Ford Motor Company

Technical Director – File Reference No. 2016-290
Financial Accounting Standards Board
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Ford Motor Company ("Ford") is a global automotive industry leader based in Dearborn, Michigan. Ford designs, manufactures, markets, finances and services a full line of Ford and Lincoln brand vehicles. We appreciate the invitation to provide our views on items the FASB should consider adding to its agenda.

We encourage the Board to focus its agenda efforts on projects that accomplish one or both of the following objectives: 1) the simplification of existing standards, and 2) the advancement of a single high-quality global accounting framework. We, like many other companies, are focused on the implementation of the new guidance for Revenue, Leasing and Financial Instruments in accordance with both the U.S. GAAP and IFRS. These standards are uniquely challenging -- they affect transactional and operational processes and systems as well as the controls that are so important for our financial reporting – and the time and attention that we can devote to additional changes in guidance is limited.

Consequently, we would encourage the Board to focus on the following (in order of our perceived importance):

Pensions and Other Postretirement Benefits. We urge the FASB to prioritize finalizing the proposed standard “Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost,” which would require only the service cost component to be capitalized in inventory. (Please refer to our comment letter, File Reference 2016-200, submitted April 25, 2016)

More broadly, we think the Board has an opportunity to meet both, our suggested objectives and the concerns expressed by users of the financial statements, by considering an alignment of pension and postretirement benefit accounting with IAS 19. In doing so, it would reduce the existing diversity in practice under U.S. GAAP and the difficulty in understanding an entity’s performance in the reporting period. Alignment with IAS 19 would also eliminate the practice of using a non-GAAP disclosure for recognition of remeasurement gains and losses and would remove the subjectivity of setting the long-term return on assets.

We also encourage the Board to work with the IASB to provide guidance on the accounting, measurement and disclosures for hybrid benefit plans. We have observed an increase in the use of hybrid plans and we think issuing accounting guidance for these plans is important to prevent the development of diversity in practice.

Intangible Assets. We support an effort by the Board to address the accounting for intangible assets. We see the merits in both the FASB’s and IASB’s standards as they exist today; however, we encourage the boards to work with one another to identify a single accounting model. If the FASB proposes the capitalization of a portion of research and development costs, we request the inclusion of guidelines that could be used to identify capitalization milestones. Specifically, in this age of technology and the focus on “big data,” there will be a need for guidelines as entities think about capitalizing their efforts to capture data that will ultimately become the platform of an intangible.
We support an alignment between the U.S. and International standards however, we oppose any requirement to measure intangible assets at fair value; if capitalized, these assets should be measured at historical cost. Although we agree conceptually that, an entity would be in the best position to know the value of its intangibles, the process of measuring fair value is unlikely to be a core competency of a non-financial entity. Such a requirement could require the creation of a cottage industry of experts to develop measurement techniques, undertake valuation exercises, and test for impairments. In our experience, the pool of experts is limited. We have also experienced the second-guessing of this resource-intensive effort by our external auditors and the PCAOB. The measurement of intangibles at an amount other than cost would not provide significantly increased benefit to the users of the financial statements.

Consistent with our desire for simplification, we also support the continuation of not separating certain other intangibles (e.g., customer lists, non-compete arrangements) from goodwill in a business combination.

We also request the Board to consider adding projects related to the following:

*Equity Method of Accounting.* We urge the FASB to put back on its agenda the proposal to eliminate the requirement to measure and account for the difference between the acquisition date fair value and carrying value of specific tangible and intangible assets and liabilities of an equity method investee. This requirement is onerous to the preparer, costly to implement, and provides the users of the financial statements with no additional benefit.

We support the view that any difference between the amount paid by the investor and the investor’s proportionate share of the underlying book value of the investee’s assets and liabilities should be included in the carrying value of the investment. ((Please refer to our comment letter; File Reference 2015-280, submitted August 17, 2015)

*Revenue Clarification – Gains and Losses from the Derecognition of Nonfinancial Assets.* While implementing the new Revenue guidance, we noted a difference in the definition of revenue under U.S. GAAP and IFRS. As a result, we think there will be diversity in practice as it relates to Topics 606 and 610. We encourage the Board to clarify its intent for accounting for transactions similar to the following example:

Entity A is the Parent Company of a wholly owned captive-finance subsidiary, Entity B. Entity A sells its product to a distributor. Entity B provides a lease to the distributor’s customer as a standard product for financing the retail transaction to acquire Entity A’s primary product. The lease term is for a portion of the product’s useful life, but generally greater than a year. At expiration of the lease term, the product is returned to Entity B. Entity B then sells the used product to a new distributor (i.e. auction customer).

It is unclear whether the ongoing and regular sales at auction as described above, represent an element of Entity B’s “ongoing major or central operations” as a financing company. As a result, it is also unclear whether the sale subsequent to the lease should be accounted for as a sale of a nonfinancial asset in a contract with a customer in accordance with Topic 606 or as a net gain/loss transaction under Subtopic 610-20. We note that the subsequent sales transaction should be reported as revenue and cost of sales under the guidance of IAS 16, para 68A. In our opinion, adding an example to clarify what “ongoing major or central operations” means in the context of Topic 606 would avoid diversity in practice and could promote an alignment between U.S. GAAP and IFRS.

We appreciate the Board’s consideration of our views.

Sincerely,

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