferred income approach is elected as part of 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 Update require, consistent with current disclosure requirements, that a business entity provide disclosures, including the nature of the government grant received, the accounting policies used to account for the grant, and significant terms and conditions of the grant.

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

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

While many business entities currently apply IAS 20 by analogy, at least in part, to recognize, measure, and present government grants, other business entities apply different accounting models. Most stakeholders supported leveraging the guidance in IAS 20 in developing accounting guidance for government grants in GAAP, noting that it will reduce diversity in practice because business entities will apply specific GAAP guidance instead of analogizing to other accounting models including IAS 20, Topic 450, and Subtopic 958-605.

In response to the 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 Will the Amendments Be Effective and What Are the Transition Requirements?

For public business entities, the amendments in this Update are effective for annual reporting periods beginning after December 15, 2028, and interim reporting periods within those annual reporting periods. For entities other than public business entities, the amendments are effective for annual reporting periods beginning after December 15, 2029, and interim reporting periods within those annual reporting periods.

Early adoption is permitted in both interim and annual reporting periods in which financial statements have not yet been issued or made available for issuance. If a business entity adopts the amendments in this Update in an interim reporting period, it must adopt them as of the beginning of the annual reporting period that includes that interim reporting period.

The amendments in this Update require that a business entity apply the guidance using one of the following transition approaches:

1. A modified prospective approach to both:
   a. Government grants that are entered into on or after the effective date
   b. Government grants that are not complete as of the effective date. A government grant is complete when substantially all of the government grant proceeds have been recognized before the effective date.

Under a modified prospective approach, prior-period results should not be restated and there is no cumulative-effect adjustment.

2. A modified retrospective approach to both:
   a. Government grants that are entered into on or after the beginning of the earliest period presented
   b. Government grants that are not complete as of the beginning of the earliest period presented. A government grant is complete when substantially all of the government grant proceeds have been recognized before the beginning of the earliest period presented.

   Under a modified retrospective approach, all prior period results should be restated for government grants that are not complete as of the beginning of the earliest period presented through a cumulative-effect adjustment to the opening balance of retained earnings as of the beginning of the earliest period presented.
3. A retrospective approach to all government grants through a cumulative-effect adjustment to the opening balance of retained earnings as of the beginning of the earliest period presented.

Amendments to the *FASB Accounting Standards Codification®*

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–25. 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

2. 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 agrees to waive repayment under certain prescribed conditions established by a government.

Government Grant

A transfer of a **monetary asset** or a tangible nonmonetary asset, other than in an **exchange** transaction (including an exchange transaction that may be at a significant discount to **fair value**), from a government to an entity except for a **not-for-profit entity** and an employee benefit plan within the scope of Topics 960, 962, and 965 on plan accounting.

Grant Related to an Asset

A **government grant,** or part of a government grant, that is conditioned on the purchase, construction, or acquisition of an asset (for example, a long-lived asset or inventory). 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.

<u>Grant Related to Income</u>

<u>A **government grant,** or part of a government grant, other than a **grant related to an asset** (for example, a grant that reimburses an entity for operating expenses).</u>

3. 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.

Monetary Assets

Money or a claim to receive a sum of money the amount of which is fixed or determinable without reference to future prices of specific goods or services.

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

4. 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. 2025-10, the title of this Topic will change to Government Grants.

5. 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:

Government Grants—Overall

Overview and Background

832-10-05-1 Paragraph superseded by Accounting Standards Update No. 2025-10.~~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** received by business entities~~disclosures for transactions with a government that are accounted for by applying a grant or contribution accounting model by analogy~~.

6. 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. 2025-10.~~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. 2025-10.~~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. Transactions within the scope of Topic 740 on income taxes (for example, nonrefundable, nontransferable income tax credits)

   b. The benefit of below-market interest rate loans
   c. 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.

7. 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 An entity shall not recognize a **government grant** until:

a. It is **probable** that both of the following criteria are met:
   1. The entity will comply with the conditions attached to the government grant.
   2. The government grant will be received.
b. An entity meets the recognition guidance for a **grant related to an asset** in paragraphs 832-10-25-4 through 25-8 or a **grant related to income** in paragraph 832-10-25-9.

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. A government grant receivable or liability may be recognized because of differences in the timing between when an entity receives a government grant and when the guidance in paragraph 832-10-25-

1 has been met. An entity shall not recognize a receivable on the balance sheet unless and until the recognition guidance in paragraph 832-10-25-1 is met.

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

> Grant Related to an Asset

832-10-25-4 An entity shall recognize a grant related to an asset on the balance sheet as the entity incurs the related costs for which the government grant is intended to compensate using either of the following approaches:

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

832-10-25-5 A grant related to an asset that is 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.

832-10-25-6 A government grant related to a nondepreciable asset that is accounted for using the deferred income approach shall be subsequently recognized in earnings on a systematic and rational basis over the periods in which the entity incurs the costs to which the grant relates.

832-10-25-7 For a grant related to an asset that is 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 includes 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. The receipt of a tangible nonmonetary asset that is determined to be a grant related to an asset shall be recognized in accordance with paragraphs 832-10-25-4 through 25-7 and measured in accordance with paragraph 832-10-30-1.

> 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.

832-10-25-10 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 shall be recognized in earnings in the period in which the entity meets the guidance in paragraph 832-10-25-1.

8. 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 832-10-25-4(a), the receipt of a tangible nonmonetary asset that is determined to be a **grant related to an asset** shall be initially measured at **fair value** when the grant is recognized on the balance sheet. If the cost accumulation approach is elected in accordance with paragraph 832-10-25-4(b), the receipt of a tangible nonmonetary asset that is determined to be a grant related to an asset shall be recognized at the cost to the entity.

9. 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 follows:

a. Repayment of a **grant related to income** shall be applied first against the unamortized deferred income recognized related to the grant. To the extent that the repayment exceeds the unamortized deferred income or when no deferred income exists, the repayment shall be recognized immediately in earnings.
b. Repayment of a **grant related to an asset** shall be recognized by increasing the carrying amount of the asset (if the cost accumulation approach is applied) or by reducing the deferred income balance (if the deferred income approach is applied) by the amount repayable. When applying the cost accumulation approach, all related expenses such as the cumulative depreciation (or change in previously recognized gain or loss on sale) that would have been recognized in earnings to date in the absence of the government grant shall be recognized immediately in earnings. If the deferred income approach is applied, to the extent that the repayment exceeds the unamortized deferred income, the repayment 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, determining depreciation, and determining other subsequent accounting for that asset.

10. 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 832-10-25-4(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 from 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 832-10-25-4(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 from the related expense.

11. Amend paragraphs 832-10-50-2 through 50-4 and the related heading and add paragraphs 832-10-50-3A through 50-3C, 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**, whether the deferred income approach or the cost accumulation approach is applied or for a **grant related to income**, whether the grant is presented separately under a general heading such as other income or deducted from the related expense).
c. Subparagraph superseded by Accounting Standards Update No. 2025-10.~~The line items on the balance sheet and income statement that are affected by the transactions, 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 using the deferred income approach in accordance with paragraph 832-10-25-4(a) or a grant related to income, an entity shall disclose 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.

832-10-50-3B For a grant related to an asset that is accounted for using the cost accumulation approach in accordance with paragraph 832-10-25-4(b), an entity shall disclose, in the period in which the government grant is recognized on the balance sheet, the following:

a. The line items on the balance sheet that are affected by the grant and the amounts applicable to each financial statement line item
b. The useful life of any related depreciable or amortizable asset.

832-10-50-3C 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.

12. 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 832-10-55-2 through 55-7.
b. Illustrations are provided in paragraphs 832-10-55-8 through 55-14.

> Implementation Guidance

832-10-55-2 Paragraphs 832-10-55-3 through 55-14 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, or 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 A government grant is received in the form of a **monetary asset** or a tangible nonmonetary asset 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 long-lived asset (for example, a building, land, or equipment)
c. The proceeds of a **forgivable loan** when an entity meets the guidance in paragraph 832-10-25-1, including when it is probable that the entity will meet 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 government grants and, therefore, excludes the following:

a. The transfer of an intangible asset or provision of a service
b. A reduction of an entity's liabilities (for example, sales, property, payroll, or other tax abatement)
c. Government participation in the ownership of an entity
d. A contribution to a business entity from a nongovernmental source within the scope of Subtopic 958-605 on not-for-profit entities—revenue recognition
e. A transaction within the scope of Topic 606 on revenue from contracts with customers or Subtopic 610-20 on other income—gains and losses from the derecognition of nonfinancial assets.

• > 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 using the deferred income approach in accordance with paragraph 832-10-25-4(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.

> Illustrations

• > Recognition

• • > Example 1: Grant Related to an Asset

832-10-55-8 Entity A is awarded 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 government grant proceeds will be received after the purchase of the building. When the building is purchased, Entity A has incurred the related costs for which the government grant is intended to compensate and determines that the probable criteria in paragraph 832-10-25-1(a)(1) through (a)(2) have been met. The building has a useful life of 40 years.

832-10-55-9 Entity A can elect to recognize the government grant as deferred income on the balance sheet using the deferred income approach in accordance with paragraph 832-10-25-4(a) or reflect the government grant as an adjustment to the cost basis in determining the carrying amount of the building using the cost accumulation approach in accordance with paragraph 832-10-25-4(b).

832-10-55-10 If Entity A elects the deferred income approach, it should recognize the government grant as deferred income. Once the building is placed into service, Entity A begins recognizing the government grant of $5 million in earnings on a systematic and rational basis over the 40-year period in proportion to the depreciation expense recognized in accordance with paragraphs 832-10-25-5 and 832-10-55-6. Entity A may elect to present the grant in earnings either separately under a general heading such as other income or deducted from the related expense (for example, depreciation). Entity A should revise the pattern of recognition if the building is disposed of or impaired.

832-10-55-11 If Entity A elects the cost accumulation approach, it should reflect the government grant as an adjustment to the cost basis in determining the carrying amount 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

832-10-55-12 Entity B is awarded a government grant of $2 million for qualifying expenditures associated with the 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 the probable criteria in paragraph 832-10-25-1(a)(1) through (a)(2) have been met because 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 and that the grant will be received.

832-10-55-13 Entity B incurs the qualifying expenditures associated with the research and development of a new drug over a 2-year period and recognizes the government grant of $2 million on a systematic and rational basis over the 2-year period as those costs are incurred in accordance with paragraphs 832-10-25-9 through 25-10 and 832-10-55-6. No government grant proceeds would be recognized in earnings until Entity B incurs the related expenses. In addition, a receivable would not be recognized on the balance sheet unless and until Entity B incurs the qualifying expenditures associated with the research and development of a new drug.

832-10-55-14 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 deduction from the related expenses in accordance with paragraph 832-10-45-3(b).

13. 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. 2025-10, *Government Grants (Topic 832): Accounting for Government Grants Received by Business Entities*

832-10-65-2 The following represents the transition and effective date information related to Accounting Standards Update No. 2025-10, *Government Grants (Topic 832): Accounting for Government Grants Received 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 December 15, 2028, 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 December 15, 2029, and interim reporting periods within those annual reporting periods.
c. Early adoption of the pending content that links to this paragraph is permitted in both interim and annual reporting periods in which financial statements have not yet been issued or made available for issuance. If an entity adopts the pending content that links to this paragraph in an interim reporting period, it shall adopt the pending content as of the beginning of the annual reporting period that includes that interim reporting period.

Transition method

d. An entity shall apply the pending content that links to this paragraph using one of the following transition methods:
    1. A modified prospective approach for both:
        i. **Government grants** that are entered into on or after the effective date.
        ii. Government grants that are not complete as of the effective date. A government grant is complete when substantially all of the

government grant proceeds have been recognized before the effective date of the pending content that links to this paragraph.

Prior-period results shall not be restated, and there shall be no cumulative-effect adjustment to the opening balance of retained earnings as of the beginning of the year of adoption.

2. A modified retrospective approach for both:
    i. Government grants that are entered into on or after the beginning of the earliest period presented.
    ii. Government grants that are not complete as of the beginning of the earliest period presented. A government grant is complete when substantially all of the government grant proceeds have been recognized before the beginning of the earliest period presented in which the pending content that links to this paragraph is adopted.

    All prior period results shall be restated for government grants that are not complete as of the beginning of the earliest period presented through a cumulative-effect adjustment to the opening balance of retained earnings as of the beginning of the earliest period presented.
3. A retrospective approach to all government grants through a cumulative-effect adjustment to the opening balance of retained earnings as of the beginning of the earliest period presented.

e. For purposes of the transition guidance in (d)(1)(ii): A grant related to an asset that was accounted for by reflecting the grant as an adjustment to the cost basis in determining the carrying amount of the asset before the effective date is considered recognized when substantially all of the grant is reflected in the carrying amount of the asset on the balance sheet. For all other government grants, a government grant is considered recognized when substantially all of the government grant proceeds have been recognized in the income statement before the effective date of the pending content that links to this paragraph.
f. For purposes of the transition guidance in (d)(2)(ii): A grant related to an asset that was accounted for by reflecting the grant as an adjustment to the cost basis in determining the carrying amount of the asset before the beginning of the earliest period presented is considered recognized when substantially all of the grant is reflected in the carrying amount of the asset on the balance sheet. For all other government grants, a government grant is considered recognized when substantially all of the

government grant proceeds have been recognized in the income statement before the beginning of the earliest period presented.

g. An entity shall apply the pending content that links to this paragraph prospectively to government grants acquired in business combinations that occur after the effective date of the pending content.

Transition disclosures

h. An entity that applies the pending content that links to this paragraph using a modified prospective approach in accordance with (d)(1) shall disclose the nature of and reason for the accounting change.

i. An entity that applies the pending content that links to this paragraph using a modified retrospective approach or a retrospective approach in accordance with (d)(2) or (d)(3) shall provide the transition disclosures required by paragraphs 250-10-50-1 through 50-2 in the period of adoption, except for the requirements in paragraph 250-10-50-1(b)(2) for the current reporting period and the requirements in paragraph 250-10-50-1(b)(4) through (c)(1).

Amendments to Subtopic 220-40

14. Amend paragraph 220-40-50-21, with a link to transition paragraph 832-10-65-2, as follows:

Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures

Disclosure

> Overall Guidance

• > Tabular Integration of Other Disclosure Requirements

220-40-50-21 An entity shall disclose, in the same tabular format disclosure in which the disclosures required by paragraph 220-40-50-6 are provided, each of the following expenses, gains, and losses and the amount recognized in each relevant expense caption (see paragraphs 220-40-50-12 through 50-13 for guidance on identifying relevant expense captions):

m. Impairment of film costs (see paragraph ~~926-20-50-4C).~~926-20-50-4C)
n. The total amount of a **government grant** recognized during the reporting period and presented as a deduction from the related expense (see paragraphs 832-10-45-1(b), 832-10-45-3(b), and 832-10-50-3A).

These disclosures shall be included in the tabular format disclosure required by paragraph 220-40-50-6 using the same frequency (that is, whether the disclosure is required at interim and annual reporting periods or only annual reporting periods) as required by the corresponding Topic.

[Items (a) through (l) are not shown here because they are unchanged.]

Amendments to Subtopic 805-20

15. Amend paragraphs 805-20-25-5 and 805-20-25-16 through 25-17 and add paragraph 805-20-25-28D and its 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

> Recognition Principle

• > Recognition Conditions

805-20-25-5 Paragraphs 805-20-25-11 through 25-12 provide guidance on recognizing operating leases and paragraphs 805-20-55-2 through 55-45 provide guidance on recognizing intangible assets. Paragraphs 805-20-25-17 through ~~25-28B~~25-28D specify the types of identifiable assets and liabilities that include items for which this Subtopic and Subtopic 805-740 provide limited exceptions to the recognition principle and conditions in paragraphs 805-20-25-1 through 25-3.

> 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 25-28D~~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 25-28D~~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:

f. **Contract assets** and ~~**contract liabilities**.~~**contract liabilities**
g. **Grants related to income**.

[Items (a) through (e) are not shown here because they are unchanged.]

• > Grants Related to Income

805-20-25-28D For a grant related to income, an acquirer shall recognize deferred income in accordance with Topic 832 on **government grants** at the acquisition date, unless an entity has fully complied with the conditions attached to a government grant, in which case the acquirer shall not recognize deferred income.

16. Amend paragraphs 805-20-30-2 and 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

> Measurement Principle

805-20-30-2 Exceptions to the measurement principle are identified and their accounting treatment is addressed in paragraphs 805-20-30-10 through ~~30-26~~30-31.

> 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 **grants related to income** 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:

j. Contract assets and contract ~~liabilities.~~liabilities
k. Grants related to income.

[Items (a) through (i) are not shown here because they are unchanged.]

• > Grants Related to Income

805-20-30-31 Deferred income recognized in accordance with paragraph 805-20-25-28D shall be measured in accordance with Topic 832 on **government grants** at the acquisition date.

Amendments to Subtopic 845-10

17. Amend paragraph 845-10-15-4, with a link to transition paragraph 832-10-65-2, as follows:

Nonmonetary Transactions—Overall

Scope and Scope Exceptions

> Transactions

845-10-15-4 The guidance in the Nonmonetary Transactions Topic does not apply to the following transactions:

k. The transfer of a nonfinancial asset within the scope of Subtopic 610-20 in exchange for noncash consideration (see paragraphs 610-20-32-2 through 32-3, which require measurement consistent with paragraphs 606-10-32-21 through ~~32-24).~~32-24)
l. A **government grant** within the scope of Topic 832.

[Items (a) through (j) are not shown here because they are unchanged.]

Amendments to Subtopic 958-605

18. 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 accounting guidance for **government grants** received by business entities.

Amendments to Subtopic 958-805

19. 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 paragraph 805-20-25-28D for a **grant related to income** is not applicable to entities that apply the guidance within this Subtopic.</u>

Amendments to Status Sections

20. Amend paragraph 220-40-00-1, by adding the following items to the table, as follows:

220-40-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Exchange	Added	2025-10	12/04/2025
Fair Value (2nd def.)	Added	2025-10	12/04/2025
Government Grant	Added	2025-10	12/04/2025
Monetary Assets	Added	2025-10	12/04/2025
220-40-50-21	Amended	2025-10	12/04/2025

21. Amend paragraph 805-20-00-1, by adding the following items to the table, as follows:

805-20-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Exchange	Added	2025-10	12/04/2025
Government Grant	Added	2025-10	12/04/2025
Grant Related to an Asset	Added	2025-10	12/04/2025
Grant Related to Income	Added	2025-10	12/04/2025
Monetary Assets	Added	2025-10	12/04/2025
805-20-25-5	Amended	2025-10	12/04/2025
805-20-25-16	Amended	2025-10	12/04/2025
805-20-25-17	Amended	2025-10	12/04/2025
805-20-25-28D	Added	2025-10	12/04/2025
805-20-30-2	Amended	2025-10	12/04/2025
805-20-30-10 through 30-12	Amended	2025-10	12/04/2025
805-20-30-31	Added	2025-10	12/04/2025

22. Amend paragraph 832-10-00-1, by adding the following items to the table, as follows:

832-10-00-1 The following table identifies the changes made to this Subtopic.

Note: Topic title changed by Accounting Standards Update No. 2025-10 on 12/04/2025 from Government Assistance to Government Grants.

Paragraph	Action	Accounting Standards Update	Date
Exchange	Added	2025-10	12/04/2025

Paragraph	Action	Accounting Standards Update	Date
Fair Value (2nd def.)	Added	2025-10	12/04/2025
Forgivable Loan	Added	2025-10	12/04/2025
Government Grant	Added	2025-10	12/04/2025
Grant Related to an Asset	Added	2025-10	12/04/2025
Grant Related to Income	Added	2025-10	12/04/2025
Market Participants	Added	2025-10	12/04/2025
Monetary Assets	Added	2025-10	12/04/2025
Orderly Transaction	Added	2025-10	12/04/2025
Probable	Added	2025-10	12/04/2025
Public Business Entity	Added	2025-10	12/04/2025
Related Parties	Added	2025-10	12/04/2025
Security (2nd def.)	Added	2025-10	12/04/2025
832-10-05-1	Superseded	2025-10	12/04/2025
832-10-05-2	Amended	2025-10	12/04/2025
832-10-15-3	Superseded	2025-10	12/04/2025
832-10-15-3A	Added	2025-10	12/04/2025
832-10-15-4	Superseded	2025-10	12/04/2025
832-10-15-4A	Added	2025-10	12/04/2025
832-10-15-5	Amended	2025-10	12/04/2025
832-10-25-1 through 25-10	Added	2025-10	12/04/2025
832-10-30-1	Added	2025-10	12/04/2025
832-10-35-1	Added	2025-10	12/04/2025
832-10-35-2	Added	2025-10	12/04/2025
832-10-45-1 through 45-3	Added	2025-10	12/04/2025

Paragraph	Action	Accounting Standards Update	Date
832-10-50-2 through 50-4	Amended	2025-10	12/04/2025
832-10-50-3A through 50-3C	Added	2025-10	12/04/2025
832-10-55-1 through 55-14	Added	2025-10	12/04/2025
832-10-65-2	Added	2025-10	12/04/2025

23. Amend paragraph 845-10-00-1, by adding the following items to the table, as follows:

845-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Fair Value (2nd def.)	Added	2025-10	12/04/2025
Government Grant	Added	2025-10	12/04/2025
Monetary Assets	Added	2025-10	12/04/2025
845-10-15-4	Amended	2025-10	12/04/2025

24. Amend paragraph 958-605-00-1, by adding the following items to the table, as follows:

958-605-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Exchange	Added	2025-10	12/04/2025
Government Grant	Added	2025-10	12/04/2025

Paragraph	Action	Accounting Standards Update	Date
Monetary Assets	Added	2025-10	12/04/2025
958-605-15-6	Amended	2025-10	12/04/2025

25. Amend paragraph 958-805-00-1, by adding the following items to the table, as follows:

958-805-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Exchange	Added	2025-10	12/04/2025
Fair Value (2nd def.)	Added	2025-10	12/04/2025
Government Grant	Added	2025-10	12/04/2025
Grant Related to an Asset	Added	2025-10	12/04/2025
Grant Related to Income	Added	2025-10	12/04/2025
Monetary Assets	Added	2025-10	12/04/2025
958-805-25-21A	Added	2025-10	12/04/2025

The amendments in this Update were adopted by the affirmative vote of four members of the Financial Accounting Standards Board. Dr. Botosan, Mr. Cannon, and Dr. Joseph dissented.

Dr. Botosan, Mr. Cannon, and Dr. Joseph's dissent is as follows:

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, investors' need for relevant and comparable information about the impact of government grants on entities' financial position and performance continues to increase. Consequently, Dr. Botosan, Mr. Cannon, and Dr. Joseph agree 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, they do not believe that codifying deficient and out-of-date guidance from IAS 20, which violates the FASB's Conceptual Framework and does little to improve the usefulness of information for investors, represents a reasonable solution to these problems.

The amendments in this Update violate important aspects of the FASB's Conceptual Framework—specifically, the asset and liability definitions and the recognition principle. Under the deferred income approach, a deferred grant liability continues to be recognized after the conditions of the grant are met. This violates the liability definition because no present obligation to transfer an economic benefit exists. It also violates the recognition principle because an item that does not meet the definition of a liability is recognized. In addition, under the cost accumulation approach, a granted asset is not recognized. This violates the asset definition because a present right to an economic benefit exists. It also violates the recognition principle because an item that meets the definition of an asset is not recognized.

Also, although the majority of 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*, they failed to acknowledge the admonition in Chapter 3, *Qualitative Characteristics of Useful Financial Information*, of Concepts Statement 8 that when an entity receives property, plant, and equipment through a government grant, reporting the asset at no cost might "faithfully represent its cost, but that information probably would not be very useful."

In Dr. Botosan, Mr. Cannon, and Dr. Joseph's view, the amendments in this Update are unresponsive to investors' needs and feedback on many fronts.

1. Investors requested gross presentation on the balance sheet and the income statement because it would provide essential transparency. In contrast, the amendments allow for net presentation on both the balance sheet and the income statement.
2. Investors requested that a granted asset be measured at fair value. In contrast, under the 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 at a nominal value.

3. Investors requested that the optionality allowed under current practice be reduced and that comparability be increased. In contrast, the amendments codify almost all the existing diversity in practice and do almost nothing to enhance comparability.
4. Investors requested that all grants be accounted for similarly. In contrast, under the amendments, financial reporting varies by type of grantor (government entity versus nongovernment entity), by type of grantee (business versus not for profit), and by type of grant (asset versus income grant).
5. Investors requested that all grants to business entities be accounted for using one model. In contrast, the amendments provide for at least five different models:
   a. The cost accumulation approach for asset grants from government entities
   b. The deferred income approach for asset grants from government entities
   c. The net expense presentation approach for income grants from government entities
   d. The gross presentation approach for income grants from government entities
   e. Grants to businesses from nongovernmental entities under Subtopic 958-605.

Barring more decision-useful accounting, investors requested information to understand the impact of government grants on operating metrics. Investors requested disclosures in the period of the grant and on an ongoing basis to (1) understand the ongoing operating margins and potential future cash flows of business entities with and without government grants and (2) compare business entities that use the different options allowed under the amendments. For example, under the cost accumulation approach, the balance sheet does not include assets received as government grants being used in business entities' operations, which inflates the return on assets metric. Likewise, operating margins do not reflect the consumption of those assets, thus inflating operating margins. Furthermore, granted tangible nonmonetary assets might require ongoing maintenance expenditures and eventually will become obsolete, and a future capital outlay may be required. Accordingly, reported operating margins may be unsustainable if government grants are not received in the future to replace those assets. Thus, 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. However, because of the lack of ongoing disclosure of the fair value of government grants for tangible nonmonetary assets, an investor may not be aware of the existence of the asset in business entities' operations or the useful life of that asset after the year of the government grant. Consequently, under the amendments, investors do not receive the information necessary to address the noncomparability problem sustained by the amendments or understand the longer-term effects of government grants on expected cash flows.

Dr. Botosan, Mr. Cannon, and Dr. Joseph are also concerned that the disclosure requirements (or lack thereof) in the amendments in this Update under the cost accumulation approach will be less than those under IAS 20. IAS 20 does not include the concept of cost accumulation; however, it includes an optional method for asset grants that deducts the grant from the carrying amount of the asset, resulting in similar balance-sheet presentation as that of cost accumulation. Unlike the amendments in this Update, however, IAS 20 explicitly recognizes the impact of this accounting on the income statement, stating that the "grant is recognized in profit or loss over the life of a depreciable asset as a reduced depreciation expense." Under "Disclosure," IAS 20 goes on to say that "the following matters shall be disclosed" including "the nature and extent of government grants recognized in the financial statements." As a result, unlike the amendments in this Update, IAS 20 requires the ongoing disclosure that investors requested for grants of assets accounted for under the cost accumulation approach.

On the basis of a careful analysis of the comment letters, Dr. Botosan, Mr. Cannon, and Dr. Joseph also believe that the amendments in this Update are unresponsive to broad stakeholder feedback. For example, of those stakeholders that responded definitively to the relevant question or deferred to investors' preferences,[1] approximately:

1. Thirty-five percent did not support the probable threshold.
2. Sixty-five percent did not support the necessity of two methods to account for asset grants.
3. Forty-five percent did not support the deferred income approach.
4. Sixty percent did not support the cost accumulation approach.

[1]Comment letter respondents that deferred their views to investors are counted as consistent with the preferences investors consistently expressed in feedback throughout the project, which are itemized in points (1) to (5) earlier in the dissent.

5. Seventy-five percent did not agree that the cost accumulation approach is decision useful.
6. Fifty-five percent did not support the necessity of distinguishing between asset grants and income grants.
7. Forty percent did not support amortizing grant income over time.
8. Sixty percent did not support net presentation on the income statement.
9. Sixty percent did not support the lack of ongoing disclosure of information under the cost accumulation approach.

Finally, of those that responded with a definitive response to the question of whether the amendments provide decision-useful information, all concluded that they do not.

Dr. Botosan, Mr. Cannon, and Dr. Joseph generally support 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, Mr. Cannon, and Dr. Joseph's view, the claim that the amendments in this Update enhance global comparability is mistaken. Instead, the free choice among alternatives untethered to any true economic differences that is codified by the amendments does little to address investors' need for increased comparability.

Finally, Dr. Botosan would have preferred 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 already apply to grants from nongovernmental entities because Subtopic 958-605 (1) already exists in GAAP, (2) already applies to grants that business entities receive from nongovernmental entities, and (3) represents a substantial improvement over the IAS 20 model. Consistent with this, the IASB itself rejected IAS 20 in more recent standard setting related to grants of biological assets, deciding that like in Subtopic 958-605, an entity recognizes grant income when the conditions of the grant are met.

In closing, Dr. Botosan, Mr. Cannon, and Dr. Joseph believe that without adequate disclosures, the amendments in this Update, which produce nonconceptual and noncomparable information for investors, will result in long-term expected costs that will exceed the short-term implementation cost savings from codifying existing practice. In short, they view the amendments as a lost opportunity to address the cost that investors bear in attempting to make analytical adjustments to the reported amounts with inadequate information, which introduces potential confusion and incompleteness into their analyses of government grant assets, obligations, and income.

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 and Basis for Conclusions

Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this 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 Update to provide recognition, measurement, and presentation guidance for government grants received by business entities. There has been a lack of guidance on accounting for government grants received by business entities for the over 50 years that the FASB has been in existence. One of the significant challenges in creating a standard for accounting for government grants is the widely different views of the economics of a government grant and, in turn, agreement on an accounting model that best reflects those economics. 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 or Subtopic 958-605. Analogizing to accounting guidance can vary significantly from the specific application of the related guidance, introducing a wide variety of accounting models in practice.

BC3. As described in more detail below, the Board considered several alternative approaches for recognizing government grants. However, consistent with the diversity of stakeholder feedback, Board members expressed differing views on whether a single recognition approach should be required for all types of grants and, if so, which approach should be required. Because no single recognition approach (for example, cost accumulation, deferred income, or other approaches) received a majority of the Board's support and investors generally did not indicate that government grant accounting is a significant financial reporting priority for the FASB, the Board concluded that it was important to address the absence of authoritative guidance and provide standardized accounting requirements for government grants. If the Board had instead suspended standard-setting activities, existing diversity in practice would have continued for the foreseeable future.

Background Information

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 Update 2021-10 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 received by 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 received by business entities had led to significant diversity in practice. Other respondents stated that there was 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 might outweigh the expected benefits because other accounting models for government grants already existed and were 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), the Public Markets Advisory Committee (PMAC, previously known as the Small Business Advisory Committee), the Private Company Council (PCC), and the 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 allocating 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 observed that 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 included 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 will improve GAAP and reduce diversity. The Board observed that the amendments in this Update will result in standardized authoritative accounting guidance for government grants that is more consistent with current practice and responsive to stakeholder feedback. Furthermore, the amendments clarify GAAP by providing authoritative guidance that eliminates the need for accounting by analogy and reduces 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 will create greater consistency because business entities 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 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 decided that requiring business entities to apply a model for government grants that was developed to reflect the unique nature of an NFP is not 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. In the Board’s view, 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 should 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 IFRS Accounting Standards.

BC12. On November 19, 2024, the Board issued proposed Accounting Standards Update, *Government Grants (Topic 832): Accounting for Government Grants by Business Entities* (2024 proposed Update), for public comment with the comment period ending on March 31, 2025. The Board received 34 comment letters in response to the proposed amendments. Overall, comment letter respondents expressed support for the Board's efforts to add guidance in GAAP related to the recognition, measurement, and presentation of government grants received by business entities. Consistent with the feedback on the 2022 GG ITC, many respondents supported the development of a model that leverages the guidance in IAS 20 because many business entities currently apply IAS 20 by analogy and IAS 20 is widely understood.

BC13. Of the 34 comment letters received in response to the amendments in the proposed Update, 14 were received from practitioners, 11 from state societies and trade groups, 3 from preparers, and the remaining from professional associations, individuals, and an academic. A single comment letter was received from an investor advocacy organization. The Board members who dissented to the amendments in this Update presumed the feedback in that single comment letter represented not only the views of all investors, but also those of noninvestor respondents that did not provide specific views or disagree with the proposed amendments, but indicated that investor-specific questions would be better answered by investors.

BC14. In the view of the majority of the Board, this presumption is inappropriate and conveys an inaccurate characterization of the Board's due process, suggests that standard setting is merely a polling exercise, and fails to consider feedback obtained through specific outreach and consultation with the Board's advisory groups (all of which include investors that use financial accounting and reporting information to make capital allocation decisions).

BC15. Comment letter respondents also provided suggestions on various areas for further improvement or clarification. The Board considered stakeholder feedback in reaching its conclusions in this Update, as discussed in each area below.

Basis for Conclusions

Benefits and Costs

BC16. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, 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, 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.

BC17. The amendments in this Update provide the benefit of establishing specific authoritative guidance in GAAP for government grants. The amendments provide decision-useful information for investors because transactions that meet the definition of a government grant are clearly identified and accounted for under the amendments. The amendments reduce diversity in practice and increase consistency across business entities by eliminating accounting by analogy. The amendments also benefit multinational entities and investors that compare entities globally by promoting convergence with international accounting standards.

BC18. The amendments in this 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 these elections will allow a business entity to select the presentation that the entity believes best reflects the economics of the grant and the effect of the grant on its business or operations. Although providing these elections results in less comparability when compared with prescribing a single approach for all government grants, the Board concluded that this cost is expected to be limited because (a) investors will 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 will be greatly reduced. In addition, a majority of the Board was unable to agree on a single model for all government grants in all situations and ultimately concluded that issuing a final standard that greatly narrowed permissible accounting was a significant improvement.

BC19. The Board does not anticipate that entities will incur significant costs as a result of the amendments in this Update. While the amendments will be a change from entities' current accounting policies for government grants if the entities apply portions of IAS 20, Subtopic 958-605, or other guidance by analogy, the Board does not expect that the costs associated with making those changes will be significant.

Scope

Entities

BC20. The amendments in this Update 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 amendments because Topic 958 contains guidance 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 amendments because research indicated that employee benefit plans generally do not receive a significant amount of government grants.

Government Grants

BC21. The amendments in this Update define a government grant as a transfer of a monetary asset or a tangible nonmonetary asset, other than in an exchange transaction (including an exchange transaction that may be at a significant discount to fair value), from a government to an entity except a not-for-profit entity and an employee benefit plan within the scope of Topics 960, 962, and 965 on plan accounting. 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 identifies the population of government grants whose accounting, according to most stakeholders, should be improved and because it was generally viewed as operable.

BC22. The Board determined that the following transactions with a government are excluded from the scope of the amendments in this Update:

a. Transactions within the scope of Topic 740, Income Taxes (for example, nonrefundable, nontransferable income tax credits)
b. The benefit of below-market interest rate loans
c. Government guarantees
d. 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.

BC23. Many comment letter respondents to the amendments in the 2024 proposed Update stated that the definition of a government grant and scope exclusions are understandable and operable and indicated that the scope includes many of the types of grants for which guidance is needed. Therefore, the Board affirmed its decision on the scope of the amendments in this Update including (a) the definition of a government grant and (b) the scope exclusions. On the basis of comment letter feedback, the Board decided to remove the scope exception for exchange transactions in paragraph 832-10-15-4A of the 2024 proposed Update because the definition of a government grant explicitly excludes exchange transactions. The Board noted that an entity should consider whether a transaction with a government is within the scope of another Topic, including industry-specific Topics, such as Subtopic 912-730, Contractors—Federal Government—Research and Development.

BC24. 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 in this Update. The amendments apply only to the transaction within the agreement that relates to the government grant.

BC25. 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 Update. The Board concluded that, consistent with its reasoning in Update 2021-10, 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 within the scope of the amendments. In addition, the Board did not receive feedback from stakeholders indicating any concerns about the description of a government since the issuance of Update 2021-10.

Monetary and Tangible Nonmonetary Assets

BC26. The Board determined that the scope of the amendments in this 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 is included in the scope of IAS 20 and should not be operationally challenging to identify and measure.

BC27. The Board decided to specify that a forgivable loan should be treated as a government grant when a business entity concludes that the recognition guidance is met, including when it is probable that the business entity will receive the proceeds and 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 (a forgivable loan and a government grant of cash), a business entity should consider the related conditions to determine whether a loan would be subsequently forgiven or whether a government grant would not need to be repaid. Comment letter respondents to the 2024 proposed Update broadly agreed with the proposed amendments to include forgivable loans in the scope.

Intangible Assets and Services

BC28. 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 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 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.

BC29. While many comment letter respondents to the 2024 proposed Update broadly supported the proposed scope and related scope exclusions, some stakeholders provided suggestions to include additional types of transactions in the scope of the amendments in this Update, including nonrefundable, transferable tax credits and right-of-use assets. However, the feedback about each type of transaction was mixed. For example, some stakeholders supported excluding intangible assets and right-of-use assets from the scope of the proposed amendments because of concerns about operability, while other stakeholders suggested expanding the scope. For the reasons noted in paragraph BC28, the Board decided not to expand the scope of the amendments in this Update to include intangible assets or a subset of intangible assets such as nonrefundable, transferable tax credits.

Exchange Transactions

BC30. 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 Update. In response to the feedback, the Board decided that the scope of the amendments should 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. Comment letter respondents to the

2024 proposed Update broadly agreed with the proposed amendments to exclude exchange transactions from the scope.

Income Taxes

BC31. The Board decided to exclude transactions that are within the scope of Topic 740 from the scope of the amendments in this 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. Comment letter respondents to the 2024 proposed Update broadly agreed with the proposed amendments to exclude transactions that are within the scope of Topic 740 from the scope.

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

BC32. The Board decided to exclude the benefit of below-market interest rate loans and government guarantees from the scope of the amendments in this 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 a loan and guarantee. Thus, in the Board's view, the benefit, if any, of reporting a hypothetical additional cost of financing (that is, the amount that potentially exists in the absence of government assistance) and a corresponding amount of grant income does not justify the significant cost of providing that information. Comment letter respondents to the 2024 proposed Update broadly agreed with the proposed amendments to exclude the benefit of below-market interest rate loans and government guarantees from the scope.

Recognition

BC33. Under the amendments in this Update, a business entity should not recognize a government grant until (a) it is probable that (1) the business entity will comply with the conditions of the grant and (2) the grant will be received and (b) a business entity meets the recognition guidance for a grant related to an asset or a grant related to income. IAS 20 uses *reasonable assurance* instead of *probable*. 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 that term and *reasonable assurance* is not defined or widely used in GAAP. The Board observed that *reasonable assurance* is most often interpreted to be consistent with the term *probable* as defined in the Master Glossary. The Board decided that *probable* is 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, as well as with other current guidance.

BC34. The Board considered using the alternative of *reasonably certain* instead of probable in the recognition guidance. Some stakeholders expressed a preference for a high threshold for government grant proceeds to be recognized and noted that *reasonably certain* would align with recent guidance such as that in Topic 842, Leases. The Board discussed that *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* 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 current practice. The Board decided to use *probable* to be consistent with how most entities are currently applying the guidance in IAS 20 in practice.

BC35. Many comment letter respondents to the 2024 proposed Update broadly agreed with using *probable* as the recognition threshold because many business entities apply similar guidance when analogizing to IAS 20 today. However, a few comment letter respondents observed that *probable* was too low of a threshold for recognizing a government grant. For example, some respondents suggested an alternative threshold of reasonably certain or a performance-based metric. The Board noted that a business entity will need to apply judgment when assessing a government grant’s individual facts and circumstances to conclude whether the probable threshold has been met; however, the Board decided that a probable threshold for recognizing government grants should be operable because the term *probable* is well understood in practice and the use of that term aligns with guidance in other areas of GAAP, including when recognizing variable consideration under Topic 606.

BC36. Some comment letter respondents to the 2024 proposed Update expressed concerns that the proposed wording in paragraph 832-10-25-1 (that "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") may result in a business entity recognizing a government grant on the balance sheet either (a) before the business entity incurs grant-related costs or expenses or (b) before it receives the grant. Those respondents suggested that the Board clarify whether the probable criteria should dictate the timing of recognition of a government grant on the balance sheet.

BC37. The Board did not intend for a business entity to recognize a government grant before incurring grant-related costs or expenses even if the business entity concludes that the grant meets the probable criteria. The amendments in this Update clarify that a business entity should not recognize a government grant *until* the probable criteria are met and the business entity incurs the related costs and expenses associated with the grant. Furthermore, the Board clarified that a government grant receivable or liability may be recognized because of differences in the timing between when a business entity receives a government grant and when the related guidance for recognition is met. These clarifications also alleviate the concerns raised by some stakeholders that a business entity may recognize a negative asset balance using the cost accumulation approach when the probable criteria are deemed to have been met.

Timing and Pattern of Recognition on the Income Statement

BC38. The amendments in this Update require that a grant related to an asset accounted for using the deferred income approach and a grant related to income be recognized in earnings on a systematic and rational basis over the periods in which a business 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

BC39. Some respondents to the 2022 GG ITC and the 2024 proposed Update 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. The Board observed that it may be appropriate to conclude that a portion of a grant is a grant related to an asset and another portion of a grant is a grant related to income. However, because the amendments in this Update do not prescribe a single approach for allocating the proceeds of a grant when it relates to different types of grants and feedback indicated that stakeholders are applying the guidance in IAS 20 in practice, the Board decided to remove the illustrative example from the amendments in this Update and not to provide specific guidance or illustrative examples on the allocation of government grant proceeds to multiple conditions. The Board acknowledges that not prescribing a specific approach for allocation of government grant proceeds will result in differing approaches being applied in practice, including allocating grant proceeds to conditions on a proportionate cost basis or to an individual condition based on what has judgmentally been determined to be the primary condition of the grant.

Grant Related to an Asset and Grant Related to Income

Grant Related to an Asset

BC40. 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 reflects the grant as an adjustment to the cost basis in determining the carrying amount of the asset. The grant is recognized in profit or loss over the life of a depreciable asset as reduced depreciation expense.

BC41. The Board decided to retain this guidance but notes that the alternatives related to the accounting for a grant related to an asset are better described as recognition guidance than as presentation alternatives. Thus, in the amendments in this Update, 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 a business entity's acquisition of an asset) and that Topic 740 indicates that it may be preferable to account for an investment tax credit over the productive life of the acquired asset.

BC42. The Board concluded that the financial reporting outcomes should be consistent with IAS 20. The Board determined that allowing flexibility for a business entity to account for different types of government grants differently may better reflect the economics of the grant and the effect of the grant on the business entity's 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 preferred the deferred income approach but noted that they could support having an option if sufficient information about government grants and the accounting model applied is disclosed.

BC43. The amendments in this Update permit a business entity to recognize a grant related to an asset on the balance sheet either by (a) recognizing the government grant proceeds as deferred income (the deferred income approach) or (b) by reflecting the government grant proceeds as an adjustment to the cost basis in determining the carrying amount of the asset (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) or separately as other income. For a grant related to a depreciable asset that is presented using a cost accumulation approach on the balance sheet, the value of the government grant should 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 that the grant is received.

BC44. 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 may be preferable in many cases).

BC45. 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 FASB Concepts Statement No. 8, *Conceptual Framework for Financial Reporting*, because the deferred income, in many cases, fails to meet the definition of a liability. In contrast, under the cost accumulation approach, a business entity should 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, *Measurement,* of Concepts Statement 8.

BC46. Other Board members supported separate recognition of a grant related to an asset as deferred income on the basis 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 a business entity.

BC47. 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 previously elected to account for government grant proceeds separately as deferred income by analogizing to IAS 20. Additionally, some investors stated that the deferred income approach results 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.

BC48. Feedback from comment letter respondents on the 2024 proposed Update was mixed about whether to retain the optionality in accounting for a grant related to an asset. For example, some respondents stated that they preferred a single model that would require a business entity to account for a grant related to an asset using the deferred income approach. However, other respondents supported the use of either the deferred income approach or the cost accumulation approach. A few respondents supported requiring the use of either the cost accumulation approach or another single accounting model.

BC49. The Board affirmed its decision that a grant related to an asset may be accounted for using either the cost accumulation approach or the deferred income approach. The Board observed that permitting either the cost accumulation approach or the deferred income approach does not create uniformity in how the guidance will be applied but that the amendments as a whole reduce the diversity in practice because, currently, business entities may analogize to various accounting guidance when accounting for a government grant. In addition, many stakeholders observed that the amendments in the 2024 proposed Update on a grant related to an asset are operable and understandable.

Grant of a tangible nonmonetary asset

BC50. The Board concluded that there are two acceptable approaches to account for the receipt of a tangible nonmonetary asset that is determined to be a grant related to an asset. Under the deferred income approach, a grant of a tangible nonmonetary asset should be recognized and initially measured on the balance sheet at fair value with grant proceeds subsequently recognized in earnings on a systematic and rational basis over the periods in which the entity incurs the costs to which the grant relates. Alternatively, under the cost accumulation approach, a grant of a tangible nonmonetary asset should be recognized and initially measured at the cost, if any, to the business entity.

BC51. While IAS 20 allows accounting for such grants at fair value, it also provides the option to measure tangible nonmonetary assets at a nominal amount as well as permits entities to reduce the fair value of the asset by an amount equal to the fair value of the government grant as a presentation alternative. 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 common practice to reduce the reported value of the tangible nonmonetary asset under the presentation alternative. Rather than requiring a two-step 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 recognizing the asset and measuring it under the cost accumulation approach is more consistent with the entry price notion in Chapter 6 of Concepts Statement 8. However, the Board did not specify a preferable approach; therefore, a business entity may elect to apply the cost accumulation approach or the deferred income approach to account for the receipt of a tangible nonmonetary asset that is determined to be a grant related to an asset.

Subsequent accounting for a grant related to an asset accounted for using the deferred income approach

BC52. Many comment letter respondents to the 2024 proposed Update suggested that the amendments in this Update include implementation guidance about how to subsequently account for a grant related to a nondepreciable asset that is accounted for using the deferred income approach, considering the guidance in IAS 20 for nondepreciable assets.[2] Some respondents indicated that there is diversity in practice on the subsequent accounting for a grant related to a nondepreciable asset and that the guidance in IAS 20 is not clear, understandable, or operable. The Board acknowledged that a grant related to a nondepreciable asset may be intended to compensate for costs other than the nondepreciable asset and decided that a government grant should be subsequently recognized in earnings on a systematic and rational basis over the periods in which the business entity incurs the costs to which the grant relates. The Board noted that providing specific guidance on how to account for a nondepreciable asset accounted for using the deferred income approach is consistent with current practice and will enhance consistency across entities.

Grant Related to Income

BC53. The amendments in this Update 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

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[2] Paragraph 18 of IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, states:

> Grants related to non-depreciable assets may also require the fulfillment of certain obligations and would then be recognised in profit or loss over the periods that bear the cost of meeting the obligations. As an example, a grant of land may be conditional upon the erection of a building on the site and it may be appropriate to recognise the grant in profit or loss over the life of the building.

income statement presentation of a grant related to income is consistent with current practice and allows flexibility for a business entity to present different types of government grants differently, which will better reflect the economics of the grant and the effect of the grant on the business entity's operations.

BC54. Comment letter respondents to the 2024 proposed Update generally agreed that the proposed amendments are clear, operable, auditable, and consistent with current practice. The Board acknowledged that some of those respondents stated that they would prefer gross presentation on the income statement to increase the transparency of information provided to investors. However, the Board observed that investors will have transparent information about government grants through disclosure of the line items on the income statement that are affected by the grant and the amounts applicable to each financial statement line item. Therefore, the Board affirmed its decision to permit grant proceeds to be presented either (a) separately under a general heading such as other income or (b) deducted from the related expense.

Repayment of a Government Grant

BC55. The amendments in the 2024 proposed Update would have required that a government grant that becomes repayable be accounted for as a change in estimate in accordance with Topic 250, Accounting Changes and Error Corrections. In reaching that decision, the Board considered stakeholder feedback on 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.

BC56. Some comment letter respondents to the 2024 proposed Update suggested clarifications to the amendments in this Update. The Board considered whether to (a) leverage the guidance in IAS 20 on the accounting for repayments without referencing the guidance in Topic 250 or (b) require that a government grant that becomes repayable should be accounted for in accordance with Topic 250, without providing specific guidance. The Board decided to remove the reference to Topic 250 from the amendments in this Update and leverage the guidance in IAS 20 on how to account for a government grant that becomes repayable. IAS 20 states that a government grant that becomes repayable should be accounted for as a change in estimate in accordance with IAS 8, *Basis of Preparation of Financial Statements*. The amendments in this Update require that the repayment of a grant related to income should be applied first against any unamortized credit and describe when the repayment should be recognized in earnings. The amendments also require that any repayment of a grant related to an asset should be recognized by increasing the carrying amount of the related asset (if an entity applies the cost accumulation approach) or reducing the deferred income balance by the amount repayable (if an entity applies the deferred income approach) and describe how a business entity should account for the change in depreciation. The Board concluded that the reference to Topic 250 is unnecessary because the amendments specify the accounting if a government grant becomes repayable. The Board noted that these changes are responsive to stakeholder feedback and consistent with how business entities account for government grants that become repayable in current practice.

Contingent Assets and Liabilities

BC57. The amendments in the 2024 proposed Update stated that once a government grant is recognized, any related contingent liability or contingent asset should be accounted for in accordance with Topic 450. In reaching that decision, the Board considered stakeholder feedback on 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.

BC58. Some comment letter respondents to the 2024 proposed Update indicated that it is unclear under what circumstances a contingent liability, or a contingent asset, related to a government grant may need to be recognized and questioned the interaction between the contingency guidance and the repayment guidance for a government grant. The Board decided to remove the contingency guidance from the amendments in this Update. The Board noted that if a business entity has a contingency related to a government grant, the business entity should look to Topic 450 to determine the appropriate accounting.

Statement of Cash Flow Presentation

BC59. The Board considered feedback on the 2022 GG ITC and the 2024 proposed Update and 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. 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 indicated that applying the principles in Topic 230 is consistent with current practice and should not be costly or complex to apply. The Board decided to remove the reference to Topic 230 from the amendments in this Update, noting that a specific reference is unnecessary. A business entity should look to Topic 230 to determine the appropriate accounting.

Disclosure

Disclosure Scope

BC60. The Board decided to leverage the current 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 apply to a government grant received by a business entity, consistent with the scope of the amendments in this Update.

BC61. The Board observed that the current disclosure requirements in Topic 832 are comprehensive and were developed through extensive Board deliberations. The Board also noted that the accounting for government grants specified in this Update would have been permissible as an accounting policy previously and, in fact, was widely used. 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 and that usefulness was not differentiated on the basis of the government grant accounting policy elected.

BC62. The Board decided that the current disclosures in Topic 832 should be applied to transactions within the scope of the amendments in this Update. The amendments provide authoritative guidance on recognition, measurement, and presentation of government grants, eliminating the application of other GAAP by analogy.

Annual Disclosures

BC63. 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, in the Board's view, a business entity must choose an accounting policy to be applied consistently for similar types of grants.

BC64. The Board affirmed its decision that the disclosures in Topic 832, including the amendments to those disclosures in this Update, should be required for annual reporting periods. The Board observed that an entity would be required to consider whether additional disclosures are required in interim reporting periods under the interim disclosure principle in Topic 270, Interim Reporting, for events since the end of the last annual reporting period that have a material impact on the entity. The Board concluded that requiring specific disclosures on an interim basis will increase costs for preparers without a commensurate increase in the benefit to investors and that the interim disclosure principle will provide investors with relevant information during interim reporting periods.

Grant Related to a Tangible Nonmonetary Asset

BC65. 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 most cases. 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 provides 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.

Grant Related to an Asset Accounted for Using the Cost Accumulation Approach

BC66. For a grant related to an asset that is accounted for using a cost accumulation approach, the Board decided that the current 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), provide investors with sufficient information.

BC67. The Board also 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 in periods after the government grant is recognized. Specifically, the Board did not want to require that a business entity disclose 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 business 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 a business entity incur costs to apply two different accounting approaches, one of which is hypothetical, for the duration of the asset's useful life to determine the 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 a different 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 a business 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.

BC68. Some comment letter respondents to the 2024 proposed Update indicated support for additional disclosures about a government grant related to an asset that is accounted for using a cost accumulation approach in periods after the government grant is recognized, noting that additional information would provide additional transparency for investors. However, other comment letter respondents, including preparers and practitioners, stated that accounting systems are not equipped to handle the separate tracking of information that the additional disclosures would require (that is, disclosures as if the business entity had applied the deferred income approach). Those respondents noted concerns about operability challenges and increased costs to audit and monitor internal controls if additional information is required in subsequent periods.

BC69. The Board considered whether to require additional disclosure of a government grant related to an asset that is accounted for using a cost accumulation approach in periods after the government grant is recognized including (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 useful life of any related asset (either a range or weighted average), and (c) the related income statement amounts including depreciation, impairment, and gain or loss on disposal excluding the effect of the grant. The Board affirmed its decision to require disclosure of a grant related to an asset that is accounted for using a cost accumulation approach in the period in which the government grant is recognized including (1) the line items on the balance sheet that are affected by the grant and (2) the amounts applicable to each financial statement line item. The Board decided not to require additional disclosure about a grant related to an asset accounted for using the cost accumulation approach in periods after the grant has been recognized. However, in the period that the grant is recognized, the Board decided that a business entity should disclose the useful life of any related depreciable asset. Some Board members noted that the disclosures that are required in the period in which the grant is recognized provide investors with sufficient information.

Disaggregation of Income Statement Expenses

BC70. The Board decided that the disclosure of a grant related to an asset that is accounted for using the deferred income approach or a grant related to income that is presented as a deduction from the related expense on the income statement should be included in paragraph 220-40-50-21, which requires certain amounts that are already required to be disclosed in GAAP to be included in the same disclosure as the other disaggregation requirements. Some comment letter respondents to the 2024 proposed Update suggested that the Board clarify the interaction of the amendments in this Update with those in Accounting Standards Update No. 2024-03, *Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses* (DISE). Specifically, those respondents requested clarification on whether the guidance in paragraph 220-40-50-26 on cost-sharing and cost-reimbursement arrangements would apply to government grants. The amendments in this

Update clarify that the amount of a government grant should be disclosed separately and, therefore, should not be disclosed similar to cost-sharing and cost-reimbursement arrangements in paragraph 220-40-50-26.

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

BC71. The Board considered whether Topic 805, Business Combinations, provides sufficient guidance for a business entity to determine how to recognize and measure assets acquired and liabilities assumed from a government grant in a business combination.

BC72. The amendments in this Update require a business entity that acquires a grant related to income to recognize any deferred income assumed in accordance with Topic 832 at the acquisition date, unless the business entity has fully complied with the conditions attached to the government grant. In that case, the acquirer should not recognize deferred income. Under the amendments, the deferred income amount recognized by the acquirer should be similar to, if not the same as, the deferred income amount recognized by the acquiree immediately before the acquisition date.

BC73. The Board noted that recognizing and measuring deferred income from a grant related to income at fair value in accordance with Subtopic 805-20, Business Combinations—Identifiable Assets and Liabilities, and Any Noncontrolling Interest, may be challenging because government grants are not transactions with market participants. Therefore, the Board decided to provide specific guidance for the recognition and measurement of deferred income from a grant related to income assumed in a business combination because it will reduce cost and complexity for preparers, while also reducing diversity in practice.

BC74. Overall, comment letter respondents to the 2024 proposed Update broadly supported the recognition and measurement exception for deferred income from a grant related to income that is assumed by an acquirer in a business combination, noting that the proposed amendments were clear and operable, while some respondents provided suggestions for further improvement or clarification. Therefore, the Board affirmed its decision to provide specific guidance on how a business entity should recognize and measure a grant related to income in a business combination and made certain clarifications suggested by respondents.

BC75. All other assets acquired and liabilities assumed related to a government grant acquired in a business combination should be recognized and measured in accordance with the guidance in Subtopic 805-20 at the acquisition date. The Board concluded that the business combinations guidance should not be challenging or costly to apply to other assets acquired and liabilities assumed related to a government grant in a business combination.

BC76. One comment letter respondent to the 2024 proposed Update expressed concerns that the proposed amendments may result in double-counting the effect of an acquired government grant in a business combination. For example, that respondent noted that the grant proceeds may be double-counted if a business entity (a) uses the income approach (in accordance with Topic 820, Fair Value Measurement) to measure in-process research and development (IPR&D) at fair value at the acquisition date and (b) includes the amount of government grant proceeds that are expected to be received in the fair value of that IPR&D at the acquisition date. The Board indicated that at the acquisition date an entity should not include the expected government grant proceeds in the valuation of IPR&D.

Private Company Considerations

BC77. The Board considered the *Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies*, and consulted with the PCC about the amendments in this Update. Through its discussions with the PCC, the Board concluded 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 recognition, measurement, and presentation guidance in the amendments in this Update provides investors with decision-useful information in a cost-effective manner for public business entities and nonpublic business entities.

BC78. While a majority of respondents supported the proposed disclosure of the fair value of a government grant of a tangible nonmonetary asset, a few comment letter respondents stated that such a disclosure may lead to significant costs for private companies to obtain the information to determine fair value and that the companies may require a third-party valuation expert. However, users of private company financial statements indicated that the disclosure of fair value of a government grant of a tangible nonmonetary asset would provide decision-useful information. Therefore, the Board decided that all business entities, including nonpublic and public business entities, should be required to disclose the fair value of a tangible nonmonetary asset in the period recognized. The Board noted that this disclosure is consistent with current practice and is cost beneficial for users of private company financial statements.

BC79. The Board considered comment letter feedback on the 2024 proposed Update and the Private Company Decision-Making Framework and decided to provide an additional year for nonpublic business entities to adopt the amendments in this Update as described in paragraph BC80.

Effective Date, Transition, and Transition Disclosures

BC80. The amendments in this Update are effective for public business entities for annual reporting periods beginning after December 15, 2028, and interim reporting periods within those annual reporting periods. For entities other than public business entities, the amendments in this Update are effective for annual reporting periods beginning after December 15, 2029, and interim reporting periods within those annual reporting periods. Early adoption is permitted in both interim and annual reporting periods in which financial statements have not yet been issued or made available for issuance. A business entity adopting the amendments in an interim reporting period is required to adopt them as of the beginning of the annual reporting period that includes that interim reporting period.

BC81. The Board decided that the amendments in this Update should be applied using (a) a modified prospective approach, (b) a modified retrospective approach, or (c) a retrospective approach.

BC82. Under a modified prospective approach, the amendments in this Update should be applied to both (a) government grants that are entered into on or after the effective date and (b) government grants that are not complete as of the effective date. Under a modified prospective approach, prior-period results should not be restated, and there should be no cumulative-effect adjustment to the opening balance of retained earnings as of the beginning of the year of adoption of the amendments. The Board decided to require that a business entity disclose the nature of and reason for the accounting change in accordance with Topic 250. The Board decided that applying the amendments using a modified prospective basis to government grants that are entered into on or after the effective date and government grants that are not complete as of the effective date provides comparable information in a cost-effective manner.

BC83. In addition, the Board decided to permit a business entity to apply the amendments in this Update using a modified retrospective approach. Under a modified retrospective approach, a business entity should apply the amendments retrospectively to both (a) government grants that are entered into on or after the beginning of the earliest period presented and (b) government grants that are not complete as of the beginning of the earliest period presented. Under a modified retrospective approach, all prior period results should be restated for government grants that are not complete as of the beginning of the earliest period presented through a cumulative-effect adjustment to the opening balance of retained earnings as of the beginning of the earliest period presented.

BC84. The Board considered that some entities may prefer to apply the amendments in this Update retrospectively so that similar government grants are accounted for consistently. The Board, therefore, decided to permit, but not require, full retrospective application of the amendments. Under a retrospective approach, the amendments should be applied to all government grants through a cumulative-effect adjustment to the opening balance of retained earnings as of the beginning of the earliest period presented. The opening adjustment to retained earnings captures the effect on retained earnings for all previously existing government grant arrangements. Furthermore, a business entity should restate the financial results for all years presented to reflect the effect of the amendments.

BC85. For purposes of transition, a complete government grant is a grant for which substantially all of the government grant proceeds have been previously recognized in accordance with current guidance (a) before the effective date of the amendments in this Update under a modified prospective approach or (b) before the beginning of the earliest period presented under a modified retrospective approach. For a grant related to an asset that was accounted for by reflecting the grant as an adjustment to the cost basis in determining the carrying amount of the asset, the government grant is considered recognized when substantially all of the grant is reflected in the carrying amount of the asset on the balance sheet. For all other government grants, the grant is considered recognized when substantially all of the government grant proceeds have been recognized in the income statement.

BC86. The Board decided that if a business entity applies the amendments in this Update retrospectively (using either of the retrospective approaches), the entity should provide the transition disclosures in paragraphs 250-10-50-1 through 50-2 in the period of adoption, except for the disclosures in paragraph 250-10-50-1(b)(2) for the current reporting period and the disclosures in paragraph 250-10-50-1(b)(4) through (c)(1).

Comparison with IFRS Accounting Standards

BC87. 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 government grants and other forms of government assistance.

BC88. The amendments in this Update and the requirements in IAS 20 are broadly similar. Differences in disclosures between IAS 20 and the amendments in Update 2021-10 are discussed in the basis for conclusions of that Update. The following are some key differences between the amendments in this Update and the guidance in IAS 20.

a. Scope. The amendments 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 amendments.
b. Recognition Threshold. The amendments require recognition based on an assessment of whether the criteria are *probable* of being met. IAS 20 requires that an entity assess whether there is *reasonable assurance* that the criteria will be met.

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

Amendments to the GAAP Taxonomy

The amendments to the *FASB Accounting Standards Codification*® in this Accounting Standards Update require improvements to the GAAP Financial Reporting Taxonomy and SEC Reporting Taxonomy (collectively referred to as the "GAAP Taxonomy"). Those improvements, which will be incorporated into the proposed 2026 GAAP Taxonomy, are available through GAAP Taxonomy Improvements provided at www.fasb.org, and finalized as part of the annual release process.