Community Development Bankers Association
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September 12, 2022

Technical Director
Financial Accounting Standards Board (FASB)
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

RE: Invitation for public comment / File Reference No. 2022-002 / June 13, 2022

To Whom it May Concern,

The Community Development Bankers Association (CDBA) respectfully submits the enclosed comments in response to the Financial Accounting Standards Board's (FASB's) "Invitation to Comment - Accounting for Government Grants by Business Entities - File Reference No. 2022-002" published June 13, 2022.

CDBA is the national trade association of banks and thrifts with a primary mission of promoting community development. Our members target at least 60% of their total lending and activities to Low- and Moderate-Income (LMI) communities and customers that are underserved by traditional financial service providers. As of this date, there are 176 banks with the U.S. Treasury's Community Development Financial Institutions (CDFIs) designation. Banks with this designation are referred to as "CDFI banks."

About CDFI Banks

CDFI banks are FDIC-insured and are subject to the full range and scope of national and local bank regulation. By virtue of their CDFI status, community development banks are eligible for, and frequent participants in, government grant programs at multiple levels (federal, state, etc.), including, but not limited to the grant-making programs of the U.S. Treasury's CDFI Fund. CDFI Fund programs reward and encourage the provision of financial products and services consistent with CDFI banks' community development missions and with the policy priorities of legislators, regulatory agencies and other authorities.

CDFI Fund grant programs alone are very consequential for participating banks, and for the communities those banks serve. In FY 2021 alone, CDFI banks were awarded $341 million in government grants from the CDFI Fund to support their provision of financial products and services in rural, urban and historically underserved minority and native communities that lack access to credit and are not adequately served by the traditional banking industry.

CDBA Supports Updating U.S. Generally Accepted Accounting Principle (GAAP) Guidance

We are grateful for the opportunity to provide comments in response to this invitation. Specifically, we offer comments in response to Question (1), which is open to "All Respondents." Question (1) states:

- GAAP does not have specific topical authoritative guidance on the accounting for government grants by business entities. *Should the FASB consider incorporating into GAAP the guidance in International Accounting Standard (IAS) 20 as it relates to the accounting for government grants? If yes, what aspects of IAS 20 related to recognition, measurement, and/or presentation should be incorporated and why?*

CDBA supports incorporating IAS 20 guidance, "Accounting for Government Grants and Disclosure of Government Assistance", into GAAP guidance. Specifically, GAAP guidance should state, in accordance with IAS 20, that a business entity may choose the accounting approach that it believes is most fitting for its business and the situation under which a grant is received, and document the reasons for that selection. Incorporating IAS 20 guidance into GAAP would bring much-needed clarity and logical consistency to accounting practices for business entities of all types that qualify for government grants. This in turn would ensure government grants fully benefit the communities they are intended to help.

The "business entities" that we represent (CDFI banks) provide a compelling example of why GAAP should provide "specific topical authoritative guidance on the accounting for government grants by business entities." Without clear GAAP guidance, CDFI banks receive conflicting advice on how to account for government grants. Currently under GAAP, non-conditional grants to *not-for-profit entities* are recognized in accordance with ASC Subtopic 958-605 (Application of the Limited Discretion Indicator And Accounting For Cost-Sharing Provisions in a Grant Agreement)[1]. However, GAAP guidance does not <u>specifically</u> address how *for-profit entities* (such as CDFI banks) should recognize grants.[2] Accounting professionals therefore provide CDFI banks with advice based on this "guidance by analogy." Unfortunately, this advice can conflict with the more precise guidance in IAS 20, and can lead to illogical or counterproductive outcomes. GAAP guidance should be updated to incorporate IAS 20 guidance, specifically, guidance contained in Paragraphs 13 and 14.[3]

Support for Incorporating IAS 20 into GAAP Guidance

We respectfully urge the FASB to incorporate the IAS 20 guidance found in Paragraphs 13 and 14 into GAAP.

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[1] FASB, www.fasb.org

[2] Although the scope of ASC Subtopic 958-605 excludes contributions made by governmental entities to business (for-profit) entities, including depository institutions, entities scoped out of ASC Subtopic 958-605 are not precluded from applying it by analogy, and many are advised to do so.

[3] FASB, "Invitation to Comment - Accounting for Government Grants by Business Entities," page 19, www.fasb.org, Accessed August 30, 2022

Paragraph 13

Paragraph 13 of IAS 20 acknowledges that there are two approaches that business entities can consider for the treatment of government grants - the "Capital Approach" and the "Income Approach." Incorporating Paragraph 13 into GAAP would therefore serve the important function of broadening the accounting approaches that are appropriate to this situation beyond the narrower, non-profit construction of ASC Subtopic 958-605. Specifically, Paragraph 13 states:

- "There are two broad approaches to the accounting for government grants: *the capital approach, under which a grant is recognized outside profit or loss,* and the income approach, under which a grant is recognized in profit or loss over one or more periods." (Emphasis added).

We recommend that FASB incorporate the Capital Approach into GAAP because, without clear guidance, the U.S. accounting industry's default position has been to advise CDFI banks to account for grants under the Income Approach. Unfortunately, relying on a "default" rather than a "correct" approach has resulted in an incongruous situation. Currently, government entities (such as the CDFI Fund) make grants to CDFI banks to incentivize financing behavior in low-income and underserved communities. Banks account for the grants under the Income Approach (as advised), and under to IRA regulations, then return a significant portion[4] of the grant back to the government in the form of corporate income tax. As a rough example, using an unadjusted 21% corporate income tax rate, the Income Approach can effectively reduce a $100,000 grant to $79,000. If we extrapolate this example to the $341 million of CDFI Fund grants directed to CDFI banks in FY 2021, approximately $71 million intended to benefit low-income communities would be returned instead to the U.S. Treasury. Given IAS 20's declaration that the Capital Approach is an appropriate approach, leaving the Income Approach in place as the only status quo is unnecessary, inconsistent and counterproductive.

This status quo is unnecessary because it stems from risk-avoidance due to uncertainty, rather than clear guidance. It is inconsistent, because other entities (including CDFI credit unions and nonprofit loan funds) receive the same awards, from the same government entities, to incentivize the same activity, but face none of the tax liabilities. It is counterproductive, because it severely blunts the intended effectiveness of the government grants.

Paragraph 14

Paragraph 14 includes more support for incorporating IAS 20 into GAAP. Paragraph 14 outlines the characteristics of government grants. Paragraph 14's characteristics of government grants align with the characteristics of grants provided by government entities such as the Treasury's CDFI Fund.

[4] What portion varies with the prevailing corporate tax rates at the time, as well as the particular situation of the individual bank.

The U.S. Treasury's CDFI Fund is the primary (but not exclusive)[5] provider of grants to CDFI banks, and the characteristics of government grants that are accessed by CDFI banks are consistent with the characteristics identified in Paragraph 14 of IAS 20 that favor the Capital Approach. Per the CDFI Fund:

- "The (CDFI Fund)'s mission is to expand economic opportunity for underserved people and communities by supporting the growth and capacity of a national network of *community development lenders, investors, and financial service providers. . . development organizations, and financial institutions* . . ." (Emphasis added).

Examples of CDFI Fund grants that are accessed by CDFI banks include, but are not limited to, the *Bank Enterprise Award Program*, which "Awards FDIC-insured depository institutions (including CDFI banks) for . . . advancing their community development activities in many of our country's most highly distressed communities,"[6] and the *CDFI Program Financial and Technical Assistance Awards* which "Use monetary awards . . . and training opportunities to invest in and build the capacity of CDFIs, empowering them to grow, achieve organizational sustainability, and drive community revitalization."[7]

The characteristics of government grants provided by the CDFI Fund are helpful to understanding that the Capital Approach is appropriate for accounting for government grants. Specifically, Paragraph 14 states:

1. "Government grants are *a **financing device*** and should be dealt with as such in the statement of financial position rather than be recognized in profit or loss to offset the items of expense that they finance. Because ***no repayment is expected***, ***such grants should be recognized outside profit or loss***.
2. ***It is inappropriate to recognize government grants in profit or loss***, because they are not earned but ***represent an incentive provided by government without related costs***." (Emphasis added).

The characteristics of government grants accessed by CDFI banks are consistent with the characteristics identified in paragraph 14 of IAS 20 that favor the Capital Approach:

IAS 20 Paragraph 14	CDFI Fund Government Grants
Paragraph 14 refers to government grants as financing devices. "Government grants are a ***financing** device. . .*"	The CDFI Fund describes its programs in terms of financing devices, such as Investments: By "Offering tailored resources and innovative programs that ***invest federal dollars*** alongside private sector capital, the CDFI Fund serves

[5] States including New York and Virginia have independent agencies that provide grants to CDFIs banks, and many CDFI banks are also eligible for grants provided by the U.S. Department of Agriculture, among others.
[6] Bank Enterprise Award Program, www.cdfifund.gov/programs-training/programs/bank-enterprise-award
[7] CDFI Program, www.cdfifund.gov/programs-training/programs/cdfi-program

	mission-driven financial institutions that take a market-based approach to supporting economically disadvantaged communities ."[8]
Paragraph 14 acknowledges that grants, which need not be repaid, need not be recognized as Income. "Because ***no repayment is expected, such grants*** should be recognized outside profit or loss.*"*	Awards such as the Bank Enterprise Award (BEA) are referred to as "grants" by the CDFI Fund,[9] and applicants are required to register in the federal government's grants system, www.grants.gov
Paragraph 14 describes government grants as incentives. "It is inappropriate to recognize government grants in *profit or loss*, because they are not earned but ***represent an incentive*** provided by government without related costs."	In at least one example, the CDFI Fund describes the BEA Program as "***an incentive to banks*** to invest in their communities and in other CDFIs."[10]

In summary, IAS 20 Paragraph 14 identifies definitional characteristics of government grants that are present in grants programs accessed by CDFI banks in practice.

Conclusion

Incorporating IAS 20 guidance into GAAP would bring much-needed clarity and logical consistency to accounting practices for business entities of all types that qualify for government grants.

CDBA strongly encourages the FASB to incorporate guidance contained in Paragraphs 13 and 14 of IAS 20 into GAAP. Paragraph 13 states unequivocally that government grants to for-profit business entities may legitimately be considered under *both* the Capital Approach and the Income Approach. Paragraph 14 supports the specific legitimacy of the Capital Approach by demonstrating how the *definitional* characteristics of government grants align with the *practical* characteristics.

We wish to acknowledge that while the Capital Approach is likely to be the most appropriate for situations encountered by our members, arguments in favor of the Income Approach may have merit in other situations. Therefore, we support updating GAAP guidance to state that an entity may *choose* the approach that it believes is most fitting for its business and the situation under which a grant is received, and document the reasons for that selection.

[8] What Does the CDFI Fund Do?, www.cdfifund.gov

[9] Getting Ready to Apply for CDFI Fund Grant Assistance in Four Steps, www.cdfifund.gov/impact/48

[10] About Us - Overview, www.cdfifund.gov/about

The members of CDBA sincerely appreciate the opportunity to comment and offer feedback on this important topic. We look forward to working with FASB and future discussion on these important issues. Please feel free to contact Brian Blake, Public Policy Director at (646) 283-7929 or blakeb@pcgloanfund.org, if you have any questions about the positions stated in this letter.

Thank you for considering our recommendations.

Sincerely,

Brian Blake
Public Policy Director