To the Point
FASB – final guidance

FASB requires disclosures by business entities about certain types of government assistance

The guidance is aimed at increasing transparency about certain government assistance a business entity receives.

What you need to know

- The FASB issued final guidance that requires business entities to make annual disclosures about transactions with a government they account for by analogizing to a grant or contribution accounting model (e.g., IAS 20, ASC 958-605).
- The required annual disclosures include the nature of the transaction, the entity’s related accounting policy, the financial statement line items affected and the amounts reflected in the current period financial statements, and any significant terms and conditions.
- An entity that omits any of this information because it is legally prohibited from being disclosed needs to include a statement to that effect.
- The guidance is effective for financial statements issued for annual periods beginning after 15 December 2021. Early adoption is permitted.

Overview

The Financial Accounting Standards Board (FASB or Board) issued final guidance² that requires business entities that account for transactions with a government by analogizing to a grant or contribution accounting model to make certain annual disclosures. The guidance says transactions with a government include assistance provided by governments and entities related to governments.

Not-for-profit entities within the scope of Accounting Standards Codification (ASC) 958, Not-for-Profit Entities, and employee benefit plans within the scope of ASC 960 through 965 on plan accounting are excluded from these requirements.
The guidance is aimed at increasing transparency about government assistance transactions that are not in the scope of other US GAAP guidance. It requires disclosure of the nature and significant terms and considerations of the transactions, the accounting policies used and the effects of those transactions on an entity's financial statements.

The FASB noted that there is currently diversity in how business entities recognize, measure and make disclosures about government assistance received because there is no explicit US GAAP guidance.

Business entities that receive government assistance in the form of a loan (i.e., in the scope of ASC 470), an income tax credit (i.e., in the scope of ASC 740) or revenue from a contract with a customer (i.e., in the scope of ASC 606) apply the guidance and disclosure requirements in the related US GAAP topic.

Business entities that receive other types of government assistance that are not in the scope of other US GAAP generally account for such transactions by analogy to the IFRS grant model in International Accounting Standards (IAS) 20 or the contribution model for not-for-profit entities in ASC 958-605.

The Board said the significant increase in government assistance provided to companies during the COVID-19 pandemic prompted investors and other financial statement users to request that information about government assistance be disclosed in financial statements. The Board also noted that the disclosures required in this guidance could provide useful information to help determine the scope of a potential future project on the recognition and measurement of government assistance.

Key considerations
The disclosure requirements apply to business entities that account for transactions with a government by analogizing to a grant or contribution model such as IAS 20 and ASC 958-605. They don't apply to transactions with a government that are accounted for in accordance with existing US GAAP (e.g., ASC 450 on contingencies, ASC 606, ASC 740).

How we see it
As an example, business entity recipients of Paycheck Protection Program (PPP) loans may have accounted for them as debt or government grants, depending on whether the recipient expected to meet the eligibility and loan forgiveness criteria. If the PPP loan was accounted for by analogy to a grant or contribution model (e.g., to IAS 20), it would be in the scope of this disclosure guidance. In contrast, if it was accounted for as debt under ASC 470, it would not be in the scope of this disclosure guidance.

The guidance says transactions with a government, for the purpose of applying the disclosure requirements, include assistance that is administered by domestic, foreign, local (e.g., city, town), regional (e.g., state, provincial) and national (i.e., federal) governments, including related governmental entities (e.g., departments, independent agencies). Government assistance can also be administered by intergovernmental organizations and other types of organizations (e.g., nongovernmental organizations or government-sponsored enterprises that have been assigned authority from a government to administer assistance on its behalf).

The guidance requires business entities to disclose in their annual financial statements the following about transactions with a government in its scope:

- The nature of the transactions, including a general description of the transactions and the form in which the assistance has been received (e.g., cash, other assets)
- The accounting policy used to account for the transactions as required by ASC 235-10-50-1
The Board noted⁵ that it decided to require disclosure of the significant terms and conditions of government assistance in the scope of this guidance because investors and other financial statement users commented that information about the terms, conditions and duration of government assistance is important. For example, if an agreement indicates that the entity is entitled to receive a grant in the amount of $100,000 in five equal, annual installments of $20,000 per year and the transaction is in the scope of this guidance, that information should be disclosed. However, if the agreement indicates that the entity is entitled to receive an amount calculated as 5% of gross revenue for the next five years and the transaction is in the scope of this guidance, the entity should disclose those terms, but it would not be required to disclose a dollar amount.

If an entity omits any of the required disclosures because it determines that the information is legally prohibited from being disclosed, it must disclose a description of the general nature of the information and indicate that the disclosures have been omitted because they are legally prohibited from being disclosed. However, the Board said,⁶ in its research, it did not identify any laws that would prohibit entities from disclosing government assistance. Based on that research, the Board concluded⁷ it is unlikely that transactions with a government would contain confidentiality clauses that prohibit the disclosure of the information required by this guidance.

### How we see it
The required disclosures are generally consistent with those required by IAS 20. Since we believe many business entities analogize to IAS 20, we do not expect those entities to have to make significant changes to their disclosures about government assistance.

### Effective date and transition
The guidance is effective for all business entities for financial statements issued for annual periods beginning after 15 December 2021. That is, private companies do not have an additional year to adopt this guidance. Early adoption is permitted. The guidance may be applied either (1) prospectively to all in-scope transactions that are reflected in the financial statements at the date of initial application and to new transactions that are entered into after the date of initial application or (2) retrospectively.

### Endnotes:
3. ASC 958-605, Not-For-Profit Entities — Revenue Recognition.