

# FASB In Focus

## Proposed Accounting Standards Update

### Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance

#### Why Is FASB Proposing a New Standard on Government Assistance?

Currently, GAAP lacks explicit guidance for financial reporting of government assistance received by businesses. Examples of government assistance include grants, low interest rate loans, loan guarantees, tax incentives, tax abatements, and the transfer of assets from governments to businesses.

**Examples of government assistance include grants, low interest rate loans, loan guarantees, tax incentives, tax abatements, and the transfer of assets from governments to businesses.**

In the absence of specific GAAP guidance related to this area, U.S. issuers have been turning to other sources of guidance, including the Contributions Received Subsections of *FASB Accounting Standards Codification*® Topic 958, Not-for-Profit Entities; Topic 450, Contingencies; and international guidance contained in IAS 20, *Accounting for Government Grants and Disclosures of Government Assistance*. This has resulted in diversity of practice and a lack of useful information in financial reporting about these arrangements.

The increase in government assistance programs has led FASB stakeholders to submit inquiries on the topic of accounting for government assistance. In addition, the July 13, 2012 SEC staff report, *Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers*, identified government grants as an area of GAAP that needs continued development.

As a result of these factors, the FASB embarked on a research project to better understand the scope and accounting considerations of a potential project on the accounting for government assistance. Based on the outcome of that research, the Board voted in January 2014 to add the project to its technical agenda to focus on developing disclosures in the notes to financial statements to increase transparency about government assistance arrangements.

#### Who Would Be Affected by This Proposed ASU?

The proposed guidance applies to an organization (other than not-for-profit organizations covered under Topic 958, Not-for-Profit Entities) that enters into

a legally enforceable agreement with a government to receive value. The guidance would not apply to transactions in which the government is (1) legally required to provide a nondiscretionary level of assistance to a business or other for-profit organization simply because the business meets applicable eligibility requirements that are broadly available without specific agreement between the business and the government, or (2) solely a customer.

**The proposed ASU seeks to create greater transparency around financial reporting of government assistance agreements that businesses enter into with governments.**

#### How Does the Proposed ASU Seek to Improve These Areas of Financial Reporting?

The proposed ASU seeks to create greater transparency around financial reporting of government assistance agreements that businesses enter into with governments. It would provide

users with more information about existing government assistance agreements to help them better assess the nature of the assistance.

Specifically, the disclosures would increase transparency and require disclosures about:

1. The types of arrangements
2. The accounting for government assistance, and
3. Their effect on the business organization's financial statements.

The disclosures in the proposed guidance include:

- Information about the nature of the assistance, significant categories, and the method applied to account for the government assistance
- Line items on the balance sheet and income statement that are affected by government assistance and applicable amounts
- Significant terms and conditions of the agreement including commitments and contingencies, and

- The amount of government assistance received but not recognized directly in any financial statement line item (unless impractical).

### How Do the Provisions Compare with International Financial Reporting Standards (IFRS)?

Because there is a lack of GAAP guidance for government assistance, some U.S. issuers are turning to IAS 20 for guidance on recognition, measurement, and disclosures. Similar to IAS 20, the proposal contains guidance for disclosures on government assistance. However, IAS 20 also provides guidance on recognition and measurement of government grants, but not other forms of government assistance.

The scope of IAS 20 does not include government assistance that is provided for a business in the form of benefits that are available in determining taxable profit or loss, or that is determined based on income tax liability. The disclosures required in the proposed guidance are generally consistent with those required by IFRS.

**The Board invites individuals and organizations to comment by February 10, 2016.**

### What Kind of Feedback Is the Board Seeking from Stakeholders?

The Board invites individuals and organizations to comment on all matters in this proposed ASU. The 90-day comment period ends on February 10, 2016.

### When Would the Amendments Be Effective?

The effective date will be determined by the Board after considering stakeholders' feedback on the proposed Update. The amendments would be applied to all agreements existing at the effective date and those entered into after the effective date. Retrospective application would be permitted.

**For more information about the project, please visit the FASB's website at [www.fasb.org](http://www.fasb.org).**