FASAC FINANCIAL ACCOUNTING STANDARDS ADVISORY COUNCIL

Virtual Meeting via Zoom
Tuesday, March 15, 2022
Agenda

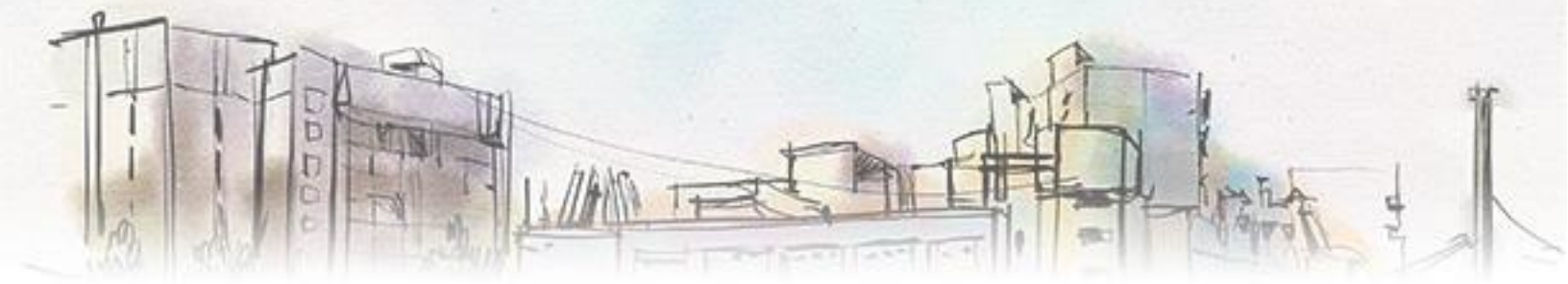
10:30–10:35 am (5 minutes)	**Introductions and Opening Remarks** (Michael Morrow)
10:35–10:50 am (15 minutes)	**Topic 1—Highlights on Current Hot Topics** • FASB Highlights (Richard Jones) • SEC Highlights (Kevin Vaughn) • PCAOB Highlights (Barbara Vanich)
10:50 am –12:00 pm (70 minutes)	**Topic 2—Accounting for and Disclosure of Intangibles** • Topic introduction and description of breakout room tasks– 10:50-10:55 am *(5 minutes)* • ***Move to virtual breakout rooms*** **(10:55-11:00 am)** (5 minutes) • Breakout discussions- 11:00 am-12:00 pm (*60 minutes)*
12:00 – 1:00 pm (60 minutes)	**BREAK (60 minutes)**
1:00 – 2:00 pm (60 minutes)	**Topic 2 (continued) – Accounting for and Disclosure of Intangibles** • Reconvene to analyze and further explore the similarities, differences, and other linkages in Council members' views from the breakout groups.
2:00–2:30 pm (30 minutes)	**Topic 3 — Accounting for Government Grants** • Topic introduction and education from FASB staff
2:30 pm	**ADJOURNMENT**

FASB FINANCIAL ACCOUNTING STANDARDS BOARD®

STANDARDS THAT WORK
FROM MAIN STREET TO WALL STREET

FASB Chair Report

October 1, 2021–December 31, 2021



LETTER FROM THE FASB CHAIR

The last three months of 2021 saw us close out a very busy, very productive year. During the fourth quarter, we also laid the foundation for a successful 2022 by making significant progress in key areas including agenda consultation outreach, post-implementation reviews (PIR) of key standards, and work on our agenda projects in process.

During the fourth quarter, the FASB staff continued to focus on in-depth analysis and additional stakeholder outreach on what we learned from the more than 500 responses to our Invitation to Comment (ITC), *Agenda Consultation*. That stakeholder feedback is already influencing our current agenda projects. For example, investor feedback on disaggregation of financial information in the income statement and statement of cash flows will be an important input as we shape the future direction of our project on financial performance reporting.

Investor and other stakeholder feedback also helped reshape our research agenda. On December 15, I announced comprehensive changes to our research agenda. The FASB's revised research agenda now comprises the following projects (in no particular order):

- **Accounting for Exchange-Traded Digital Assets and Commodities—**This research project will explore accounting for and disclosure of a subset of exchange-traded digital assets and exchange-traded commodities.
- **Accounting for and Disclosure of Intangibles—**This research project will consider potential ways to improve the accounting for and/or disclosure of intangibles, including software costs, internally developed intangibles, and research and development.
- **Hedge Accounting Phase 2—**This research project will seek stakeholder feedback that could bring further alignment of hedge accounting with risk management activities beyond the targeted improvements made to the hedge accounting model in Accounting Standards Update No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*, and consider changes to the definition of a derivative.
- **Accounting for Financial Instruments with Environmental, Social, and Governance (ESG)-Linked Features and Regulatory Credits—**This research project will explore accounting for and disclosure of financial instruments with ESG-linked features and regulatory credits.

- **Accounting for Government Grants, Invitation to Comment—**This research project will solicit feedback on whether the requirements in IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance,* should be incorporated into GAAP.
- **Agenda Consultation**—This research project constitutes our agenda outreach initiative and will continue throughout 2022.

What we learn during the research phase will help us determine whether there's an achieveable path forward on these projects. If the majority of the Board decides there is, the projects will be added to the technical agenda at a future date. We expect many robust discussions on these and other issues as the FASB staff brings additional input to the Board through the first half of 2022.

During the fourth quarter, we also continued our work on our PIR projects on leases and current expected credit losses (CECL). In November, we published a final standard that improves discount rate guidance for lessees that are not public business entities—including private companies, not-for-profit organizations, and employee benefit plans. We expect it will help reduce the cost of implementing the leasing standard by those entities while retaining the expected benefits for users of financial statements.

Our PIR of CECL also continued to drive improvements. In November, the FASB issued a proposal to improve the usefulness of information provided to investors about certain loan refinancings, restructurings, and writeoffs. During our outreach, investors and other stakeholders questioned the relevance of the troubled debt restructuring (TDR) designation and the usefulness of disclosures about those modifications, given the forward-looking nature of the CECL model. The proposal would eliminate the accounting guidance for TDRs by creditors while enhancing disclosure requirements for loan refinancings and restructurings by creditors made to borrowers experiencing financial difficulty. It would also require that public business entities disclose current-period gross writeoffs by year of origination for financing receivables and net investment in leases.

During the fourth quarter, we also made significant strides on our current agenda projects. In October, based on a consensus of the Private Company Council (PCC), we published a final standard to improve an area of financial reporting for nonpublic business entities that issue equity-classified share-based awards. We also issued guidance in response to investor input on how to recognize and measure contract assets and contract liabilities related to revenue contracts with customers acquired in a business combination. This guidance will provide more comparable information to investors and other financial statement users seeking to better understand the financial impact of these acquisitions.

In November, we issued a proposal to modify the disclosure requirements for interim financial reporting. The comment period for that document closes on January 31, 2022. We also published a final standard expected to increase transparency in financial reporting by requiring business entities to disclose, in notes to their financial statements, information about certain types of government assistance they receive, such as cash grants and grants of other assets.

In December, we issued our eagerly awaited proposal to help investors and other allocators of capital better consider the effect of supplier finance programs on a buyer's working capital, liquidity, and cash flows. The comment period for that document ends on March 21, 2022. And we ended the year on a high note by publishing two new Concepts Statements addressing financial statement elements and presentation.

I am also pleased to share that the Financial Accounting Foundation (FAF) Board of Trustees reappointed my colleague on the FASB, Marsha Hunt, to a second, five-year Board term beginning on July 1, 2022, as well as reappointed Mike Morrow, Chair of the Financial Accounting Standards Advisory Council (FASAC), to a second, two-year term.

By all measures, 2021 was a successful year for the FASB. I am grateful to all our stakeholders who continued to share their views with us on issues of importance. With their support, and yours, we are well positioned to face the challenges and opportunities a new year brings.



Richard R. Jones
Chair, Financial Accounting Standards Board

TECHNICAL AGENDA AND OTHER PROJECTS

Technical Agenda

The FASB (the Board) undertakes technical agenda projects to establish and improve financial accounting and reporting standards. The Board evaluates potential standard-setting projects against certain criteria to determine whether a project should be added to the technical agenda. The Emerging Issues Task Force (EITF) and the Private Company Council (PCC) work with the Board in identifying, deliberating, and voting on narrow-scope improvements and improvements to financial reporting by private companies, respectively, subject to endorsement by the Board.

The following table summarizes the changes in the Board's technical agenda during the fourth quarter of 2021:

	Number of Projects				
	As of Sept 30	**Added (removed)**	**ASUs Issued**	**As of Dec 31**	**# EDs Issued**
Broad improvement projects	1			1	
Targeted improvements:					
Recognition & measurement	16	1	(2)	15	1
Presentation or disclosure	7		(1)	6	2
Emerging Issues Task Force	1			1	
Private Company Council	1		(1)	0	
Total	**26**	**1**	**4**	**23**	**3**

Four projects were completed through the issuance of a final Accounting Standards Update (ASU):

- Accounting Standards Update No. 2021-07, *Compensation—Stock Compensation (Topic 718)—Determining the Current Price of an Underlying Share for Equity-Classified Share-Based Awards (a consensus of the Private Company Council)*
- Accounting Standards Update No. 2021-08, *Business Combinations (Topic 805)—Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*
- Accounting Standards Update No. 2021-09, *Leases (Topic 842)—Discount Rate for Lessees That Are Not Public Business Entities*
- Accounting Standards Update No. 2021-10, *Government Assistance (Topic 832)—Disclosures by Business Entities about Government Assistance*.

The Board added the following project to the agenda:

- Reference Rate Reform—Deferral of the Sunset Date of Topic 848.

The Board considered but did not add the following project to its agenda:

- Leases Implementation: Additional Effective Date Deferral for Nonpublic Entities.

A detailed listing of the projects on the Board's technical agenda as of the end of the quarter is included in the appendix.

The Board also issued the following proposed Accounting Standards Updates:

- Proposed Accounting Standards Update, *Interim Reporting (Topic 270): Disclosure Framework—Changes to Interim Disclosure Requirements*
- Proposed Accounting Standards Update, *Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*
- Proposed Accounting Standards Update, *Liabilities—Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations.*

The following projects on the technical agenda were discussed by the Board during the quarter:

Project	Board Meeting(s)	Summary of Significant Discussions
Recognition and Measurement of Revenue Contracts with Customers under Topic 805	October 6	• Removed the practical expedient related to completed contracts with remaining variable consideration from the final ASU. • Final ASU issued on October 28.
Financial Instruments—Credit Losses (Topic 326)—Targeted Improvements to the Accounting for Troubled Debt Restructuring for Creditors	October 13	• Discussed the TDR guidance for creditors that have adopted CECL and decided to: (a) Remove TDR recognition and measurement guidance for creditors that have adopted CECL and instead apply current loan modification accounting in Subtopic 310-20 (b) Require enhanced disclosures for loan refinancings and restructurings by creditors made to borrowers experiencing financial difficulty (c) Exclude modifications that represent an insignificant delay in payment from the enhanced disclosures. • Proposed ASU issued on November 23. Comments were due December 23.

Project	Board Meeting(s)	Summary of Discussions
Financial Instruments—Credit Losses (Vintage Disclosure: Gross Writeoffs and Gross Recoveries)	October 13	• Continued initial deliberations and discussed whether gross writeoffs and/or recoveries should be required to be provided by year of origination in the vintage disclosure. • Decided to require current-period gross writeoffs in the vintage disclosure and to require a prospective transition approach for the proposed amendments. • Proposed ASU issued on November 23. Comments were due December 23.
Joint Venture Formations	October 13	• Continued initial deliberations and discussed (1) whether a joint venture should be permitted to make measurement period adjustments, (2) disclosure requirements for a joint venture upon formation, and (3) valuation considerations. Decided to: (a) Prohibit a joint venture from applying the measurement period guidance (in accordance with Subtopic 805-10, Business Combinations—Overall) to the amounts recognized upon formation (b) Require a joint venture to provide specific disclosures in the period of formation that would enable users of a joint venture's financial statements to evaluate the nature and financial effect of the joint venture formation.
Segment Reporting	October 13 / December 8	• Continued deliberations of a principle-based disclosure requirement for public entities to report significant expenses by segment. Decided that: (a) Single reportable segment entities would apply the principle, as well as existing segment disclosures (b) The principle would apply to all reported measures of a segment's profit or loss (c) The principle would require disclosure of significant segment expense categories and amounts that are easily computable from management reports regularly provided to the chief operating decision maker (CODM) (d) Entities would not be required to map consolidated expense amounts to the income statement lines.

Project	Board Meeting(s)	Summary of Discussions
		• Decided on transition requirements.
Fair Value Hedging—Portfolio Layer Method	November 10	• Discussed comment letter feedback on the proposed ASU and completed redeliberations. Decided to: (a) Expand the scope of assets eligible for portfolio layer method hedging to include all eligible financial assets (b) Remove the requirement that all assets in the closed portfolio have a contractual maturity date on or after the earliest-ending hedge period (c) Affirm its previous decisions on maintaining basis adjustments at the closed portfolio level (d) Align the guidance for anticipated and actual breaches with respect to allowing partial dedesignation and requiring the use of a systematic and rational approach to determine which hedged layer to dedesignate (e) Require that an entity present the derecognized basis adjustment associated with an actual breach in interest income and provide additional disclosures. • Decided on transition requirements.
Identifiable Intangible Assets and Subsequent Accounting for Goodwill	November 17	• Discussed the staff's analysis and Board leanings on certain elements of a goodwill amortization model, including an amortization period estimation principle, factors to consider when determining an amortization period, whether the amortization period should contain a cap and/or floor, and whether the amortization period should be reassessed.
Reference Rate Reform	December 15	• Discussed the staff's progress on the development of a principle for determining interest rates eligible to be designated in a fair value hedge. No decisions were made. • Decided to add a project to the technical agenda to defer the sunset date of Topic 848, Reference Rate Reform, and decided to: (a) Defer the sunset date of the guidance in Topic 848 to December 31, 2024

Project	Board Meeting(s)	Summary of Discussions
		(b) Issue a proposed ASU with a 45-day comment period.

Other Projects

In addition to projects on its technical agenda, the Board also has:

- Framework Projects: These nonauthoritative projects are aimed at making improvements to the Conceptual Framework, which serves as a tool for the Board to use in its standard-setting activities.
- Research Projects: Projects on the Board's research agenda are those that may be considered for the technical agenda at a future date as issues and potential alternative solutions are identified.
- Post-Implementation Review (PIR) Projects: These projects are aimed at evaluating whether standards that have been issued are achieving their objectives and whether there are areas of improvement the Board should address.

The following table summarizes the changes in these projects during the fourth quarter of 2021:

	Number of Projects				
	As of Sept 30	**Added (removed)**	**Final Documents Issued**	**As of Dec 31**	**# of Exposure Drafts/Invitations to Comment**
Framework Projects	3		2	1	
Research Projects	7	3 added 4 removed		6	
Post-Implementation Review Projects	3			3	
Total	**13**	**(1)**	**2**	**10**	

Framework Projects: In December, the Board issued final chapters on Elements and Presentation. During the quarter, the Board continued to make progress on Measurement.

Research Projects: During the quarter, the Board continued to make progress on its research projects. At the December 15 Board meeting, the Board discussed stakeholder feedback received on its June 2021 Invitation to Comment, *Agenda Consultation*, and the FASB staff's plan for next steps to address that feedback. In response to the stakeholder feedback, the FASB Chair announced comprehensive changes to the research agenda to focus on and address certain ITC feedback.

The following projects were added to the research agenda: (1) Accounting for Exchange-Traded Digital Assets and Commodities, (2) Accounting for Financial Instruments with Environmental, Social, and Governance (ESG)-Linked Features and Regulatory Credits, and (3) Accounting for Government Grants.

The following projects were removed from the research agenda: (1) Effect of Sale Restrictions on Fair Value Measurements, (2) Targeted Improvements to the Statement of Cash Flows, (3) Financial Performance Reporting: Financial Statements of Not-For-Profit Entities, and (4) Financial Performance Reporting: Structure of the Performance Statement.

Current research projects as of the end of the quarter are listed in the appendix.

PIR Projects: The PIR process is an evaluation of whether a standard is achieving its objective by providing financial statement users with relevant information in ways that justify the cost of providing it. It is an important quality-control mechanism built into our standard-setting process that begins after the issuance of select standards. During the PIR process, the Board solicits and considers diverse stakeholder input and other research to evaluate the standards that are issued and whether there are areas of improvement the Board should address.

The FASB reports on the progress of PIR projects during its public meetings and reports regularly to the Standard-Setting Process Oversight Committee (SSPOC) of the FAF Board of Trustees. The final PIR report is reviewed by the SSPOC and published on the FAF website.

Currently, the FASB is reviewing the following:

- Credit losses
- Leases
- Revenue recognition.

For all three PIR projects, the staff is actively monitoring implementation efforts and ongoing application, as well as performing outreach with investors, preparers, auditors, and regulators. The following table lists some activities connected with the individual projects:

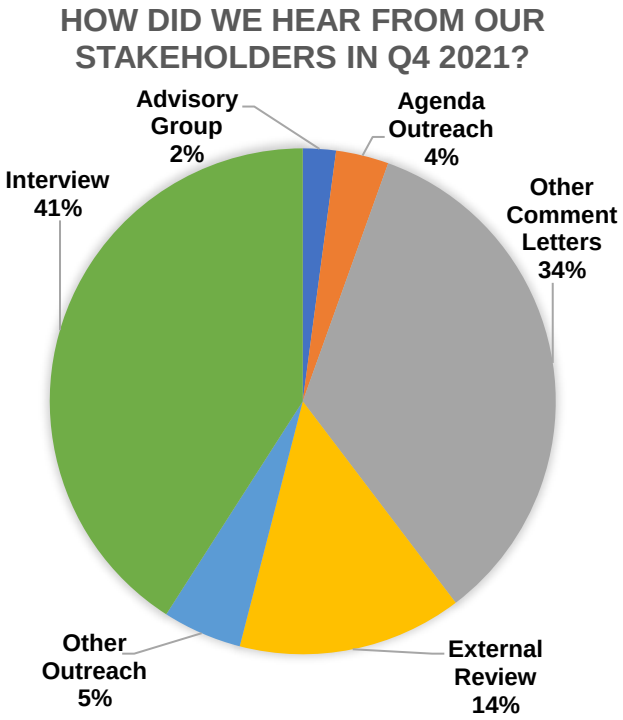
Project	Activities
Credit Losses	• Continued research and outreach on the three CECL-related projects—troubled debt restructurings for creditors, acquired financial assets, and disclosure of gross writeoffs within the vintage disclosure. • Issued a proposed ASU on the TDR and vintage disclosure projects with a 30-day comment period. • Continued to engage with stakeholders on various implementation issues.

Leases	• Issued ASU No. 2021-09, *Leases (Topic 842): Discount Rate for Lessees That Are Not Public Business Entities.* • Continued to monitor implementation efforts and ongoing application and engage with stakeholders on various implementation issues. • Analyzed cost survey data received from lessee preparers through FEI and IMA.
Revenue Recognition	• Performed outreach with practitioners and stakeholder organizations on the implementation of Topic 606 by nonpublic entities. • Conducted research on disaggregated disclosures and short-cycle manufacturing contracts as directed by the Board at the July meeting. • Launched a PIR survey with nonpublic entities.

ADVISORY COMMITTEE AND OTHER STAKEHOLDER ENGAGEMENT

Throughout its technical agenda and other projects, the Board and staff conduct extensive research and outreach to help understand the impact of issues and potential solutions on diverse stakeholder groups. During the fourth quarter of 2021, Board members and staff continued to meet with advisory and other groups to solicit input in connection with the Board's agenda consultation process.

The following graphs and charts summarize how the Board and staff heard from stakeholders and who they heard from.

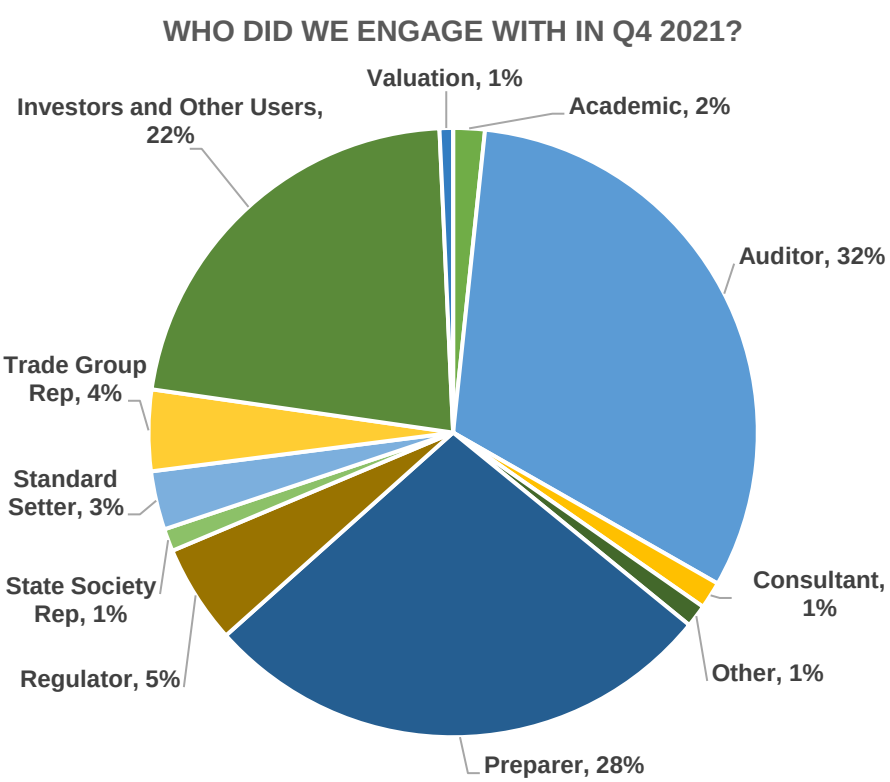


Q4 Summary Statistics		YTD
# of Projects with Outreach*	22	--
# of Agenda Outreach Responses	8	522
# of Interviews	97	525
# of Other Comment Letters	81	192
# of External Review Responses	34	100
# of Survey Reponses	0	73
# of Other Outreach	11	43
# of Advisory Group Meetings**	5	17

Notes:

** Includes outreach on active projects and final standards.*

*** Advisory group meetings include one meeting with FASAC, IAC, PCC, and SBAC and one joint meeting with the PCC and SBAC.*



Types of Stakeholders	
Preparers	
Public Entities	74%
Private Entities	22%
Not-for-Profit	4%
Auditors	
Big 4 Firms	42%
U.S. National	29%
U.S. Regional	15%
Other Global	14%
Investors and Other Users	
Buy-side	49%
Sell-side	22%
Credit Rating Agencies, Private Equity, Lender, and Other Users	29%

The following table summarizes the topics discussed with the FASB's advisory groups:

Group	Meeting Date	Meeting Type	Topics
IAC	November 9, 2021	Public	• Emerging Issues and Trends • 2021 Agenda Consultation
FASAC	December 2, 2021	Public	• Financial Performance Reporting: Disaggregation of Performance Information • 2021 Agenda Consultation
SBAC	December 16, 2021	Public	• FASB's Interaction with Stakeholders • Disclosure Framework: Disclosures—Interim Reporting
PCC-SBAC Joint Meeting	December 16, 2021	Public	• 2021 Agenda Consultation • Leases • Identifiable Intangible Assets and Subsequent Accounting for Goodwill
PCC	December 17, 2021	Public	• Town Hall/Outreach Meeting Planning • Profits Interests (and Interrelationship with Partnership Accounting) • 2021 Agenda Consultation • Share-Based Payment Disclosures • Joint Venture Formations • Leases • Current Issues in Financial Reporting

New members appointed to the advisory groups in the quarter were:

- FASAC: Todd Castagno, Jeremy Croucher, Debra Dial, Saul Martinez, Dorri McWhorter, Michael Morrow (reappointed as chair), Jonathan Nus, Johnbull Okpara, Richard Sloan, and Antonio Yanez Jr.[1]
- NAC: Brian Conner, Alex Galeano, Andrea Kantor, Brian McAllister, JR Miller, Deana Paradis, and Ksenia Popke[1]
- PCC: Paul Hensley[1]
- SBAC: Karl Bailliez and Ryan Siurek.

[1] Appointments are effective 1/1/2022.

EITF Activities:

- The EITF held an educational session in November to discuss EITF Issue No. 21-A, *Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method*. Task Force members provided feedback on areas requiring additional staff research and outreach.

INTERNATIONAL ACTIVITIES

The FASB collaborates with other national standard setters and the International Accounting Standards Board (IASB) to help improve and align, where appropriate, standards across the globe. The groups monitor each other's decisions and share research and findings on projects of mutual interest.

The following table details these activities during the quarter:

Activity	Meeting Date
IASB/FASB Information Exchanges*	
FASB-IASB Academic Meeting	November 9, 2021
Multilateral Activities	
IFRS Accounting Standards Advisory Forum (ASAF)	October 1, 2021 December 9-11, 2021
Institute of International Finance (IIF) International Accounting and Reporting Forum	December 7, 2021
Multi-Lateral Network (MLN)	December 14, 2021
Bilateral Activities	
Accounting Standards Board of Japan (ASBJ)	October 18-19, 2021
*Ongoing monitoring of implementation activities through biweekly meetings between the FASB technical director and the IASB technical director.	

LEGISLATIVE/REGULATORY OUTREACH

FASB members and staff participate in ongoing dialogue with members of Congress, regulators, and other Washington, DC stakeholders to understand standard-setting matters that affect their constituents. The fourth quarter activities were:

Legislative / Regulatory Body	FASB Attendee(s)
Members of Congress • Rep. Victoria Spartz (R-IN)	FASB Chair

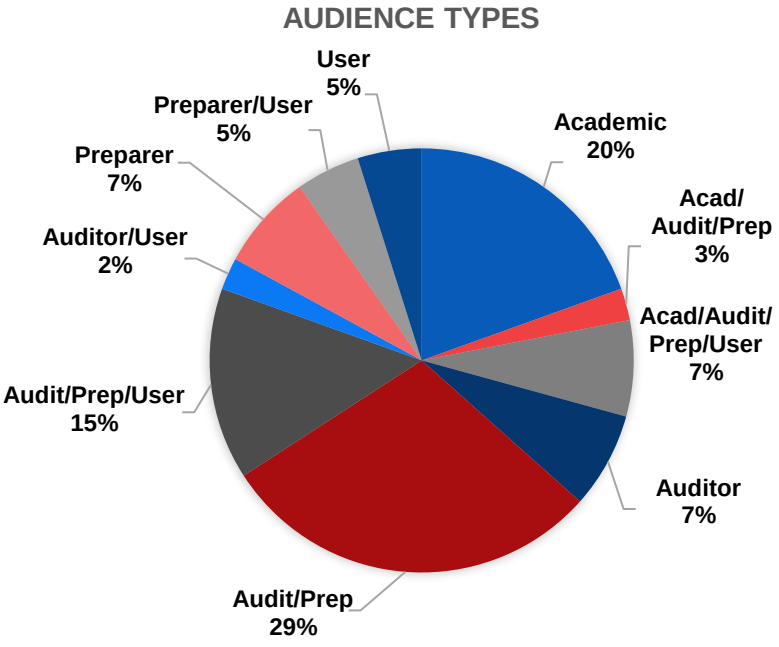
The FASB chair and the FASB technical director also continue to meet regularly with the SEC chief accountant and other senior staff of the SEC.

OTHER KEY COMMUNICATION ACTIVITIES

The FASB also continually communicates with a broad range of stakeholders through speaking engagements, media announcements, interviews, videos, and social media.

The following tables and graph detail the educational webinars and videos provided and summarize the speeches delivered during the quarter.

Communication Method	Event Name	Date
Webinar	IN FOCUS: CPE Provider Forum	October 12, 2021
Webinar	IN FOCUS: Governmental and Not-for-Profit Accounting Webcast for Academics	November 5, 2021
Webinar	IN FOCUS: FASB Update for Private Companies and Not-for-Profit Organizations (joint with the GASB)	December 13, 2021
Video	New Concepts Statements: Financial Statement Elements and Presentation	December 13, 2021



Speech Activity			
Speaker	2019 4Q	2020 4Q	2021 4Q
FASB members	15	11	15
FASB staff	23	34	37
PCC members	0	0	0
Total	**38**	**45**	**52**

- *A total of 52 FASB speakers presented at 41 events. 29% of speakers were FASB members; 71% FASB staff speakers.*
- *Staff speeches primarily relate to newly issued or broadly applicable recent guidance and periodic updates about FASB projects.*

Press Releases, Media Advisories, and Social Media

- The FASB issued 22 press releases, media advisories, meeting recaps, or stakeholder emails on a variety of topics with accompanying social media.
- The FASB staff issued 4 stakeholder surveys: NFP Revenue PIR, PCC feedback, and 2 FASAC feedback surveys.

Other Communications Activities and Education

- On November 10, Rich Jones participated in a virtual fireside chat at the AICPA/FMS/SIFMA National Conference on the Securities Industry**.** On December 7, Rich Jones, Hillary Salo, and Nellie Debbeler presented at the 2021 AICPA & CIMA Conference on Current SEC and PCAOB Developments in Washington, DC. On December 9, FASB Member Sue Cosper delivered keynote remarks at the 2021 Accounting and Auditing Conference sponsored by the Pennsylvania Institute of CPAs (PICPA).
- Interviews, statements, and background interviews were conducted on digital assets, agenda consultation, goodwill, credit losses, PIR, and other topics. On November 29, Rich Jones joined GASB Chair Joel Black for a joint interview for an article to be published by the Connecticut Society of CPAs. On December 14, Rich Jones participated in a 2021 recap/2022 outlook interview with the Wall Street Journal.

XBRL ACTIVITIES

The FASB is responsible for the ongoing development and maintenance of the GAAP Financial Reporting Taxonomy (GRT) and the SEC Reporting Taxonomy (SRT) applicable to public issuers registered with the SEC. In addition, the FASB staff maintains and publishes annually the DQC Rules Taxonomy (DQCRT).

Technical Activities

- The FASB staff released the final 2022 GRT and the 2022 SRT to the SEC for acceptance.
- The FASB staff made available, along with the 2022 GRT, the DQCRT to aid constituents in complying with the Data Quality Committee Rules published by XBRL US as validation checks for XBRL filings with the SEC.
- The FASB staff issued for comment proposed technical improvements including ASC reference changes for the 2022 GRT.
- The FASB staff published proposed taxonomy improvements for:
    - *Interim Reporting (Topic 270): Disclosure Framework—Changes to Interim Disclosure Requirements*
    - *Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*
    - *Liabilities—Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations.*
- The FASB staff published as final (pending annual update) taxonomy improvements for:
    - Accounting Standards Update 2021-06—*Presentation of Financial Statements (Topic 205),*

Financial Services—Depository and Lending (Topic 942), and Financial Services—Investment Companies (Topic 946): Amendments to SEC Paragraphs Pursuant to SEC Final Rule Releases No. 33-10786, Amendments to Financial Disclosures about Acquired and Disposed Businesses, and No. 33-10835, Update of Statistical Disclosures for Bank and Savings and Loan Registrants

- Accounting Standards Update 2021-08—*Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*
- Accounting Standards Update 2021-10—*Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance.*

- The Taxonomy staff performed research to support various Board-level projects.

Outreach Activities Supporting Board Initiatives

The FASB staff performed outreach in support of Board initiatives in this quarter, which included the following:

- Presented an XBRL Standards Board update on November 18, 2021, to the XBRL International, Inc.'s Member Assembly.
- Hosted and participated in meetings of the FASB Taxonomy Advisory Group, Taxonomy Insurance Industry Resource Group, XBRL US Data Quality Committee, various XBRL International technical working groups (including Taxonomy staff chairing the XBRL International Standards Board and Entity Specific Disclosure Task Force), the IASB IFRS Taxonomy Consultative Group, and the SEC Division of Economic and Risk Analysis (DERA) staff.

FASB/GASB INTERACTION

The FASB and the GASB regularly share knowledge and research, including meeting minutes and draft proposed and final standards, to support each other's work on similar standard-setting issues. The FASB and GASB directors met monthly to discuss their technical agenda projects and other matters of mutual interest, and the FASB and GASB chairs and their respective directors held their quarterly meeting to discuss technical issues and other matters of mutual interest.

Appendix—Technical Agenda and Other Projects

Revised December 31, 2021

RECOGNITION & MEASUREMENT: BROAD PROJECTS	Current Stage	Timing
Identifiable Intangible Assets and Subsequent Accounting for Goodwill	Initial deliberations	

RECOGNITION & MEASUREMENT: NARROW PROJECTS	Current Stage	Timing
Codification Improvements (next phase)	Initial deliberations	
Codification Improvements—Amendments to Remove References to the Concepts Statements	ED redeliberations	
Codification Improvements—Financial Instruments—Credit Losses (Vintage Disclosure: Gross Writeoffs and Gross Recoveries)	ED redeliberations	
Codification Improvements—Hedge Accounting	ED redeliberations	
Consolidation Reorganization and Targeted Improvements	ED redeliberations	
Distinguishing Liabilities from Equity Phase 2	Initial deliberations	
EITF 21-A, Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method	Initial deliberations	
Fair Value Hedging—Portfolio Layer Method	Drafting final standard	**Q1 2022**
Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions	ED redeliberations	
Financial Instruments—Credit Losses (Topic 326)—Acquired Financial Assets	Initial deliberations	
Financial Instruments—Credit Losses (Topic 326)—Targeted Improvements to the Accounting for Troubled Debt Restructuring for Creditors	ED redeliberations	
Improving the Accounting for Asset Acquisitions and Business Combinations	Initial deliberations	
Joint Venture Formations	Initial deliberations	
Leases (Topic 842)—Lease Modifications	ED redeliberations	
Reference Rate Reform—Deferral of the Sunset Date of Topic 848	Drafting ED	**Q1 2022**
Reference Rate Reform—Fair Value Hedging	Initial deliberations	

PRESENTATION & DISCLOSURE PROJECTS	Current Stage	Timing
Disclosure Framework: Disclosure Review—Income Taxes	Revised ED redeliberations	
Disclosure Framework: Disclosures—Interim Reporting	ED out for comment	**Ends January 31, 2022**
Disclosure Improvements in Response to the SEC's Release on Disclosure Update and Simplification	ED redeliberations	
Disclosure of Supplier Finance Program Obligations	ED out for comment	**Ends March 21, 2022**
Financial Performance Reporting—Disaggregation of Performance Information	Initial deliberations	
Segment Reporting	Initial deliberations	

FRAMEWORK PROJECTS	Current Stage	Timing
Conceptual Framework: Measurement	Initial deliberations	

RESEARCH PROJECTS
Accounting for and Disclosure of Intangibles
Accounting for Exchange-Traded Digital Assets and Commodities
Accounting for Financial Instruments with Environmental, Social, and Governance (ESG)-Linked Features and Regulatory Credits
Accounting for Government Grants, Invitation to Comment
Agenda Consultation
Hedge Accounting—Phase 2

POST-IMPLEMENTATION REVIEW PROJECTS
Credit Losses
Leases
Revenue Recognition

ATTACHMENT 2

ACCOUNTING FOR AND DISCLOSURE OF INTANGIBLES

Financial Accounting Standards Advisory Council (FASAC)
March 15, 2022

Objectives of This Session

The objective of this session is to gain an understanding of Council members' views about potential improvements on the accounting for and disclosure of intangible assets, including internally developed intangibles and the accounting for and disclosure of software costs and research and development.

Discussion questions are included on page 11.

As background for that discussion, this paper describes:

1. U.S. Accounting Requirements and Suggested Improvements
2. International Requirements (IFRS Standards)
3. Current FASB Research Projects
4. Appendix A: Previous FASAC Input
5. Appendix B: Previous FASB Efforts
6. Appendix C: Concepts Definition of an Asset.

U.S. Accounting Requirements and Suggested Improvements

The accounting requirements for intangible assets depend on whether they are internally generated or acquired. Specific guidance for costs related to research and development and for software also are provided. A summary of those requirements is included below.

Internally Generated Intangibles

In accordance with Topic 350, Intangibles—Goodwill and Other, the costs of internally developing, maintaining, or restoring intangible assets that are not specifically identifiable, have indeterminate lives, or are inherent in a continuing business and related to an entity as a whole are recognized as an expense when incurred. Other than that guidance, GAAP does not have overarching recognition and measurement guidance for internally developed intangible assets. Instead, GAAP has different guidance for recognizing and measuring some internally developed intangible assets, including software, certain oil and gas industry assets, film costs, record costs, title plant costs, and some other costs associated with obtaining a contract with a customer. Furthermore, GAAP has different guidance for recognizing and measuring costs to develop software depending on whether the software is developed for internal use or if it is developed with a plan to market it

externally. See the "Software to Be Sold, Leased, or Marketed" and "Internal-Use Software" sections in this memo below for more details.

Although stakeholders often look toward research and development (R&D) when considering unrecognized internally generated intangibles, there are several other intangibles that are either not recognized or not always recognized. Depending on an entity, those other unrecognized internally generated intangibles might be individually or in the aggregate more valuable to the entity than R&D. Examples of other internally generated intangibles that are not recognized include:

1. Brands and logos
2. Supply agreements with terms that are more favorable than current market terms
3. Noncompetition agreements
4. Collaboration agreements
5. Data.

Some question whether those assets, if recognized and subsequently accounted for, would (a) provide useful information to investors or (b) have associated financial reporting benefits that justify the costs of recognizing the asset. However, many unrecognized internally generated intangible assets are required to be recognized if externally acquired.

In addition, stakeholders have various views about whether those other intangibles meet the definition of an asset.

Appendix C includes additional information about the Board's definition and the characteristics of assets (excerpts from paragraphs E17–E36 of Chapter 4).

Acquired Intangible Assets

The accounting for acquired intangible assets differs on the basis of both the way in which the asset is acquired (an asset acquisition or a business combination) and the type of reporting entity (public company, private company, and/or not-for-profit organization).

Topic 350 requires identifiable intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business combination) to be recognized and measured at cost.

Topic 805, Business Combinations, requires intangible assets, including in-process R&D, acquired in a business combination to be recognized and initially measured at fair value.

In contrast to public business entities, not-for-profit organizations could be subject to merger (carryover basis) or acquisition accounting for acquired intangible assets.

Private companies and not-for-profit entities may elect an accounting alternative in Topic 805 for the recognition of identifiable intangible assets acquired in a business combination. Under the accounting alternative, the entity shall subsume into goodwill and amortize customer-related intangible assets that are not capable of being sold or licensed independently from other assets of a business and all noncompetition agreements acquired. An entity that elects this accounting alternative must adopt the accounting alternative for amortizing goodwill under Topic 350-20, that

requires goodwill to be amortized on a straight-line basis over 10 years, or less than 10 years if the entity demonstrates that another useful life is more appropriate.

R&D

R&D is defined for accounting purposes in the Master Glossary as follows:

> Research is planned search or critical investigation aimed at discovery of new knowledge with the hope that such knowledge will be useful in developing a new product or service (referred to as product) or a new process or technique (referred to as process) or in bringing about a significant improvement to an existing product or process.
>
> Development is the translation of research findings or other knowledge into a plan or design for a new product or process or for a significant improvement to an existing product or process whether intended for sale or use. It includes the conceptual formulation, design, and testing of product alternatives, construction of prototypes, and operation of pilot plants.

Under GAAP (Topic 730, Research and Development), R&D costs are expensed as incurred. An entity is required to disclose the total amount of R&D costs charged to expense in each period for which an income statement is presented. That guidance does not apply to R&D costs that are capitalized under other standards (e.g., capitalized software costs) or to in-process R&D acquired in a business combination (or an acquisition by a not-for-profit entity).

When that R&D guidance originally was issued in 1974, which was prior to the FASB finalizing the concept statements, the FASB decided that R&D costs should be expensed as incurred for the following reasons:

1. Future economic resource—At the time that most R&D costs are incurred, the future benefits are at best uncertain, and there is no indication that an economic resource is created.

2. Measurability—Even if future benefits from a particular R&D project may be foreseen, they generally cannot be measured with a reasonable degree of certainty.

3. Correlation—There is normally little, if any, direct relationship between the amount of current R&D expenditures and the amount of resultant future benefits to an entity.

4. Matching—Because there is a lack of discernible future benefits at the time that the costs are incurred, the immediate recognition principle of expense recognition should apply.

Software to Be Sold, Leased, or Marketed

In accordance with Subtopic 985-20, Software—Costs of Software to be Sold, Leased, or Marketed, an entity is required to capitalize the eligible costs incurred in creating computer software to be sold, leased, or otherwise marketed—that is, software being developed that is subject to a plan to be marketed externally—after technological feasibility has been achieved. Technological feasibility is established when the company has completed all planning, designing, coding, and testing activities that are necessary to establish that the product can be produced to meet its design specifications including functions, features, and technical performance requirements. Determining when a software product reaches technological feasibility is a judgmental assessment.

Costs to establish the technological feasibility of external-use software are R&D costs that are to be expensed as incurred.

This guidance was issued in 1985 and has remained largely unchanged. During the development of the guidance, the Board considered broadening the scope to include costs incurred for an enterprise's development of computer software for its own use. However, the Board ultimately concluded not to broaden the scope because, at that time, the accounting for the costs of software used internally was not a significant problem.

Internal-Use Software

In accordance with Subtopic 350-40, Intangibles—Goodwill and Other—Internal-Use Software, R&D costs incurred for computer software developed or obtained for internal use, including cloud-computing arrangement (CCA) implementation costs, should be capitalized depending on the nature of the costs and the project stage during which they occur.

Subtopic 350-40 describes three stages of software development and implementation activities: (1) preliminary project stage, (2) application development stage, (3) postimplementation-operation stage. Generally, costs incurred during the preliminary project and postimplementation-operation stages are to be expensed as incurred, while costs incurred during the application development stage are to be capitalized.

The guidance on the three stages of software and which costs should be capitalized was issued in 1998 and has remained largely unchanged, with the exception of incorporating guidance on CCA implementation costs.

International Requirements (IFRS Standards)

IAS 38, *Intangible Assets*, issued in 2001, specifies recognition criteria for capitalizing initial costs incurred to acquire or internally generate an intangible asset and subsequent costs incurred to add to, replace part of, or service the asset. An entity is required to recognize an asset if the intangible is identifiable and if the following criteria are met:

1. It is probable that the expected future benefits that are attributable to the asset will flow to the entity.
2. The cost of the asset can be measured reliably.

In accordance with IAS 38, internally generated intangible assets that meet the criteria described in the previous paragraph are required to be recognized on the balance sheet at cost and intangible assets acquired in an asset acquisition are required to be recognized at the purchase price plus any directly attributable cost of preparing the asset for its intended use. In accordance with IFRS 3, *Business Combinations*, intangible assets acquired in a business combination are required to be recognized at the acquisition-date fair value.

A difference between IAS 38 and GAAP is the accounting for R&D. IAS 38 makes a distinction between accounting for research costs and accounting for development costs. Expenditures incurred during the research phase should be expensed as incurred, while expenditures incurred during the development phase should be recognized as an intangible asset if an entity can demonstrate all of the following:

1. The technical feasibility of completing the intangible asset so that it will be available for use or sale
2. The entity's intention to complete the intangible asset and use or sell it
3. The entity's ability to use or sell the intangible asset
4. How the intangible asset will generate probable future economic benefits (for example, the existence of a market or the usefulness of the intangible asset)
5. The availability of adequate technical, financial, and other resources to complete the development and to use or sell the intangible asset
6. The entity's ability to reliably measure the expenditure attributable to the intangible asset during its development.

Previously, stakeholders indicated that there was a high amount of subjectivity involved in capitalizing development phase costs under IAS 38. Stakeholders also indicated that although the requirements for internally developed development costs between GAAP and IFRS Standards are different, the financial reporting outcomes are not always significantly different because the threshold for recognizing development under IFRS Standards is both high and subject to judgment.

EFRAG Discussion Paper: Better Information on Intangibles

The European Financial Reporting Advisory Group (EFRAG) issued a discussion paper presenting various accounting and disclosure alternatives for intangibles in August 2021. The paper seeks feedback from interested stakeholders via several questions and requests all comments by June 30, 2022. The discussion paper primarily focuses on improving IFRS.

The discussion paper summarizes the following issues related to the current information:

> EFRAG's commissioned literature review, published in February 2020, identified academic studies showing that the value relevance of financial statements is decreasing and that this could be due to financial statements not reflecting information about

intangibles, which has become more important for more entities than previously. Insufficient information on intangibles could affect the company's market value due to information asymmetry, result in an inefficient capital allocation in society and make assessment of the management's stewardship difficult.

The review also underlined the difficulty for users to compare entities that grow organically with those growing by means of acquisition, as current IFRS Standards generally require acquired intangibles to be recognized, while internally generated intangibles can only be recognized in specific circumstances.

As further explained [in the discussion paper], some consider that recognizing more internally generated intangibles (and perhaps fewer intangible assets acquired in a business combination) would be a way to deal with the issue. However, in this scenario, all recognized internally generated intangibles would have to be measured, and both measurement at cost and at fair value are problematic. In addition, not all intangibles would meet the definition of an asset.

Instead of recognizing and measuring intangibles in the statement of financial position, additional disclosures could be considered to provide better information on intangibles. This alternative, however, also has some problems. Boundaries between different intangibles are not (well) defined and are interpreted differently. There are also no generally accepted ways on how to report on intangibles. Finally, additional information on intangibles may be commercially sensitive to provide.

The discussion paper presents various alternatives and discusses their benefits and disadvantages without providing recommendations on the selection of a particular approach. The approaches presented include:

- Recognition and measurement in the primary financial statements
- Information on specific intangibles in the notes to the financial statements or management report
- Information on future-oriented expenses and risk/opportunity factors that may affect future performance in the notes to the financial statements or in the management report.

Current FASB Research Projects

2021 Invitation to Comment, *Agenda Consultation*

Intangible Assets

On June 24, 2021, the FASB staff issued the Invitation to Comment, *Agenda Consultation* (2021 ITC), to solicit broad stakeholder feedback. Approximately 50 percent of respondents across all

stakeholder types provided feedback on intangible assets. Approximately half of those respondents identified intangible assets as a top priority and a few identified the area as one that the Board should not address at this time, while the remaining respondents did not specifically identify intangible assets as top or low priority. While respondents acknowledged that for many companies there can be a significant difference between book value and market capitalization, respondents' views were mixed about whether that gap needs to be reduced and/or whether reducing the gap is consistent with the objective of financial reporting. Overall, respondents indicated that the Board should perform research to better understand the information needs of users that relate to intangibles, while also considering the costs and challenges that preparers would incur in preparing such information and existing investors would incur in analyzing the new information.

Some respondents suggested that the Board consider prioritizing an intangible asset project focused on recognition and measurement. The following considerations were identified by respondents if the Board were to pursue such a project:

1. **Internally developed versus acquired intangible assets—**Numerous respondents suggested that the Board align the guidance for internally developed R&D and in-process research and development (IPR&D) acquired through an asset acquisition and a business combination. A standard setter noted that any work that the Board undertakes on intangible assets should result in greater comparability between companies that grow organically and companies that do so through acquisitions.
2. **Focus on R&D as a first step—**An investor recommended that the Board add a project targeting the accounting for development costs that are incurred with the specific objective of creating a product that will generate future revenues. Several other respondents echoed similar comments that the Board should look to R&D as a first step as part of a recognition and measurement project on intangibles.
3. **All internally generated intangible assets—**A preparer stated that developing a framework that could be applied to all internally generated intangible assets would be most beneficial. This preparer noted that it is unclear why software should have a different accounting model than other intangible assets that arise from R&D. An investor said that given the significance of intangibles to the valuation of public companies and that companies generate much of their value through them, internally developed intangible assets should be recognized and measured no differently than investments in plant and equipment or financial assets.
4. **Recovering previous impairment losses—**A practitioner recommended that the Board undertake a project to require recognizing recoveries of previously recognized intangible impairment losses.

There were several respondents that suggested the Board consider prioritizing an intangible asset project focused on disclosure improvements. One practitioner noted that although, in its view, the Board should not prioritize a project at this time to address the recognition and measurement of intangible assets, it stated that enhanced disclosures could improve the relevance of financial statements to users and that the Board should prioritize requiring qualitative disclosures of a company's predominant creators of enterprise value and how those assets create value for the company. Another practitioner agreed that it would be worthwhile for the Board to consider what information investors would find useful about a company's effort to develop or maintain its

intangible assets. There were several other respondents that provided similar feedback that encouraged the Board to perform outreach with financial statement users and focus a project on providing relevant disclosures to address that feedback.

However, there were also several respondents, including preparers and practitioners, that did not support additional intangible disclosures. Generally, those respondents said that the additional intangible disclosures described in "Chapter 2—Emerging Areas in Financial Reporting" of the 2021 ITC would not provide relevant information that would result in a meaningful benefit to users and that qualitative disclosures would likely result in boilerplate information.

Software

Over one-third of respondents across all stakeholder types provided feedback on accounting for software. Approximately half of those respondents identified accounting for software as a top priority. There were no respondents that indicated that they would not support the Board addressing this area. Overall, respondents requested that the Board better align the accounting with how software is developed because the current guidance is outdated and lacks relevance given the evolution of the software industry and that there should be no difference in how a company accounts for software developed for internal use and how a company accounts for software developed to be sold, leased, or otherwise marketed.

Respondents provided various suggestions for the Board to consider in improving the accounting for software costs:

1. Adopt the external-use software guidance for all revenue-generating software costs.
2. Adopt the internal-use software guidance for all software costs.
3. Permit companies to apply a policy election to expense all revenue-generating software development costs (including upgrade and enhancement costs) as incurred. However, there were a few respondents that specifically said this suggestion would not provide useful information and could exacerbate concerns about the difference between book value and market capitalization for companies with significant intangible assets.
4. Consider software costs as part of a holistic project on the accounting for intangible assets.
5. Develop implementation guidance with examples of how to apply the current software models when the costs are incurred in an iterative or agile development environment.

Accounting for and Disclosure of Intangibles

In December 2020, the FASB Chair expanded the objective and scope of the research project, Disclosure Review—Intangibles, to consider potential ways to improve the accounting for and disclosure of intangibles, including internally developed intangibles and R&D. In December 2021,

in response to the feedback received on the 2021 ITC, the FASB Chair clarified that this research project also will explore software costs.

The input received from FASAC members at the March 2022 meeting will help to inform this research project.

Discussion Questions

Accounting for and Disclosure of Intangibles

Question 1: (Investors): Are improvements to the accounting for and/or disclosure of intangibles a priority for investors and other allocators of capital (collectively investors)? If so, is it a specific subset of intangibles?

Question 2: (All Council Members): On the basis of improvements sought from investors, should the Board focus on improvements to recognition and measurement or disclosure (or a combination of the approaches to meet the needs of investors)?

Question 3: (All Council Members): If improving the recognition and measurement of intangibles is a priority for investors:

(a) Should the Board focus more broadly on all intangibles, internally generated intangibles, or on a subset (for example, intangible assets associated with R&D costs)? Why?

(b) What are your views about (1) the threshold for recognizing an intangible asset, (2) the measurement of the asset (cost or fair value), and (3) the day 2 accounting (indefinite lived with impairment, amortization with impairment, continuous fair value, or some combination depending on the phase of development)?

(c) If intangibles are recognized, is there additional information that is needed for investors and how would it be used?

(d) If recognized, what non-GAAP adjustments would investors and preparers make?

Question 4: (All Council Members): If improving the disclosures of intangibles is a priority for investors:

(a) Should the Board focus more broadly on all intangibles, internally generated intangibles, or on a subset (for example, intangible assets associated with R&D costs)? Why?

(b) Should there be a disclosure objective only, certain specific information, or both? What specific information is most important for investors?

(c) For internally generated intangibles, what improvements do investors need and what quantitative metrics or qualitative considerations would provide more useful information? How would this information be used and how would it influence investments and capital allocation decisions?

Software Costs

Question 5: (All Council Members): Are improvements to the accounting for software costs a top priority that the Board should address at this time? If so, should the Board focus on internal-use software, external-use software, or both?

Question 6: (Investors): Do you view software costs as unique and different from other non-software expenditures (i.e., property, plant, and equipment or intangibles)? Does it make a difference in your analysis if software costs are expensed as incurred or capitalized as an asset on the balance sheet? Please explain.

Question 7: (Investors): How do you analyze costs of software developed for internal use versus costs of software developed to be licensed or sold? Do you analyze these types of software costs similarly or differently? Please explain.

Question 8: (Preparers/Auditors): What operability or auditing challenges, if any, does the current guidance on software costs present? If there are challenges, how could the Board make improvements to address those challenges?

Appendix A: Previous FASAC Input

FASAC members have had multiple discussions about the accounting for R&D and intangible assets in past meetings. The feedback has been mixed, with a wide range of suggestions from Council members in terms of:

1. The relative priority of improving the accounting for R&D
2. Whether (and how to) address the recognition and measurement of R&D
3. The adequacy of existing disclosures.

Below is a summary of each of those discussions.

R&D Accounting and Disclosures

September 2020 FASAC Meeting

In September 2020, FASAC members provided their feedback on accounting for and disclosure of R&D. Council members addressed the lack of consistency in existing accounting requirements between internally generated R&D efforts and those acquired. There was a broad consensus among Council members that the current approach is acceptable and that the FASB should not prioritize the accounting for and disclosure of R&D.

Some Council members noted that capitalizing internally generated R&D costs would still result in inconsistency and that the fair value based on market participant views would not be useful and would be difficult to determine and audit. Other Council members discussed how internally generated R&D and the R&D an entity willingly acquires are economically different. Therefore, they found the different accounting requirements to be acceptable.

Council members discussed various accounting and disclosure improvements for R&D if the Board added a project to the Technical Agenda. Suggestions included narrowing the scope to focus on the differences between asset acquisition and business combination accounting, expanding the scope to include other identifiable intangible assets, focusing on enhanced R&D disclosures, and placing R&D disclosures in the scope of a broader disclosure project.

Preparers identified concerns about enhanced R&D disclosures due to the confidential and proprietary nature of R&D spending. Likewise, all breakout groups discussed the challenge of providing users with useful R&D disclosures without requiring preparers to impair competitive advantage. Council members from an investor/user perspective generally agreed that additional R&D information would be useful but were conscious that preparers may have concerns about disclosing proprietary information. Overall, Council members concurred that the accounting for R&D is not an area that the FASB should address at the time.

September 2015 FASAC Meeting (Breakout)

At the September 29, 2015 FASAC meeting, one of the breakout groups discussed intangible assets. That breakout group discussed whether certain R&D costs should be capitalized. Some preparers were frustrated that internally generated costs are accounted for in different ways. A Council member asked if the members from that breakout group were suggesting that all costs

related to intangible assets should be expensed. A member from that group responded that recognizing all costs as an expense may be a solution; there just needs to be more consistency.

September 2014 Meeting

At the September 11, 2014 FASAC meeting, a representative from a Fortune 500 technology company expressed concern about the accounting guidance for internally generated R&D costs and noted that the topic is a prime candidate to be reconsidered on the basis of continuing evolution in technology.

Some FASAC members suggested that the FASB consider capitalizing certain development costs to better represent the economic reality of R&D expenditures. Some Council members suggested adopting IFRS (International Financial Reporting Standards) guidance around the capitalization of development costs. Council members discussed expanding disclosures around R&D, but it was agreed that additional details provided in the disclosures should not go beyond R&D projects that have been announced publicly to avoid causing competitive harm.

Intangible Assets

June 2016 FASAC Meeting

At the June 2016 meeting, Council members discussed their views about the financial reporting for intangible assets, potential improvements, and the relative priority of future improvements in this area. The breakout groups focused on (1) Council members' concerns or observations about the various accounting models for intangible assets, (2) whether the FASB should devote resources to making further improvements, and (3) the objective of a potential project (if the FASB decides to devote resources to make further improvements).

Council members broadly acknowledged that there is lack of comparability in certain areas, but that the current accounting is acceptable. Council members from an investor/user perspective were very focused on cash flows, which is why they concluded that changes to the accounting for intangible assets should not be a high priority for the FASB. Preparers understood the current accounting at the time and did not raise any significant application issues that would warrant the FASB's consideration. Council members generally agreed that measuring internally developed R&D or other internally developed intangible assets at fair value would be fundamentally difficult and costly. Furthermore, many members commented that the reliability of the information could be questioned. Council members also discussed potential solutions to improving the information provided to users about intangible assets and focusing on potential and existing disclosures in the financial statements and in Management Discussion and Analysis.

Appendix B: Previous FASB Efforts

The FASB had undertaken previous efforts to consider and seek input on the following:

1. The hurdles to creating accounting principles that would lead to capitalizing costs associated with intangible assets
2. Possible improvements that might provide financial statement users with additional information and/or align GAAP with IFRS Standards.

Below is a description of those past projects.

Special Report: More Information about Intangible Assets

The FASB completed a research project in 2001 about a potential disparity between information provided in financial statements and the informational needs of investors and creditors about intangible assets and issued the FASB Special Report, *Business and Financial Reporting—Challenges from the New Economy* (Special Report). The Special Report indicated that because of a "new economy," financial statement users would need more information about intangible assets.

The Special Report identified the following two hurdles that historically have impeded attempts to create accounting principles in the United States that would lead to capitalizing costs associated with a generation of intangible assets:

1. The time gap—The period of time is undeterminable between when R&D costs are being incurred and when those expenditures and efforts can be demonstrated to have probable future benefits.
2. The correlation gap—The cost of R&D is not a reliable measure of the future economic benefit that R&D may generate.

The Special Report also identified the following possible standard-setting projects that might provide users with additional information about intangible assets:

1. A project that would require disclosures about internally developed intangible assets
2. A project that would require recognition of intangible assets created as the result of R&D projects and potentially discrete efforts to expand the capitalization of other intangible assets.

Project to Improve the Information about R&D Costs

In response to the Special Report, in August 2001, the FASB issued a Proposal for a New Agenda Project, *Disclosure of Information about Intangible Assets Not Recognized in Financial Statements,* which requested that stakeholders provide comments on the objective and scope of a potential project to establish standards for improving disclosure of information about intangible assets that are not recognized in financial statements.

The primary goal of the potential project was to provide financial statement users with more information about R&D costs. Financial statement users generally supported the project.

However, preparers expressed reservations about disclosing additional information on R&D expenditures because of concerns about disclosing proprietary information.

In January 2002, the FASB added to its technical agenda a project on disclosure of information about intangible assets that are not recognized in financial statements in response to the favorable feedback received from financial statement users. In January 2004, the FASB removed the project from its agenda. The FASB acknowledged the importance of this project but decided that the nature and timing of such a project should be considered in the context of its plans for a coordinated agenda with the IASB. Intangible assets was one of the projects included in the 2006 Memorandum of Understanding (MoU) between the IASB and the FASB when the Boards agreed to work together to remove differences between IFRS Standards and GAAP; however, it was not added to either the IASB's or the FASB's technical agenda.

Appendix C: Concepts Definition of an Asset

Excerpts Taken from Chapter 4 of Concepts Statement 8

Characteristics of Assets

E17. An asset has the following two essential characteristics:

a. It is a present right.
b. The right is to an economic benefit.

The combination of those two characteristics allows an entity to obtain the economic benefit and control others' access to the benefit. A present right of an entity to an economic benefit entitles the entity to the economic benefit and the ability to restrict others' access to the benefit to which the entity is entitled.

E18. Assets commonly have features that help identify them—for example, assets may be contractual, tangible, exchangeable, or separable. However, those features are not essential characteristics of assets. Their absence is not sufficient to preclude an item from qualifying as an asset.

E19. Essential to the definition of an asset is a right to an "economic benefit"—the capacity to provide services or benefits to the entities that use them. Generally, in a business entity, that economic benefit eventually results in potential net cash inflows to the entity. In a not-for-profit entity, that economic benefit is used to provide desired or needed goods or services to beneficiaries or other constituents, which may or may not directly result in net cash inflows to the entity. Some not-for-profit entities rely significantly on contributions or donations of cash to supplement selling prices or to replace cash or other assets used in providing goods and services. The relationship between the economic benefit of an entity's assets and net cash inflows to that entity can be indirect in both business entities and not-for-profit entities.

E20. An asset has the capacity to be beneficial to an entity by being exchanged for something else of value to the entity, by being used to produce something of value to the entity, or by being used to settle the entity's liabilities. Rights that give an entity no advantage beyond the common advantages of others because they are available to all do not qualify as assets. A right that is not restricted, such as a right to sue or a right to enjoy music, is not an asset of an entity. Access to a public road outside an entity's property might provide an economic benefit, but because the entity cannot restrict access to that road by others, the road is not an asset of the entity. Although proximity of the road might add value to the property, there is no right that has granted privileged access or advantage to the entity. A specific right to use a public highway from which a licensee might otherwise be excluded— for example, a license to operate a truck on the highways within a state—would create an economic benefit for the licensee, with respect to that license, even though it does not restrict access of others to the highway.

E21. Incurring a cost to acquire an item does not in itself qualify the item to meet the definition of an asset, for example, services provided by other entities, including personal services that are received and used simultaneously. They can be assets of an entity only momentarily—as the

entity receives and uses them—although their use may create or add value to other assets of the entity. Rights to receive services of other entities for specified or determinable future periods can be assets of an entity.

Present right

E22. A right entitles its holder to have or obtain something or to act in a certain manner. Rights can be obtained in various ways. Often, rights are obtained by legal ownership, for example, owning a building. Legal ownership gives the owner access to economic benefits, including the ability to possess, use, and enjoy the right; to sell, donate, or exchange the right; or to exploit the right's value by, for example, pledging it as a security for borrowing.

E23. Legally enforceable rights to economic benefits can be obtained without legal ownership of the underlying benefit itself as is the case, for example, when property is leased or intellectual property is licensed or when an entity has the rights to specified certain cash flows, as in the case of a contract providing rights only to interest flows from a specified debt instrument. Other legally enforceable rights that give rise to assets include the right to require other parties to make payments or render services and the right to use a patent or a trademark. Legally enforceable rights include, among other rights, contractual rights (for example, rights from options held).

E24. Rights also might be enforceable by means equivalent to legal enforcement, such as those arising within a self-regulatory structure. If enforcement by other such means is sufficiently similar to legal enforcement, rights enforceable by those alternative enforcement mechanisms may be the equivalent of legally enforceable rights. An entity also can obtain economic benefits from a right in the absence of legally enforceable rights. For example, an entity might not have legally enforceable rights to secret know-how but can otherwise obtain economic benefits from it. The entity may use or sell the knowledge and restrict or otherwise prevent or limit others' access to the benefits. [Footnote reference omitted]

E25. To qualify as an asset of an entity, that entity need not have an exclusive right to an economic benefit. Rights, including the ability to restrict access to a benefit, and restrictions may be single (held or imposed solely by the entity) or shared (held or imposed in conjunction with others). Two or more entities might have different rights and share the same economic benefit at the same time or might otherwise have rights to the same economic benefits at different times. For example, lease arrangements unbundle the economic benefits of the underlying asset by giving (a) the lessee the right to hold and use the property and the lessor the right to receive lease payments for a specified interval and (b) the lessor the right to receive any residual value. Each entity has an asset based on its rights to a particular economic benefit, and the rights allow the entity to restrict access to the particular economic benefit.

E26. Two or more entities might have an undivided interest in an economic benefit, such as a parcel of land or mineral resources. Each entity has a right to economic benefits deriving from that right that might qualify as an asset, even though the right of each entity is subject, at least to some extent, to the rights of the other entity or entities. The entity with rights to an economic benefit is the one that can exchange some or all of those rights, use the items to which it has the rights to produce goods and services or reduce other expenditures, exact a price for others' use of the rights, or use the rights to settle liabilities or make distributions to owners.

E27. Assets may be intangible, and even if they are not separable or exchangeable, they may be useable by an entity in producing or distributing goods or services. For example, a license may be nontransferable and therefore not exchangeable; however, the license provides the right to engage in economically beneficial activities.

E28. To meet the definition of an asset, the right must be a present right; that is, the right exists at the financial statement date, not a right expected to occur in the future. The existence of a present right at the financial statement date means that the right and therefore the asset have arisen from past transactions or other past events or circumstances. Often, assets are obtained by purchasing or producing them, but other transactions, events, or circumstances may generate assets. Examples include the receipt of land or buildings from a government or contributions received by a not-for-profit entity. The means of acquiring rights does not affect whether the item meets the essential characteristics of an asset. However, an examination of the history of how potential rights may have been created might help to determine whether a present right exists at the financial statement date.

E29. Transactions or other events or circumstances expected to occur in the future do not give rise to assets today. An intention to purchase inventory does not by itself meet the definition of an asset. Equipment to be acquired next year is not a present right to that equipment today. A benefit that is expected only because of an anticipation of the action or performance of either a counterparty or the entity is not a present right. In contrast, an existing contract to purchase equipment (a right to purchase equipment) might give rise to an economic benefit that is distinct from the benefit embodied in the equipment itself.

E30. Sometimes present rights with uncertain amounts and timing are referred to as contingent assets. The term contingent asset has been a source of confusion because it is often thought to refer to circumstances in which the existence of a right depends on the occurrence or nonoccurrence of a future event. Absent a present right, the occurrence or nonoccurrence of a future event does not by itself give rise to an asset. Some items commonly described as contingent assets satisfy the definition of an asset because the contingency does not relate to whether a present right exists but instead relates to one or more uncertain future events that affect the amount of economic benefit for which a right exists. For those rights, the fact that the outcome is unknown affects the measurement but not the existence of the asset.

Right to an economic benefit

E31. Another essential characteristic of an asset is that the right of an entity must be to an economic benefit. An asset of an entity might be represented by rights to a particular property (such as the right to possess, use, and enjoy a parcel of land) or by rights to some or all the economic benefits derived from the property.

E32. Cash (including deposits in banks) is valuable because of what it can buy. It can be exchanged for virtually any good or service that is available, or it can be saved and exchanged for goods and services in the future. The purchasing power of cash is the basis of its value and economic benefit.

E33. To carry out their activities, both business entities and not-for-profit entities commonly produce goods or services. Both types of entities create utility and value in similar ways—by using goods or services to produce other goods or services. Business entities expect customers to pay for the utility and value added, and they price their outputs accordingly. Some not-for-profit entities distribute some or all of their outputs of goods or services at prices that include the utility and value they have added. Other not-for-profit entities commonly distribute the goods or services they produce to beneficiaries gratis or at nominal prices. Although that may make measuring the value of their outputs difficult, it does not deprive them of value.

E34. The ability of an entity to sell, transfer, license, or exchange a right provides evidence that the right presently exists, the entity controls access to that right, and the right is to an economic benefit. Some intangible assets arise from rights conveyed legally by contract, statute, or other means. For example, trademarks may be registered with the government. Contracts often are negotiated with customers or suppliers. The existence of contractual or other legal rights is a common characteristic of an intangible asset. However, if the right can be identified and, particularly, the identified right can be separated from the entity, it gives credibility that the right exists and that it is to an economic benefit.

E35. Many activities are undertaken with the expectation of obtaining an economic benefit in the future. Examples include research and development, advertising, training, start-up activities, and preoperating activities. While the costs incurred in those activities are not assets, the activities may result in an entity creating a right to an economic benefit and, therefore, obtaining an asset or enhancing an existing asset. For those and similar activities, assessments of when a present right exists and whether the right is to a related economic benefit may be especially uncertain. An entity (a) may have rights that are not to a discernible economic benefit or (b) may have identified future economic benefits to which it has no present rights. The practical problem is whether a right to a future economic benefit exists at a specified date.

E36. Some intangible items that do not arise from rights conveyed by contract or other legal means are nonetheless capable of being separated and exchanged for something of value. If an item is capable of being separated and exchanged for something of value, that would be evidence that a right exists and that the right is to an economic benefit. Others cannot be separated from an entity and sold or otherwise transferred, but still may represent rights to economic benefits. Generalizations about facts and circumstances that bring about internally generated intangible assets are so varied that whether an asset has been created often must be resolved at the standards level.

FASAC FINANCIAL ACCOUNTING STANDARDS ADVISORY COUNCIL

ATTACHMENT 3

ACCOUNTING FOR GOVERNMENT GRANTS
FINANCIAL ACCOUNTING STANDARDS ADVISORY COUNCIL (FASAC)
MARCH 15, 2022

Objective

The purpose of this session is to educate Council members on the objective of the FASB's research project on the accounting for government grants to prepare Council members for discussion at a future FASAC meeting.

The staff plans to issue an Invitation to Comment (ITC) on the accounting for government grants, specifically whether the international accounting requirements contained in IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance,* should be incorporated into GAAP. After feedback is received from stakeholders on that ITC, a summary of that feedback will be shared with Council members and we plan to have a future discussion with FASAC on the recognition, measurement, and presentation requirements.

Overview of the Materials

The materials include:

1. Background:
   a. FASB Projects and Discussions
   b. Potential IASB Project
   c. Prior FASAC Discussions
2. Summary of IAS 20

Discussion questions are included on page 10.

1. Background

GAAP does not provide specific topical authoritative guidance on how business entities should recognize, measure, and present grants received from a government. The lack of specific guidance has recently been highlighted by stakeholders following the significant increase in government grants as part of the global response to the COVID-19 pandemic. In lieu of specific guidance, business entities typically analogize to either the guidance in IAS 20 or, less commonly, the guidance in Subtopic 958-605, Not-for-Profit Entities—Revenue Recognition (the contribution model, which business entities are required to use for grants received from nongovernmental organizations).

FASB Projects and Discussions

The FASB recently issued guidance to improve the disclosures provided by business entities about government assistance. The guidance is effective for annual periods beginning after December 15, 2021. Additionally, as part of the FASB's recent agenda consultation process, the FASB sought feedback about whether pursuing a project on the recognition and measurement of government grants should be a priority for the Board.

Disclosures by Business Entities about Government Assistance

In November 2021, the FASB issued Accounting Standards Update No. 2021-10, *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance*, to increase transparency in financial reporting by requiring business entities to disclose, in the notes to their financial statements, information about certain types of government assistance they receive. These improvements were made in response to requests from investors and other allocators of capital (collectively investors) to provide transparent and comparable information about certain types of government assistance that business entities receive.

The guidance requires that companies provide the following information:

1. Information about the nature of the transactions and the related accounting policy used to account for the transactions
2. 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
3. Significant terms and conditions of the transactions, including commitments and contingencies.

Companies are required to provide that information annually for transactions with a government that are accounted for by applying a grant or contribution accounting model by analogy. In an effort to address the scope concerns raised by stakeholders throughout the project, the final scope of the disclosures was is intended to provide decision-useful

information to investors and other financial statement users and to further reduce the cost and complexity of the guidance.

These disclosures are generally consistent with the disclosures in international accounting standards (IAS 20), which are described below. However, the final guidance in Update No. 2021-10 requires disclosure of 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. While this disclosure is not explicitly stated in IAS 20, the staff understands that similar information is generally provided.

2021 Agenda Consultation

As part of its 2021 agenda consultation, the Board asked stakeholders whether it should pursue a project on the recognition and measurement of government grants, and if so, should the Board leverage an existing grant or contribution model (such as the model in IAS 20 or Subtopic 958-605) or develop a new model. Feedback varied among stakeholders. Some stakeholders observed that the lack of specific guidance on the recognition and measurement of government grants has created diversity in practice and suggested that the Board provide accounting guidance for government grants to ensure comparability between companies and across industries.

To overcome challenges on defining which types of government grants would be included in the scope of the potential guidance, some stakeholders suggested that the Board provide recognition, measurement, and presentation guidance for a specific subset of transactions that are widely understood as government grants, such as cash grants. They noted that addressing the recognition, measurement, and presentation for a specific subset of government grants, may be a first step and represent an incremental improvement.

Research Project: Accounting for Government Grants, Invitation to Comment

At its December 15, 2021 meeting, the Board met to discuss the feedback received on its June 2021 Invitation to Comment, *Agenda Consultation* (2021 Agenda Consultation), as well as the staff's plan for next steps to address the feedback. In response to feedback received on the 2021 Agenda Consultation, the FASB Chair added a research project on the accounting for government grants. The purpose of that research project is to solicit feedback on whether certain of the requirements in IAS 20 should be incorporated into GAAP. The staff expects to issue the ITC on government grants in the first half of 2022.

Potential IASB Project

In March 2021, the International Accounting Standards Board (IASB) published the

Request for Information, *Third Agenda Consultation*. As part of that document, the IASB asked stakeholders about the priority of various potential projects. One of the potential projects that was described is government grants. Specifically, the potential project indicated that some stakeholders, most of them standard-setters, questioned aspects of IAS 20, including the existence of an accounting policy choice to present grants related to income as either separate income or an offset to a related expense.

At its November 2021 meeting the IASB began discussions on the feedback received from respondents on the Request for Information, which will help the IASB to determine how to prioritize its activities and what new projects to add to its work plan for 2022 to 2026. At this time, the IASB has not made any decisions about the prioritization of a potential IASB project to update IAS 20.

Prior FASAC Discussions

At the June, September, and December 2020 FASAC meetings, Council members discussed various topics that were important within the current environment at that time, including government assistance.

June 2020: FASAC members acknowledged that the lack of GAAP guidance for government assistance may lead to diversity in the accounting for and disclosure of government assistance. However, Council members indicated that companies generally are familiar with existing accounting models that could be applied to various government assistance arrangements and that there is not an urgent need for additional guidance. The consensus among Council members was that if the FASB were to issue guidance at that time, it would likely result in additional costs and complexity, given the wide variety in the forms of government assistance provided to companies. However, some Council members indicated that the Board should consider a project on recognition and measurement of government assistance in the future.

September 2020: Overall, Council members indicated that there is no urgent need for the Board to develop specific guidance (recognition, measurement, or disclosure) for government assistance and acknowledged the difficulty involved in developing new guidance in that area. Some investors and other users noted that they were receiving the information necessary to understand the effect that government assistance may have had on their analysis of a company. Some preparers and practitioners indicated that the application of the guidance within Subtopic 958-605 on conditional contributions can be difficult to apply.

December 2020: A Council member discussed disclosures about pandemic-related assistance and benefits received from governments and others. There was an active discussion on this topic with examples given of companies and industries and an

interest in better understanding practice.

2. Summary of IAS 20

Scope

IAS 20 applies to the accounting for, and disclosure of, government grants and to the disclosure of other forms of government assistance. The distinction between government grants and other forms of government assistance is important because the recognition, measurement, and presentation guidance, and some of the disclosure guidance, applies only to government grants. Government grants (sometimes referred to as subsidies, subventions, or premiums) are a specific form of government assistance. Under IAS 20, government grants are defined as follows:

> *Government grants* are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. They exclude those forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity. [Footnote reference omitted]

Government grants are resources transferred to an entity by a government (in the form of cash, as a reduction in liability to a government, or in the form of a transfer of a nonmonetary asset) in most cases upon completion of some conditions. Government grants are typically provided as an incentive for an entity to engage in an activity that it otherwise would not have without those grants and also can be provided for financial support, as demonstrated by the amount of assistance provided to companies during the COVID-19 pandemic. IAS 20 also considers the benefit of below-market interest rate loans as well as forgivable loans to be forms of a government grants.

IAS 20 includes the following scope exceptions:

1. Government assistance in the form of tax reliefs (tax breaks, tax holidays, etc.)
2. Grants related to agriculture under IAS 41, *Agriculture*
3. Grants in financial statements that reflect the effect of changing prices
4. Government acting as a part owner of an entity.

The definition of a government in IAS 20 includes central and local government bodies as well as various types of government agencies.

Recognition and Measurement

Government grants cannot be recognized in income until there is reasonable assurance that a recipient will both:

1. Comply with the conditions associated with the grant
2. Receive the grant.

Thus, before recognition can occur, an entity should have received the grant payments (or have reasonable assurance that it will receive grant payments in an amount that can be reliably estimated) and must be reasonably assured of meeting any compliance requirements associated with receiving or retaining the funds.

Some grants are received in advance by the entity, but that is not necessarily an indication that the conditions attaching to the grant have been or will be fulfilled. Therefore, some grants will be presented as a liability until there is a “reasonable assurance” that all the conditions attaching to those grants will be complied with.

Specific accounting treatment depends on the purpose of the grant received. Grants can either be:

1. **Grants Related to Assets:** Grants related to assets are grants whose primary condition is that an entity qualifying for them should purchase, construct, or otherwise acquire long-lived assets.
2. **Grants Related to Income:** Grants related to income are all grants other than those related to assets.

IAS 20 indicates that once there is reasonable assurance that the conditions will be met, the earnings impact is recorded “on a systematic basis over the periods in which the entity recognizes as expenses the related costs for which the grants are intended to compensate.” Entities will need to evaluate their individual facts and circumstances in evaluating the extent to which compliance with grant conditions is reasonably assured at a given reporting date. If the amount of payments received or receivable at a reporting date exceeds the amount of the grant for which the reasonable assurance threshold has been met, the difference is reported as a liability (such as a refundable advance). For example, if an entity receives an employee retention credit that is based on qualified employee wages to keep the employees employed, the credit would be recognized in the income statement as the related salary expenses are incurred.

When recognizing a government grant related to income, an entity should differentiate whether the grant relates to past costs or to current and future costs. If the grant relates to costs that have already occurred, that grant should be recognized in the income

statement immediately; however, if the grant is for current and future costs, that grant should be recognized in the period in which the costs are incurred.

At a high level, the table below summarizes the overall timing of recognition within the income statement for grants related to assets (depreciable and nondepreciable) and grants related to income (which is to compensate for expenses already incurred or grants for which there are no future related costs).

Grant related to	Timing of recognition in the income statement
Depreciable asset	Recognize over the periods and in the same proportion as the asset is depreciated/amortized.
Nondepreciable asset	Recognize consistent with conditions related to the grant. Recognize over the periods that bear the cost of meeting the conditions. For example, if a grant is related to the purchase of land on the condition that the company constructs and operates a building on that land, the grant is recognized in profit or loss as the building is depreciated.
Income	If a grant relates to costs already incurred, that grant should be recognized immediately when the grant becomes receivable. If a grant is for current and future costs, recognize that grant in the period in which the costs are incurred.

Presentation

If a government grant meets the recognition criteria, IAS 20 allows either gross or net presentation on the balance sheet and/or income statement.

Grant related to	Gross presentation	Net presentation
Asset	Recognize as a deferred liability and amortize over the useful life of the asset.	Deduct from the carrying amount of the related asset.
Income	Recognize separately from the related expense (for example, as other income).	Offset against the related expense.

Grant Related to Assets

There are two ways to present government grants related to assets in the balance sheet:

1. As deferred income (deferred liability).
2. Offset against the carrying amount of the related asset. For example, an entity that receives a grant to finance the acquisition of an asset of property, plant, or equipment can choose to deduct the grant from the carrying amount of that asset.

Grants Related to Income

There are two ways to present government grants related to income in the income statement:

1. Separately from the related expense, such as a separate line of grant income or other income
2. As a reduction in the related expense that the grant is intended to bear the cost of (for example, a reduction of salary expense, resulting in net presentation).

Regardless of the accounting model applied, IAS 20 requires disclosure of an entity's accounting policy for the presentation of government grants and the impact of those grants on the financial statements.

Other Considerations

Nonmonetary Government Grants

IAS 20 indicates that a government grant in the form of a transfer of a nonmonetary asset (such as land or other resources) for the use of the entity can be measured either at fair value or a nominal amount (which is typically zero).

Forgivable Loans

A forgivable loan is treated as a government grant when there is reasonable assurance that the entity will meet the loan's terms for forgiveness.

Loans with Below-Market Rate of Interest

IAS 20 states that the benefit of a government loan at a below-market interest rate is treated as a government grant. The loan should be recognized and measured in accordance with IFRS 9[1]. Any difference between the initial carrying value of the loan (its fair value) and proceeds received should be recognized as a government grant.

[1] The accounting under GAAP differs in that interest may not always be imputed on low-interest or interest free loans (Paragraph 835-30-15-3(e)) and the benefit of a government loan would not be recognized as a government grant.

The entity should consider the conditions and obligations that have been, or must be, met when identifying the costs for which the benefit of the loan is intended to compensate.

Unlike IFRS Standards, under GAAP, interest may not always be imputed on low-interest or interest free loans. The guidance on imputation of interest 835-30-15-3(e) which indicates that "transactions where interest rates are affected by the tax attributes or legal restrictions prescribed by governmental agency (for example, industrial revenue bonds, tax exempt obligations, government guaranteed obligations, income tax settlements)" are exempt from applying the guidance on the guidance

Contingent Liabilities and Contingent Assets

IAS 20 states that once a government grant is recognized, any related contingent liability or contingent asset is treated in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

Repayment of Government Grants

IAS 20 indicates that a government grant, that was previously recognized, becomes repayable (for example, if an entity does not fulfill its commitments) should be accounted for prospectively as a change in accounting estimate in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Disclosure

IAS 20 requires disclosure of government grants and other forms of government assistance. The disclosure requirements in IAS 20 are broader than only government grants. Some disclosures also relate to other forms of *government assistance*, which IAS 20 defines as follows*:*

> *Government assistance* is action by government designed to provide an economic benefit specific to an entity or range of entities qualifying under certain criteria. Government assistance for the purpose of this Standard does not include benefits provided only indirectly through action affecting general trading conditions, such as the provision of infrastructure in development areas or the imposition of trading constraints on competitors.

In IAS 20, government assistance does not include the provision of infrastructure by improvement to the general transport and communication network and the supply of improved facilities such as irrigation or water reticulation, which is available on an ongoing indeterminate basis for the benefit of an entire local community.

The disclosures in IAS 20 include:

1. The accounting policy adopted for government grants, including the methods of presentation adopted in financial statements
2. The nature and extent of government grants recognized in financial statements and an indication of other forms of government assistance from which the entity has directly benefited
3. Unfulfilled conditions and other contingencies attaching to government assistance that has been recognized.

Discussion Questions

At a future meeting, the staff plans to share a summary of the responses to the FASB's ITC on the accounting for government grants. Along with that input, and the background information and overview of IAS 20 provided in this memo, we plan to seek Council members' input on the recognition, measurement, and presentation requirements of IAS 20 at that meeting.

Question 1: Is there additional information that would be helpful to you in your preparation for our future discussion on this issue?

Question 2: What questions would be important to include when asking for feedback on IAS 20 through the invitation to comment?