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March 31, 2025

Jackson M. Day
Technical Director
Financial Accounting Standards Board
801 Main Avenue
PO Box 5116
Norwalk, CT 06856-5116

Via Email to director@fasb.org

Re: File Reference No. 2024-ED700

Dear Mr. Day:

Grant Thornton LLP appreciates the opportunity to comment on the Proposed Accounting Standards Update, *Government Grants (Topic 832): Accounting for Government Grants by Business Entities*.

Overall, we support the Board's objective to establish authoritative guidance on the recognition, measurement, and presentation of government grants by business entities. We acknowledge that U.S. GAAP currently lacks specific guidance for government grants, resulting in diversity in practice and prompting questions about acceptable accounting approaches. We also recognize the challenges inherent in creating accounting solutions for nonexchange transactions with commercial entities.

While we support the Board's overall approach, we have outlined specific areas where we believe the Board could improve the clarity and representational faithfulness of the financial reporting outcomes under the proposed standard. Specifically, we propose eliminating optionality and exclusively permitting a single approach to accounting for government grants—the proposed deferred income approach (that is, gross balance sheet presentation)—and requiring gross presentation in the income statement. We believe that the cost accumulation approach (that is, net balance sheet presentation) and net presentation in the income statement would present the following issues:

- Net presentation departs from the FASB's Conceptual Framework in that the cost accumulation approach may fail to recognize granted assets that (1) meet the definition of an asset, (2) are measurable, and (3) can be depicted with faithful representation. In contrast, the proposed deferred income approach would require entities to measure and record granted assets at fair value, ensuring that the recorded value reflects the true economic value of the assets.
- Net presentation on both the balance sheet and income statement may obscure the true economic impact of government grants. Under the cost accumulation approach for grants related to an asset, the carrying value of the asset is reduced by the grant, meaning the application of the proposed amendments may result in assets being recorded at zero or nominal value, which does not reflect their true economic value. Accordingly, from a balance sheet perspective, we do not believe that the cost accumulation approach should be an option under the amendments. Likewise, we do not believe an entity should be allowed to deduct the government grant from the related expense on the income statement.
- In some circumstances when using the cost accumulation or net income statement approach, the proposed amendments may not include all disclosures necessary to understand the ongoing impact of government grants on operating margins and future cash flows. Specifically, if the amendments are adopted as proposed, the disclosures would reflect the amount of the grant recognized as a reduction of the asset's value, the impact on income statement line items, and the grant-date fair value of tangible nonmonetary assets. In contrast, requiring gross presentation of government grants on both the balance sheet and the income statement for a grant related to an asset and a grant related to income would provide users with a clearer view of the economic impact of government grants.
- Allowing the cost accumulation approach and net presentation in the income statement would diminish comparability and consistency in financial reporting. By exclusively permitting the deferred income approach and gross presentation in the income statement, the Board would limit the number of acceptable accounting models, thereby reducing diversity in practice and enhancing comparability.

Some additional considerations for the Board follow:

- The proposed ASU departs from the FASB's Conceptual Framework in several other respects. Specifically, the deferred income approach disregards the definition of a *liability* outlined in Concepts Statement No. 8. Recognizing a deferred grant liability after the conditions of the grant have been met is inconsistent with the principle that a liability must represent a present obligation to transfer an economic benefit under Concepts Statement 8. Additionally, the concept of recognizing a grant in earnings on a systematic and rational basis over the periods in which the entity incurs the related costs that the grant intends to compensate is only justified by a "matching" principle, which is not encompassed within the Conceptual Framework nor in other U.S. GAAP, such as ASC 606. Further, the proposed amendments imply that a grant asset may be recognized before grant proceeds are received, which means that an entity would have both an asset and a liability that do not meet the definitions of an *asset* or *liability* in Concepts Statement No. 8.

- We believe implementing a performance obligation-style approach may resolve some of these issues, such as extending the Subtopic 958-605 “barrier” concept to government grants received by business entities or adopting a similar methodology to recognize grant income when the conditions precedent to earning the grant are satisfied. A model that recognizes grant income when the conditions of the grant have been substantially met, satisfied, or explicitly waived (or upon meeting another appropriate recognition threshold) would provide a more robust basis for recognition and ensure greater alignment with other areas of U.S. GAAP. Further, under one of these models, deferred income recognized would meet the definition of a liability by representing a present obligation to transfer an economic benefit.

In summary, we support the Board’s objective to establish authoritative guidance on the recognition, measurement, and presentation of government grants by business entities. We believe much of the feedback provided in our responses within this letter could be addressed by modifying the current proposed amendments to reduce optionality and exclusively permit the proposed deferred income approach and gross presentation in the income statement.

Our responses to the Board’s questions follow.

Our responses to the questions in the proposed ASU

Question 1: Is the proposed scope understandable and operable? Please explain why or why not and, if not, what changes you would suggest. Do you agree with the population of government grants included in the scope of the amendments in this proposed Update? Please explain why or why not.

We believe the proposed standard is understandable and operable for entities other than not-for-profit entities and other entities doing business in narrowly scoped industries. However, we believe that the guidance for determining which transactions are within the scope of the proposed standard may pose some challenges in practice.

We believe providing additional interpretive guidance to determine whether a transaction is an exchange or nonexchange transaction, or including references to interpretive guidance that currently exists on the topic, would clarify the applicability of the proposed standard. The proposal would define a “government grant” in the Codification’s Master Glossary as “other than an exchange transaction,” which is defined in the Master Glossary as “a reciprocal transfer between two entities that results in one of the entities acquiring assets or services or satisfying liabilities by surrendering other assets or services or incurring other obligations.” The contribution guidance in ASC 958-605 similarly requires not-for-profit entities to determine whether a transaction is an exchange or a nonexchange transaction. In our experience, not-for-profit entities often struggle to make this determination, and find the scoping and interpretive discussion and examples in 958-605 to be helpful (particularly, paragraphs 15-5A, 55-4 through 55-7, and 55-13A through 55-14I). We believe that entities applying the proposed guidance may face similar challenges in distinguishing between exchange and nonexchange transactions and encourage the Board to either reference or leverage the existing guidance in ASC 958-605 in the proposed updates.

In addition, we ask the Board to provide guidance for transactions partially within the scope of the proposal and partially within other guidance. Paragraph BC18 of the proposed guidance states that for these types of agreements, only the part that relates to the government grant would be in the scope of ASC 832.

However, the proposed amendments do not provide guidance for transactions that are partially in the scope of ASC 832 and partially in the scope of other guidance, including considerations for allocating between such transactions under a single agreement. A contract with a government might contain elements under ASC 832 and other elements that would meet the definition of an exchange transaction under other guidance, such as ASC 606 or ASC 610-20. For example, a manufacturer with government contracts may determine that the government is a customer, and account for those contracts under ASC 606. That manufacturer may receive a grant to purchase assets to enhance its production facilities to ensure that the government has a reliable supply of the goods being produced. Accounting for the entire arrangement as an exchange transaction under ASC 606 could lead to distorted profit margins, and accounting for the entire transaction as a government grant would not faithfully depict the activities related to selling the entity's goods under the contract. Without guidance on how to identify the multiple elements separately and how to allocate the transactions between the guidance, diversity in practice could exist. ASC 958-605 addresses transactions that are part exchange and part nonexchange transactions (paragraphs 55-6 and 55-9 through 55-12), requiring entities to measure the exchange portion of a transaction at fair value and to allocate the residual portion of the transaction as a nonexchange transaction. We ask the Board to consider referencing that guidance or providing similar guidance to enhance the operability of the proposed amendments.

Further, the proposed Master Glossary definition of "government grant" would limit the scope of the ASC 832 to the transfer of a "monetary asset or a tangible nonmonetary asset," and exclude from its scope intangible assets, including right-of-use assets arising in leases. We acknowledge the complexities that the Board considered in creating this limitation on the proposed scope and note that many transactions noted in BC22 would not give rise to accounting recognition. However, U.S. GAAP does contain guidance around free leases in ASC 958-605 (paragraphs 55-23 and 55-24), and such items are not excluded from the scope of IAS 20, which, based on our experience, is currently applied by analogy by the majority of business entities receiving government grants. It is therefore unclear if the Board's intent is not to give these transactions accounting recognition, or if entities should continue to analogize to the scope of other guidance to account for them. Because other intangibles, such as crypto assets or environmental credits, may become more prevalent in transactions with the government in the future, we believe that providing clarity on this point would enhance the operability of the standard for all stakeholders.

Question 2: Under the proposed amendments, a government grant would be recognized when it is probable that (a) the business entity will comply with the conditions attached to the grant and (b) the grant will be received. Are these proposed amendments clear, operable, and auditable? Please explain why or why not.

In our view, the two proposed criteria—that an entity will comply with the conditions of the grant and that the grant will be received—are both comprehensible and practicable and are echoed in IAS 20. Furthermore, we think that meeting these criteria at a “probable” threshold is feasible, as “probable” is a well-understood level of certainty that is applied in other contexts within U.S. GAAP.

However, it would appear that the proposed guidance in ASC 832-10-25-1 would allow an entity to recognize a grant asset, with a corresponding deferred grant liability, before receiving the grant asset if it were probable that the proposed recognition criteria were met. Consequently, the entity would have both an asset and a liability that do not appear to meet the definition of an *asset* or a liability in Concepts Statement 8. This outcome is illustrated in Example 1 in proposed ASC 832-10-55-9, which states:

Entity A receives a government grant of \$5 million to assist with the cost of purchasing a building, which is the only condition attached to the grant. The building has a useful life of 15 years. Entity A determines that it is probable that it will purchase the building because the seller has accepted Entity A's offer and Entity A has sufficient funding to complete the purchase.

In this example, even before purchasing the building and before the proceeds were received, it appears the entity would be able to record a grant asset and grant liability. In effect, this would result in a receivable from, and a payable to, the government for the same amount, related to the same transaction, even though neither party has an enforceable obligation to the other. We suspect this financial reporting outcome might not be what the Board envisioned.

We suggest that the Board consider addressing the timing of the recognition of a grant asset when the grant has not yet been received in the proposal. Further, the Board could consider a performance obligation–style approach to recognizing a government grant rather than relying on a “probable” threshold. This could be achieved, for instance, by extending the Subtopic 958-605 “barrier” concept to government grants received by business entities or by adopting a similar methodology to recognize grant income when the conditions precedent to earning the grant are satisfied. We believe a model that recognizes grant income when the conditions of the grant have been substantially met, satisfied, or explicitly waived, or upon meeting another appropriate recognition threshold, would provide a more robust basis for recognition and ensure greater alignment with other areas of U.S. GAAP. A performance obligation–style approach of recognizing a government grant may alleviate the conceptual issue of a deferred grant liability being recognized after the conditions of the grant are met, which would not be consistent with the definition of a liability in Concepts Statement 8, as there is no present obligation to transfer an economic benefit.

Question 3: The proposed amendments would provide different accounting requirements and alternatives for a grant related to an asset and a grant related to income. Is the distinction between the types of grants clear? Do the different accounting requirements and alternatives for a grant related to an asset and a

grant related to income provide decision-useful information? Please explain why or why not.

We believe that the proposed amendments are clear in their application to a grant related to an asset and a grant related to income. We also believe that the distinction between the types of grants is clear. We defer to financial statement users with regard to the impact of the proposed amendments on the decision-usefulness of financial information. However, please refer to our response to Question 4 on considerations around the lack of comparability.

Question 4: The proposed amendments would allow a business entity to elect to recognize and present a grant related to an asset either under the deferred income approach or under the cost accumulation approach. Is the deferred income approach operable and understandable? Please explain why or why not. Is the cost accumulation approach operable and understandable? Please explain why or why not. Should there be two approaches to account for a grant related to an asset? Please explain why or why not. If not, what approach do you prefer? Should there be separate recognition or presentation requirements (and implementation guidance) for a grant related to a nondepreciable asset (for example, land)? If yes, should the guidance align with IAS 20 or would you suggest an alternative approach and why?

The deferred income and cost accumulation approaches for grants related to an asset are both operable and understandable. However, we ask the Board to consider adopting a single presentation approach that would be required for all entities and all types of government grants. We would prefer that the Board require the use of the deferred income approach as well as gross presentation of government grants in the income statement and on the balance sheet. A single gross presentation approach would provide users with a clearer understanding of the economic impact of government grants and would reduce the current diversity in practice. As highlighted in BC70 of the proposed amendments, the option to select gross or net presentations could potentially obscure information from users and necessitate analytical adjustments to the reported amounts to achieve comparability among entities. Such adjustments may introduce unnecessary assumptions, estimations, or incompleteness into a user's analysis of the reporting entity's financial performance. Additionally, a single gross presentation approach would address some of the concerns raised regarding additional disclosure requirements.

Moreover, we agree with the views in BC69 that the proposed cost accumulation approach is in conflict with the definition of an asset outlined in Concepts Statement No. 8. For example, if an entity received a government grant that covered the entire cost of constructing a building, no asset would be recognized, an outcome that does not reflect the true economic value of the transaction. Furthermore, the cost accumulation approach introduces offsetting on the balance sheet when the required conditions to offset in ASC 210-20 are not met.

We ask the Board to provide separate recognition or presentation requirements (and related implementation guidance) for a grant related to a nondepreciable asset. As previously noted in our response to Question 2, we recommend exploring a

performance obligation–style approach, such as extending the Subtopic 958-605 “barrier” concept to government grants received by business entities or adopting a similar methodology to recognize grant income when the conditions precedent to earning the grant are satisfied. This approach would potentially resolve the time frame to use for recognizing a grant related to a nondepreciable asset.

We do not believe that analogizing to IAS 20 for a grant related to a nondepreciable asset would yield optimal financial reporting outcomes. In some instances where entities analogized to IAS 20 to account for nondepreciable assets (such as land), these assets “appear” on the balance sheet over time. For example, if a grant of land is conditional upon the construction of a building on the site, it may be appropriate to recognize the grant in profit or loss over the life of the building. If a cost accumulation approach is employed, as the contra-land account is amortized once the building is depreciated, the land would gradually appear as an asset on the balance sheet, leading to an unusual financial reporting outcome.

Question 5: Should a business entity be required to recognize a grant related to income and a grant related to an asset under the deferred income approach in earnings on a systematic and rational basis over the periods in which the business entity recognizes as expenses the related costs for which the grant is intended to compensate? Please explain why or why not. If not, what changes would you suggest?

Although we support the proposed amendments, we do not believe that a business entity should recognize a grant related to income and a grant related to an asset under the deferred income approach in earnings as posed in question 5. The concept of recognizing a grant in earnings on a systematic and rational basis over the periods in which the entity incurs the related costs that the grant is designed to compensate introduces a “matching” principle, which is not encompassed within the FASB’s Conceptual Framework nor in other U.S. GAAP, such as ASC 606. We therefore recommend a performance obligation–style approach, such as extending the Subtopic 958-605 “barrier” to government grants received by business entities, or adopting a similar methodology to recognize grant income when the conditions precedent to earning the grant are satisfied.

Question 6: Should a business entity be required to initially measure a government grant of a tangible nonmonetary asset (a) at fair value if the deferred income approach is elected and (b) at cost if a cost accumulation approach is elected? Please explain why or why not.

We believe the Board should consider a single government grant model, as detailed within our response to Question 4, requiring the gross presentation of government grants on both the balance sheet and the income statement. Under this recommended approach, the granted nonmonetary tangible assets would be measured and recorded at fair value, ensuring that the recorded value accurately reflects the true economic value of the assets. The use of fair value in this instance is consistent with the recognition of both nonmonetary consideration under Topic 606 and contributions of nonmonetary assets to not-for-profit entities, so we do not believe

fair value recognition and measurement should be disregarded on a cost-benefit basis only.

We agree with the discussion in proposed paragraph BC32 that the nominal approach in IAS 20 is rarely applied in current practice, and with the Board's rationale for excluding it from the proposed amendments.

Question 7: If a business entity elects to apply the deferred income approach for a grant related to an asset, the grant would be presented on the balance sheet as deferred income and within earnings either (a) separately under a general heading such as other income or (b) deducted from the related expense. Are these proposed amendments clear, operable, and auditable? Please explain why or why not. Would these presentation options provide decision-useful information? Please explain why or why not.

In our opinion, the proposed amendments are indeed clear, operable, and auditable. However, as previously noted in our response to Question 4, we ask the Board to consider requiring gross presentation in the income statement for government grants. Accordingly, we believe that the income statement impact of a government grant should be reported under a general heading such as "Other Income." This approach would provide users with a clearer understanding of the economic impact of government grants. However, we ultimately defer to users with regard to the impact of the proposed amendments on the decision-usefulness of financial information.

Question 8: If a business entity elects to apply the cost accumulation approach for a grant related to an asset, the grant would be presented on the balance sheet as part of the cost basis of the asset. Are these proposed amendments clear, operable, and auditable? Please explain why or why not. Would this presentation provide decision-useful information? Please explain why or why not.

The proposed amendments are clear, operable, and auditable. However, as previously noted in our response to Question 4, we believe that gross presentation of government grants related to an asset on the balance sheet is more consistent with the FASB's Conceptual Framework and creates greater disaggregated information, thereby potentially providing greater decision-useful information to a user. We ultimately defer to users regarding the impact of the proposed amendments on the decision-usefulness of financial information.

Question 9: The proposed amendments would require that a grant related to income be presented as part of earnings either (a) separately under a general heading such as other income or (b) deducted from the related expense. Are these proposed amendments clear, operable, and auditable? Please explain why or why not. Would these presentation options provide decision-useful information? Please explain why or why not.

The proposed amendments are clear, operable, and auditable. However, as previously noted in our response to Question 4, we believe that the income statement should separately reflect the impact of government grants and that the government grants income statement impact should be reported under a general heading such as

“Other Income.” We defer to users with regard to the impact of the proposed amendments on the decision-usefulness of financial information.

Question 10: The proposed amendments would require that a business entity comply with the disclosure requirements in Topic 832, Government Assistance. Do the disclosures in Topic 832 provide investors with sufficient information to understand the nature of a government grant and the timing and amount of the grant’s impact on a business entity’s cash flows? If not, what additional disclosures, if any, should be required and why?

If the amendments are adopted as proposed with the optional presentation of grants gross or net on the income statement or the balance sheet, we believe that additional disclosures may be necessary to reflect (1) the amount of the grant recognized as a reduction of the asset’s value, (2) the impact on income statement line items, and (3) the grant-date fair value of tangible nonmonetary assets. If the Board were to instead incorporate a single model requiring gross presentation of government grants on both the balance sheet and the income statement, we do not believe that additional disclosures would be necessary. Ultimately, we defer to users on the adequacy of the disclosures currently proposed by the amendments.

Question 11: If a business entity elects to apply the cost accumulation approach to account for a grant related to an asset, the proposed amendments would require that the business entity disclose the amount of the grant proceeds that was recognized in determining the carrying amount of the asset (in the period the amount was recognized) and if the grant is a grant of a tangible nonmonetary asset, the fair value of the grant (in the period the grant is recognized). The proposed amendments would not require that a business entity disclose in subsequent periods (a) the asset carrying amount that would have been recognized if the business entity had not received the grant, or if the deferred income approach had been used, or (b) depreciation expense, gain or loss on sale, or impairment expense that would have been recorded initially or on an ongoing basis over the life of the asset if the grant had not been received or if the deferred income approach had been used. (See paragraphs BC50–BC52 for additional discussion.)

1. **Investors: Would the disclosures of the grant proceeds and the fair value of a grant of a tangible nonmonetary asset be decision useful? Would either of the alternative disclosures noted above be useful in your analysis? If so, how would you use this information, particularly in periods after the grant is recognized (for example, in Year 2 for an asset with a 5-year life or in Year 20 for an asset with a 25-year life), and how and when would it affect capital allocation decisions? If this information is not provided, would you seek to obtain it from other sources? Please explain your answer.**

We defer to users with regard to the impact of the proposed amendments on the decision-usefulness of financial information.

2. **Preparers/Practitioners: What would be the operability and auditing challenges, if any, associated with disclosing either of the alternative**

disclosures noted above? What would be required to track the accounting for an alternative basis of recognition (including depreciation expense, gain or loss on sale, or impairment expense)? Please explain your answer.

We do not anticipate any operability or auditing challenges arising from the proposed disclosures, although we defer to preparers on the operability. However, there could be additional costs for preparers associated with maintaining records to adequately comply with the alternative proposed disclosures. We would defer to preparers on the expected costs that would be expected to arise from setting up a methodology for capturing the information required in the disclosures about the grants related to each asset, either manually or in software systems, and for establishing controls around those systems. From an audit perspective, there would most likely be additional costs for auditing the additional information and controls. There could also be additional auditing costs that arise from considering impairments under different scenarios, especially when the grant spans a significant period of time.

Question 12: Is the proposed implementation guidance, including the illustrative examples, understandable and operable? If not, please explain how it could be improved. Should additional implementation guidance be provided? If yes, please specify what additional guidance should be provided and why.

We believe the proposed implementation guidance is understandable and operable; however, if the Board adopts the amendments as proposed, we ask Board members to consider clarifying Example 1 (ASC 832-10-55-9). Example 1 states:

Entity A receives a government grant of \$5 million to assist with the cost of purchasing a building, which is the only condition attached to the grant. The building has a useful life of 15 years. Entity A determines that it is probable that it will purchase the building because the seller has accepted Entity A's offer and Entity A has sufficient funding to complete the purchase.

In this example, it appears that the proposed guidance in ASC 832-10-25-1 would allow the entity to recognize a grant asset, with a corresponding deferred grant liability, if it were probable that the building will be purchased, even before purchasing the building and receiving the government grant proceeds. Consequently, the entity would have both an asset and a liability that do not meet the definition of an asset or liability outlined in Concepts Statement No. 8.

Additionally, if the Board chooses to provide guidance for a grant related to a nondepreciable asset, we believe it would be helpful to provide implementation guidance as well.

Question 13: Are the proposed amendments on how to account for government-grant-related liabilities assumed in a business combination understandable and operable? What operability or auditing challenges, if any, would be associated with those proposed amendments?

We believe the proposed amendments are clear, operable, and auditable.

Question 14: Is the proposed transition guidance operable? If not, why? What transition guidance would be more appropriate and why? Should there be different transition guidance for government grants acquired in a business combination? If yes, please explain why.

We believe the proposed transition guidance is operable. However, we note that applying the guidance prospectively to government grants that are not complete as of the effective date may result in significant changes in how those grants were accounted for in historical periods and how they will be accounted for in the period of adoption. For instance, a grant that is not yet complete may have been accounted for historically using a net approach by analogizing to IAS 20, but the reporting entity may now wish to use a deferred income approach under the proposed amendments (or vice versa). Alternatively, the grant may have historically been accounted for using a completely different model compared to the model in the proposed amendments (for example, a model in ASC 450 or ASC 958-605), each of which has different recognition thresholds for recognizing a government grant. The adoption of the proposed guidance could lead to materially different balance sheet or income statement recognition and reporting outcomes compared to the historical accounting treatment in those cases.

We acknowledge that under prospective application, no prior-period results would be restated, and there would be no cumulative-effect adjustment to the opening balance of retained earnings at the beginning of the year of adoption. Additionally, entities would be required to disclose the nature of, and reason for, the accounting change in the first period that includes the date of initial application. However, we suggest that the Board consider whether the level of disclosure is sufficient for users to understand the financial reporting impacts of the adoption of the proposed amendments for grants that are not yet completed.

Question 15: How much time would be needed to implement the proposed amendments? Is additional time needed for entities other than public business entities? Should early adoption be permitted? Please explain your answer.

We defer to financial statement preparers regarding the time needed to implement the proposed amendments. We do, however, believe early adoption should be permitted to allow entities and users to benefit from the enhanced financial reporting framework introduced by the proposed amendments.

Question 16: Would the proposed amendments provide investors with decision-useful information? If so, how would that information influence investment and capital allocation decisions? Would the proposed amendments clarify the appropriate accounting, increase consistency among business entities, and reduce diversity in practice? If not, please explain why.

We defer to financial statement users with regard to the impact of the proposed amendments on the decision-usefulness of financial information.

Question 17: To the extent not previously discussed, what costs may be incurred to apply the proposed amendments? If the proposed amendments are expected to impose significant incremental costs, please describe the nature

and magnitude of those costs, differentiating between one-time costs and recurring costs. If the proposed amendments are not expected to impose significant incremental costs, or are expected to reduce costs, please explain why.

We defer to financial statement preparers regarding the cost needed to implement the proposed amendments.

We would be pleased to discuss our comments with you. If you have any questions, please contact Graham Dyer (Graham.Dyer@us.gt.com) or Carolyn Warger (Carolyn.Warger@us.gt.com).

Sincerely,

/s/ Grant Thornton LLP