



February 9, 2016

Technical Director  
via email: director@fasb.org  
Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116

Re: Disclosures by Business Entities about Government Assistance (Topic 832)

### **The National Rural Electric Cooperative Association**

The National Rural Electric Cooperative Association (NRECA) is the national service organization dedicated to representing the national interests of cooperative electric utilities and the consumers they serve. NRECA is the national service organization for more than 900 not-for-profit rural electric utilities that provide electric energy to over 42 million people in 47 states or 12 percent of electric customers. Kilowatt-hour sales by rural electric cooperatives account for approximately 11 percent of all electric energy sold in the United States. NRECA members generate approximately 50 percent of the electric energy they sell and purchase the remaining 50 percent from non-NRECA members. The vast majority of NRECA members are not-for profit, consumer-owned cooperatives.

NRECA's members also include 65 generation and transmission ("G&T") cooperatives, which generate and transmit power to 668 of the 838 distribution cooperatives. The G&Ts are owned by the distribution cooperatives they serve. Remaining distribution cooperatives receive power directly from other generation sources within the electric utility sector. Both distribution and G&T cooperatives were formed to provide reliable electric service to their owner-members at the lowest reasonable cost.

Presently, 545 of our members borrow from the Federal Financing Bank (FFB) (part of the Department of the Treasury) in the process utilizing a loan guarantee to the FFB from the Rural Utilities Service (RUS) (part of the Department of Agriculture)..

**Question 1: Do you agree that the scope of the amendments in this proposed Update should be limited to legally enforceable agreements in which an entity or entities receive value from a government? Do you also agree that the scope of the proposed amendments should not apply to transactions in which the government is (a) legally required to provide a nondiscretionary level of assistance to an entity simply because the entity meets applicable eligibility requirements that are broadly available without specific agreement between the entity and the government or (b) solely a customer? If not, what other types of arrangements should be included in or excluded from the scope of the amendments in this proposed Update? Explain why.**

We believe that government assistance which is the result of a legislative appropriations process on the federal or state level should be excluded from the scope of this project. In our case, the nature and effect of the FFB loans which are guaranteed by RUS are currently disclosed under existing GAAP. Additionally, we believe the scope of the project should be limited to those activities in which the government provides assistance at their cost of funds. We believe that programs which are provided by the government at a cost to the recipient in excess of the cost of funds to the government should be excluded from the scope of the project. We do not see any benefit to determining the value of a below-market loan by comparing such loan

to a loan with a hypothetical “market” rate of interest (or providing significant terms and conditions which are similar to at-market loans).

We must examine any proposed standard from the point of view of costs and benefits to our members. Unfortunately, as we will discuss in more detail below, we do not see any benefit to our stakeholders as a result of the Exposure Draft. In fact, we see additional costs to comply with items which are already disclosed under GAAP. Further, we do not see how the disclosures contemplated by the Exposure Draft will result in data which may be acted upon. Indeed, it seems to us that disclosing an interest rate differential, for example, is motivated more by political considerations rather than the need or necessity for stakeholders to have additional information on which they may act.

**Question 2: Do you agree that the proposed disclosure requirements should be the same for both domestic assistance and foreign assistance? If not, please explain why and what proposed disclosure requirements you believe should differ. Are there any unique types of foreign assistance that should be considered? If so, explain why and be specific about any unique types of foreign assistance.**

**Question 3: Do you agree that the scope of the proposed amendments should not exclude government assistance agreements that are within the scope of Topic 740, Income Taxes? If not, explain why.**

While income tax benefits are one of the, if not the largest, form of government assistance, we believe that sufficient disclosures in this area already exist in ASC 740 and it is proper to exclude them from the scope of a future ASU on this topic.

**Question 4: Do you agree that the scope of the proposed amendments should exclude NFP entities? Alternatively, should any proposed disclosure requirement(s) be applied by NFP entities? If so, specify which proposed disclosure requirement(s) and explain why.**

**Question 5: Are the proposed scope and disclosure requirements operable and auditable? Do your existing information sets and systems, internal controls, and so forth capture the information required to be disclosed by the proposed amendments? If not, which aspects of the scope or disclosures pose operability, auditability, and/or cost issues and why?**

We do not believe the disclosure requirements provide decision useful or actionable information for our stakeholders. Indeed, we believe the Exposure Draft, if adopted, would increase costs for our members with no corresponding benefit whatsoever. Our stakeholders are fully cognizant of the benefit of government assistance and are not clamoring for additional disclosure.

The Exposure Draft proposes the following forms of disclosure:

1. Information about the nature of the assistance, including a general description of the significant categories and the related accounting policies adopted or the method applied to account for government assistance.
2. Which line items on the balance sheet and income statement are affected by government assistance and the amounts applicable to each line item?
3. Significant terms and conditions of the agreement, including commitments and contingencies.
4. Unless impracticable, the amount of government assistance received but not recognized directly in the financial statements. The amount of government assistance received but not recognized includes value that

was received by an entity for which no amount has been recorded directly in any financial statement line item (for example, a benefit of a loan guarantee, a benefit of a below-market rate loan, or a benefit from tax or other expenses that have been abated).

Let's examine each of the above in relation to the loans made available by the FFB with the RUS guarantee to electric cooperatives.

With respect to Item 1, we already disclose in the footnotes to our financial statements the nature of the RUS loan guarantee of the loans from the FFB to our members. These loans are accounted for in accordance with GAAP – there are no separate accounting policies which relate specifically to these loans.

With respect to Item 2, it is self-evident which line items are affected by loans from the FFB which are guaranteed by RUS. Does creating additional disclosure related to this item enhance any information for our stakeholders? We do not see that it does.

With respect to Item 3, significant terms and conditions including commitments and contingencies are unauditably, in our view, unless we should copy each loan document and display it in the footnotes to our financial statements. Who is to determine what is “significant” – indeed, the very existence of this disclosure requirement surrounding the undefined term “significant” itself creates a potential legal complication for our auditors and our members – neither group are attorneys – how can they be expected to make this determination without incurring potential liability? We have been utilizing these forms of loan documents for over 80 years – if there were some need for this information, surely our stakeholders would have expressed a desire for it? We see no benefit and only cost and risk for our members and our auditors from having to comply with this disclosure requirement.

With respect to item 4, how does one compute “value” received? Requiring an entity to compute a hypothetical market rate of interest on a below-market government loan and then determining that the differential is a measurement of “value” strikes us as a political approach rather than information which is decision useful and may be acted upon by stakeholders.

Using this same theory, then “value” is created when any entity can borrow at a cost below its peers. Should those entities disclose or reflect such value in their financial statements? What about an entity that enjoys a cost advantage because of economies of scale – is this not “value” that should be captured and disclosed? In both of these cases, under GAAP, the value inherent in these situations is already embedded in the financial statements of the entity – just as in the case with our members and the “value” of the RUS guarantee – it is already reflected in our financial statements. There are numerous similar situations where value is embedded in the financial statements of enterprises in general. Additional disclosures for entities that receive government assistance will result in added compliance costs but we see no actionable or decision useful data upon which a stakeholder may act which could be characterized as a “benefit”.

**Question 6: Do you agree that an entity should be required to disclose, unless impracticable, the amount of government assistance received but not recognized directly in any financial statement line item? If not, explain why.**

With respect to Item 4, our below-market interest rate loans are recorded in our financial statements. The benefit of the RUS guarantee is reflected in these amounts. We fail to see any benefit to disclosing such information. If by the term “value”, the FASB means compared to a market rate of interest, why should this be an item to be disclosed? We are primarily private entities and our stakeholders know the nongovernmental lenders to our industries and they are very familiar with the terms and conditions of loans from those entities. We see no benefit whatsoever to this disclosure. How is this “value” auditable? A market rate of interest is not the interest rate at which any individual entity may borrow funds since each entity's particular facts and circumstances and the lenders policies and perception of risk will determine the actual rate of interest to a specific entity.

The difference between the below-market interest rate and a market interest rate is not the “cost” to the government. Many Federal direct loan and loan guarantee programs are subject to the Federal Credit Reform Act (FCRA) of 1990, as amended by the Balanced Budget Act of 1997. For each Federal budget, the Office of Management and Budget calculates a subsidy rate for the loans and guarantees subject to the FCRA. The subsidy rate reflects the net present value cost for each dollar of credit assistance. It is comprised of four components—defaults, net of recoveries; interest; fees; and all other. Loan characteristics describe the terms of the loan agreement between the borrower and the agency or lender, and estimated nominal default and recovery rates.

Programs with a negative subsidy rate, in essence make money for the government, and, as a consequence, the lending program in question is able to fully utilize 100% of what is appropriated by Congress each year. Programs with a positive subsidy rate, on the other hand, may only be able to utilize some percentage of the amount appropriated. Under these circumstances, the comparison to a “market” rate of interest is irrelevant and misleading.

What possible benefit is there to a stakeholder to know disclosures related to the market rate of interest? Even if the FASB required a hypothetical borrowing rate related to the specific entity, of what relevance would that be? Certainly none of our stakeholders need or want this information. How is it decision useful or actionable?

We firmly believe that the FASB should resist the temptation to degrade financial reporting by responding to political pressure from any particular interest group. Indeed, we believe that the FASB should adopt the physician’s creed when considering new ASUs: *first, do no harm*. The FASB’s recent history of the attempt to change the concept of materiality may be a learning opportunity in this regard.

As we stated previously, we already disclose the existence of the below-market RUS/FFB loans adequately in our financial statements – the evidence lies in the fact that in 80 years our stakeholders have never asked and are not asking now for more disclosure in this area.

**Question 7: For preparers, are there any restrictions (legal or otherwise) that exist in government assistance agreements that would preclude an entity (for example, confidentiality or proprietary reasons) from disclosing the information required by the amendments in this proposed Update? If so, specify what those restrictions are, whether they relate to foreign or domestic assistance, and which proposed disclosures cause concern and why.**

**Question 8: For users, do you agree that the information required by the proposed amendments would improve transparency about government assistance agreements? Is the information required by the proposed amendments important for your analysis of an entity? If so, specify which disclosures and why. If not, identify the disclosures and explain why. Is there additional information that should be required to be disclosed in the notes to financial statements? If so, be specific.**

Please see above.

**Question 9: The proposed amendments would not amend Topic 270, Interim Reporting, to add any specific interim disclosure requirements. Instead, required interim disclosures about government assistance would be limited to material changes occurring since the most recent annual period. Should the proposed amendments include additional interim disclosure requirements? If so, what disclosures do you think should be added and why?**

**Question 10: Do you agree that the amendments in this proposed Update should be applied to all agreements (a) existing at the effective date and (b) entered into after the effective date with retrospective application permitted? If not, explain why.**

Entities which have extensive loan portfolios of government issued debt may incur substantial costs in complying with the proposed ASU – yet in our industry we see no commensurate benefit – indeed, we see no benefit to our stakeholders at all. We believe in such instances, that the FASB should reconsider the proposed ASU – from the point of view of our stakeholders, that is, disclosures we provide under current GAAP are adequate and do not need to be changed.

**Question 11: The proposed amendments would apply to both public business entities and nonpublic business entities (private companies). Should the proposed amendments be different for nonpublic business entities? If so, describe why and how you think they should be different.**

Nonpublic business entities typically do not have the resources available to public entities – what may be reasonable for public entities may be a real burden for private entities – consequently, we suggest letting the Private Company Council consider the ramifications of this Exposure Draft and its potential impact upon nonpublic business entities.

**Question 12: How much time would preparers need to implement the proposed amendments? Should the amount of time needed to implement the proposed amendments by entities that are not public business entities be different from the amount of time needed by public business entities?**

Our evaluation of new proposed accounting standards is very simple: we weigh the costs and potential benefits – at least as it relates to government debt which is subject to the appropriation process. As you know by our comment letter, we see the prospect for increased costs but no benefits to our members from the proposed ASU. We do not think that it warrants development as a final ASU.

We would be pleased to discuss our comments with you at your convenience. If you have any questions, please don't hesitate to contact us.

Sincerely,



Russell Wasson  
Director of Tax, Finance and Accounting Policy  
The National Rural Electric Cooperative Association

