



The Association of
Accountants and
Financial Professionals
in Business

February 8, 2016

Ms. Susan M. Cospers, Technical Director
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

Re: **File Reference Nos. 2015-340**, Proposed Accounting Standards Update — *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance*

Dear Ms. Cospers:

The Financial Reporting Committee (FRC) of the Institute of Management Accountants (IMA) is writing to share its views on the Financial Accounting Standards Board's (FASB or Board) Exposure Draft of the Proposed Accounting Standards Update — *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance* (ED or ASU).

The IMA is a global association representing over 75,000 accountants and finance team professionals. Our members work inside organizations of various sizes, industries and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, government entities and multinational corporations. The FRC is the financial reporting technical committee of the IMA. The committee includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts, accounting consultants, academics and analysts. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. Additional information on the FRC can be found at www.imanet.org (About IMA, Advocacy Activity, Areas of Advocacy, Financial Reporting Committee).

As discussed in paragraph BC3 of the ED, the Board determined that it could not complete a comprehensive project addressing recognition and measurement of government assistance in a reasonable period of time and, therefore, limited the project to disclosure. We appreciate the Board's desire to address diversity in practice given the lack of explicit GAAP in this area, but we question the value of a disclosure only standard. We note that the International Accounting Standards Board addresses recognition and measurement in International Accounting Standard No. 20, *Accounting for Government Grants and Disclosure of Government Assistance* (IAS 20). We do not support issuance of the ED and recommend that the Board add the accounting for government assistance to the list of topics to be considered as a research project for its technical agenda.

However, if the Board decides to move forward with a disclosure only standard, we have a number of concerns. First, we believe that the scope of the ASU is overly broad and would include many government programs that are widely available but nevertheless involve some degree of discretion by the government. We also believe that the proposed disclosures would be unduly burdensome and would not provide incremental decision-useful information, especially in light of existing disclosure requirements for significant uncertainties and income taxes. We discuss these and other concerns as well as provide recommendations below.



Scope

As set forth in paragraph 832-10-15-3, the scope of the proposed ASU includes assistance received under a legally enforceable agreement with a government to receive value in which the government determines whether an entity will receive assistance and/or how much assistance an entity will receive. We are concerned that the scope will be interpreted in as broad a manner as possible, especially given the guidance in paragraph 832-10-05-1: “A vast array of government assistance arrangements exist between different governments and entities, which have varying complexities and terms. Some types of government assistance are pervasive.” This language suggests that government involvement in broad economic or policy programs would be within scope as long as the arrangement involves a legally enforceable agreement and any degree of government discretion. For example, consider the following.

The government-sponsored enterprises Fannie Mae and Freddie Mac (GSEs) play a pivotal role in the residential mortgage securitization market. Financial institutions that wish to transfer loans into agency-sponsored securitization vehicles must meet general eligibility requirements but also negotiate the applicable guaranty fee with the GSEs. Some might argue that the GSEs’ involvement in the market provides value to the financial institutions. Therefore, negotiation of the guaranty fee is sufficient to bring this activity within the scope of the proposed ASU.

In addition, we believe the scope should not include reciprocal arrangements in which both the reporting entity and the government and perhaps the population at large reap the benefits of a joint venture. For example, consider the following examples.

- A reporting entity and a local government agree to jointly develop an industrial park which the reporting entity and other unrelated entities will eventually occupy. The government will develop the broad infrastructure of roads and utilities while the reporting entity erects a building and agrees to maintain a minimum level of employment for a period of time. This arrangement would appear to be within the scope of the proposed ASU even though the infrastructure will benefit not only the reporting entity but also other entities that occupy the industrial park for decades to come.
- A reporting entity and a local government agree to swap parcels of vacant land with similar fair values. As each party benefits from obtaining land that more closely fits its needs than the parcel given up, the agreement would be within the scope of the proposed ASU, even though the parcels have similar fair values.

We also believe that the scope should not include government assistance that is within the scope of Topic 740, *Income Taxes*. Topic 740 provides guidance for the accounting for tax holidays and also requires a reconciliation of the reported amount of income tax expense to the amount that would result from applying the domestic federal statutory tax rates. The estimated amount and nature of each significant reconciling item must be disclosed. Although paragraph 740-10-50 does not define the term “significant,” Security Exchange Commission Regulation S-X, Rule 4-08(h), states that as part of the reconciliation, public entities should disclose all reconciling items that individually make up 5 percent or more of the computed amount. We believe this requirement provides adequate disclosure of government assistance in the form of income tax benefits, which are better understood in the context of the broader income tax disclosures. We note that the Board is currently reconsidering disclosures for income taxes.



In addition, we do not understand why some income tax assistance agreements would be scoped in and subject to new disclosure requirements and others not. The differentiating characteristic is that certain of these agreements are negotiated individually by companies while others are available to any company that meets the program criteria. The only justification for subjecting the former to new disclosure requirements seems to be in paragraph BC8: “The Board concluded that the current disclosure requirements in Topic 740 would not provide transparency about certain types of income tax assistance that qualifies as government assistance under the proposed amendments.” We do not agree with this assertion. Instead, we believe that financial statement users are primarily interested in knowing about programs that decrease the effective rate, and such programs are subject to the disclosure requirements of Topic 740. We note that IAS 20 provides a scope-exclusion for benefits that are determined or limited on the basis of income tax liability, including tax holidays and reduced income tax rates. Inclusion of these types of arrangements in the proposed ASU results in additional divergence with IFRS guidance.

Additionally, we believe the application of the proposed definition of government assistance for income tax matters will be unduly burdensome in certain sovereign markets where the clarity of published tax regulations and rulings are not as transparent as in the United States. Preparers and auditors may not have access to sufficient evidence to reliably and consistently conclude whether a tax regime applied discretion or not given the confidentiality or opaqueness of tax regulations and rulings in certain sovereign markets. Consider the following examples.

- Country X has a special tax regime that is subject to certain eligibility requirements. Company A assesses the eligibility requirements and concludes that it fully meets the criteria. To demonstrate fair international tax practice, Country X has a practice of requiring a tax ruling from the tax authorities to conclude on Company A’s qualifications under the requirements. In this scenario, the assistance is nondiscretionary as Company A meets the applicable eligibility requirements. However, the Country X practice to require companies to seek a tax ruling could be interpreted as a “specific agreement between the entity and government” as expressed in paragraph 832-10-15-4b or an established practice for the jurisdiction in paragraph 832-10-15-5.
- Country Y has a published tax regulation for income from domestic sales. Company B enters the market as an entrepreneur company with earnings from both domestic sales and royalty income on foreign sales. Country Y does not have published tax regulations on the taxation of royalty income from foreign sales. Country Y agrees to apply the tax rate on domestic sales for Company B’s earnings from both domestic sales and royalty income on foreign sales. Country Y decisions on tax rulings are confidential. As Company B cannot identify a published tax regulation for royalty income on foreign sales, Company B has no data to conclude whether the decision to use the domestic tax regulation is a discretionary decision.

The implementation guidance in paragraph 832-10-55-2 provides three examples of government assistance that may not have been recognized directly in any financial statement line but are included within the scope of the proposed ASU, specifically: (a) a loan guarantee, (b) a below-market interest rate loan or below-market-rate lease payment and (c) tax or other expenses that have been abated. This guidance would be helpful if it narrowed the potential scope to reflect the Board’s intent. Instead, the paragraph states that the examples “could include but are not limited to” the three items listed. We believe it would be more helpful to indicate that these examples are representative of the types of



assistance contemplated in the ASU. Further, we are bothered by the “could include but are not limited to” wording which we find similar to “at a minimum” disclosure requirements.

In light of these issues, we provide the following recommendations.

- Clarify that the definition of government assistance does not include government involvement in broad economic or public policy programs. In this regard, the Board may wish to consider incorporating exclusions similar to those found in IAS 20: “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.”
- As the scope of the proposed ASU only applies to material agreements, clarify the scope to indicate whether the value of government assistance should be evaluated on a gross basis or net of costs required to be incurred by the reporting entity. Such costs may equal or exceed the assistance.
- Modify the scope to exclude arrangements that are mutually beneficial to the reporting entity and the government, including joint ventures or reciprocal arrangements in which both the reporting entity and the government receive benefits.
- Modify paragraph 832-10-55-2 to clarify that these examples are representative of the types of assistance contemplated in the ASU. Eliminate the phrase “could include but are not limited to.”
- Exclude government assistance that is within the scope of Topic 740.

Disclosures

We believe that the proposed disclosures would be overly burdensome and would not provide incremental decision-useful information, especially given the existing requirements under GAAP to disclose significant risks and uncertainties. As stated in paragraph BC3 of the ASU, the proposed disclosures are intended to increase transparency about government assistance due to diversity in practice and the lack of explicit GAAP addressing the accounting for government assistance. We are concerned that the required disclosures extend beyond decision-useful information.

The requirement to measure the value of government assistance that is not recorded in the financial statements is particularly problematic. As stated in paragraph BC18: “To mitigate concerns about costs, the Board decided that an entity would be required to disclose the amounts of government assistance received but not recognized in any financial statement line item unless it is impracticable to obtain that information.” Although we appreciate the Board’s attempt to mitigate undue costs, we note that the time and effort required to simply identify government assistance not recorded in the financial statements, especially for a global institution with operations in multiple countries, would be considerable. Given the sophisticated mathematical modeling tools that are available to industry participants, it may be difficult to convince auditors that it is impracticable to estimate the value of government assistance and, as a result, an entity could incur significant costs in an effort to provide a reasonable valuation. Despite the costs, the value of such an estimate would often be questionable. For example, an entity might attempt to calculate the value of assistance it received from the government’s development of infrastructure in connection with the entity’s decision to build a new office park for purposes of this disclosure but any estimate of value would be based on highly subjective assumptions. Further, this value would not be used to make business decisions and thus would have little relevance for



management. If of no value to management, we doubt that disclosure of such an amount would provide users with decision-useful information.

We believe any significant risks associated with the potential loss of government assistance are already subject to disclosure in accordance with Topic 275, *Risks and Uncertainties*. Topic 275 requires an entity to disclose information about risks and uncertainties in several areas: (a) nature of operations, (b) use of estimates in the preparation of financial statements, (c) certain significant estimates and (d) current vulnerability due to certain concentrations. These disclosures are intended to focus on the most significant risks and uncertainties facing the entity. As set forth in paragraph 275-10-05-2: “The central feature of this Subtopic’s disclosure requirements is selectivity: specified criteria serve to screen the host of risks and uncertainties that affect every entity so that required disclosures are limited to matters significant to a particular entity.” As significant risks resulting from the potential loss of government assistance are subject to the requirements of Topic 275, we do not believe a new standard is needed to address such risks.

In addition, we note that the proposed disclosures are one-sided in that they encompass benefits but not costs, thereby obscuring the nature of mutually beneficial arrangements. While an arrangement may indeed provide only benefits to the reporting entity, we believe that such arrangements often involve both benefits and costs. Consider, for example, a decision to build a plant in a certain jurisdiction. An entity would consider not only the value of government assistance but also a host of other factors including local labor costs, utilities, and transportation which may be higher in that jurisdiction than others. The business decision is rarely driven by the value of government assistance alone. We do not believe that assigning a value to government assistance in this situation provides decision-useful information. We believe the more useful disclosure would focus on the risk that benefits could change materially in the short term, thus negatively impacting operating results. As noted, such risk is covered by Topic 275.

Further, we are concerned that the required disclosures would breach confidentiality clauses contained in agreements with sovereign countries. This concern was addressed in Government Accounting Standards Board Statement No. 77, *Tax Abatement Disclosures*, which was issued in August 2015. This Statement defines tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens. It requires governments to provide certain disclosures about tax abatements, including the dollar amount of taxes abated during the period and other commitments made as part of a tax abatement agreement. However, governments may omit specific information that is legally prohibited from being disclosed and instead provide just a general description of the arrangement.

To address these concerns, we make the following recommendations.

- Remove the requirement to disclose assistance that has not been recorded in the financial statements, as most companies do not have systems and processes to track such arrangements. If the Board does not remove, limit disclosure of such items to a description of terms. Do not require disclosure of the value.
- Focus on the risk that the assistance could change materially in the short term and consider the requirements of Topic 275.



- Omit specific disclosures of information that is legally prohibited from being disclosed or if the disclosure of such information would breach confidentiality agreements.

Practical implementation issues

We have the following additional concerns related to the operational burden of implementing the proposed ASU.

- Large business entities with global operations may find it extremely difficult to identify all forms of government assistance, especially in light of the requirement to include all agreements existing at the effective date.
- Assistance that is not recorded in the financial statements may not be tracked today. Reporting entities will have to establish the necessary procedures to identify, track and measure the value of government assistance.

We therefore make the following recommendations.

- Modify the transition provisions to require disclosure of only those agreements entered into after the effective date.
- Provide an adequate amount of time to permit reporting entities to develop necessary procedures to identify, track and value government assistance. Such procedures will need to be sufficiently robust to meet established standards for internal control over financial reporting.

Disclosure Framework

It is unclear how the proposed ASU aligns with the objectives of the FASB's broader Disclosure Framework project, for which the Board has acknowledged that an added benefit of more focused disclosures would be a reduction in disclosure volume. As drafted, the overly broad scope of the proposed ASU is likely to lead to additional diversity in practice, rather than less, and the proposed amendments will only increase volume of the financial statement footnotes without a clear benefit to users. In addition, as noted in paragraph BC13: "The Board decided to develop disclosure objectives that are based on the decision questions in the proposed FASB Concepts Statement, *Conceptual Framework for Financial Reporting – Chapter 8: Notes to Financial Statements*. The Board also used that proposed Concepts Statement to assist in identifying relevant disclosure requirements and to provide insight into the Board's reasons for requiring disclosures." However, there is no explanation as to how, exactly, the Board used that proposed framework to reach the conclusions in this ED. If the Board's constituents are going to be able to judge the efficacy of that proposed framework, we will need more than a statement that it is being used. We need to understand the details of how the framework is used with references to appropriate language in the framework. For example, in ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10)*, beginning at paragraph BC51, the Board referred to specific guidance in Concepts Statement No. 8 and discussed how that guidance was used in developing the new standard. We also note the work done in this regard in the recently released exposure draft on disclosures for employee defined benefit retirement plans. We recommend that a similar discussion be included in the ED.



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We appreciate the opportunity to express our views in this letter and we would be pleased to discuss our comments with the Board or the FASB staff at your convenience.

Sincerely,

A handwritten signature in blue ink, appearing to read "N. Schroeder". The signature is fluid and cursive.

Nancy J. Schroeder, CPA
Chair, Financial Reporting Committee
Institute of Management Accountants
nancy@beaconfinancialconsulting.com