February 9, 2016

Mr. Russ Golden
Chairman
Financial Accounting Standards Board
301 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-05116

Re: Proposed Accounting Standards Update on *Government Assistance (Topic 832) Disclosures by Business Entities about Government Assistance*

Dear Chairman Golden:

The undersigned trade associations represent businesses encompassing all sectors of the economy and employ millions of people. Our members are users and preparers of financial information and support the development of robust financial reporting systems in order to improve standards and reduce complexity. We appreciate the opportunity to comment on the Financial Accounting Standards Board ("FASB") Exposure Draft on the Proposed Accounting Standards Update on *Government Assistance (Topic 832) Disclosures by Business Entities about Government Assistance* ("the Proposal").

From a broad perspective, we believe that more transparent outreach is needed for commenters to better understand the underlying issues driving the Proposal and if a standard can be tailored to meet those specific needs. Accordingly, we would recommend that a Roundtable and other outreach occur before the Proposal is considered further.

We have a number of concerns with the Proposal including:

1. It is unclear what investor interest FASB is attempting to address or what investors have been consulted in drafting the Proposal;

2. The Proposal does not appear to meet FASB's stated objectives for both this project as well as the broader Disclosure Framework project;

3. The Proposal will result in the incurrence of significant incremental compliance costs due to the increase in financial reporting complexity and it is unclear how the information could be audited;

4. The scope of "government assistance" is overly broad and in some cases not quantifiable;

5. The Proposal could place businesses in legal jeopardy; and

6. Disclosure of government assistance received by a business may be better suited to Management Discussion and Analysis ("MD&A") rather than in the notes to the financial statements.

Overview of the Proposal

The Proposal would amend disclosures about (material) existing 'government assistance' agreements for annual reporting periods to add:

- Information about the nature of the assistance, including a general description of the significant categories (for example, grants, loans, tax incentives), the form in which the assistance has been received (for example, as a reduction of expense, a refund of taxes paid, free resources, or a cash grant), and the related accounting policies adopted or the method applied to account for "government assistance" (for example, whether assistance is recognized immediately into income or recognized over the life of a related asset);

- Which line items on the balance sheet and income statement are affected by government assistance and the amounts applicable to each line item;

- Significant terms and conditions of the agreement, including commitments and contingencies; and

- Unless impracticable, the amount of government assistance received but not recognized directly in the financial statements, including 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 below-market rate loan, or a benefit from tax or other expenses that have been abated).[1]

We believe that the Proposal is inconsistent with FASB's current initiatives to mitigate disclosure overload and reduce the complexity of financial reporting.

Discussion of Specific Concerns

As noted above, it is unclear what issues FASB is seeking to resolve, what investor interest is being promoted and with whom FASB consulted in developing the Proposal. Furthermore, it appears that the Proposal will increase, rather than lessen, financial reporting complexity.

The Proposal's stated objective[2] is to increase the transparency about government assistance arrangements and reduce diversity in practice. The Proposal states that "diversity exists in the recognition, measurement, and disclosure of government assistance arrangements." However, diversity per se is not necessarily a problem—especially with regard to disclosures that reflect reasonable judgments about the materiality and relevance of the information, while considering confidentiality constraints. In addition, it is unclear how the Proposal aligns with the objectives of FASB's broader Disclosure Framework project. As part of the broader project, FASB has also acknowledged that an added benefit of more focused disclosures would be a reduction in disclosure volume. As drafted, the overly broad scope of the Proposal is likely to lead to additional diversity in practice, rather than less, and the proposed disclosure requirements will only increase volume of the financial statement footnotes without a clear benefit to users. In any further outreach, entities may find it useful if the FASB can discuss where they feel current diversity exists with regards to recognition and measurement specifically, thereby leading to a more focused effort in addressing the relevant existing guidance contributing to such inconsistency today. As the proposal only addresses additional disclosure

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[1] *See* the Proposal, pages 2 and 10.
[2] *See* the Proposal, page 1.

requirements, any inconsistencies that are perceived to exist with regard to recognition and measurement may not fully be addressed as intended.

We also understand that FASB intended for the Proposal to more closely align with International Financial Reporting Standards ("IFRS"). However, the scope of the Proposal goes beyond that of the comparative IFRS guidance.[3] In particular, we note that IAS 20 explicitly scopes out income-tax related benefits and we encourage FASB to consider whether an explicit scope exception would be a clearer and more efficient method of achieving the objective rather than relying on the proposed scoping criteria which focuses on the level of discretion.

The Proposal also states that "requiring disclosures about government assistance in the notes to financial statements could improve the information that is provided to users when analyzing an entity's financial results and prospects for future cash flows."[4] However, the Proposal provides no specifics on the demand for the proposed information, the identity of the investors or other financial statement users requesting the information, or any meaningful insights on why these disclosures are otherwise necessary.

In addition, FASB did not exempt private companies from the Proposal without explaining why users of their financial statements need the disclosure contemplated in the Proposal.

The Proposal is very broad in scope, for example, it encompasses *all* types of government assistance whether by the U.S. government, state and local governments, foreign governments, or intergovernmental organizations. It is unclear how such a broad scope could result in less diversity in practice; rather, we believe that due to the overly broad scope, diversity in practice will actually increase. Further, the limited examples provided indicate that the scope of the Proposal would encompass common business arrangements between companies and government, and we do not see what value this information would bring to users.

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[3] International Accounting Standard ("IAS"), 20, *Accounting for Government Grants and Disclosure of Government Assistance*
[4] *See* the Proposal, page 1.

It is unclear how this could be legally allowed for certain arrangements, quantified, audited or is of investor interest. For instance, it is unclear how the use of tax abatements to keep a business function in a certain locale could be material to the decision making process of an investor. Similar concerns exist for government guarantees necessary for businesses to access terrorism risk insurance or loan guarantees to facilitate trade deals. It is uncertain how this can be quantified. Also, it would appear that renewable energy programs and access to the Federal Reserve discount lending window may fall under the proposal. Indeed, it is unclear if this type of information meets the materiality standards needed for investors to make informed decisions.

The Proposal discusses that stakeholders raised concerns about confidentiality, but did not provide FASB with any specific information or examples. Thus, FASB concluded that it would need additional information to understand and support broad concerns on confidentiality and proprietary information.[5] It should be noted that in certain instances disclosures could impact the legal standing of a business. For instance, the regulation to implement the disclosure of resource extraction payments, required under section 1504 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, were thrown out by the courts because those disclosures could violate foreign law and place businesses in legal jeopardy overseas. It does not appear that this court decision and the underlying issues were taken into account in the development of the Proposal.

Importantly, for public companies, the proposed disclosures seem better suited to Management Discussion and Analysis ("MD&A") rather than the footnotes to the financial statements under generally accepted accounting principles ("GAAP"). In this regard, given the Securities and Exchange Commission ("SEC") requirements for MD&A disclosures, it is not clear why any such material information that would be relevant and necessary for understanding the financial statements, financial condition, or operations of a company is not disclosed currently in MD&A.

Including the proposed disclosures in the GAAP footnotes, rather than MD&A, also makes the information subject to audit. For accelerated filers, such audits would be integrated and include both the financial statements and internal

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[5] *See* the Proposal, pages 21-22.

control over financial reporting ("ICFR"). In addition, public company audits would be subject to inspection by the Public Company Accounting Oversight Board ("PCAOB").

However, there is no indication FASB has considered the myriad of audit-related issues that will likely arise if the proposed amendments of GAAP are adopted. These issues include how the PCAOB would approach audit standard-setting, if any, on this topic and how it would inspect this aspect of audits under PCAOB auditing standards—whether extant or revised. Even so, recent experiences in implementing PCAOB Auditing Standard No. 18 on Related Parties may be instructive. Based on these experiences, it is not difficult to envision that because of audit considerations companies will be expected to have systems that identify *all* government assistance arrangements without regard to risk and materiality, and that management will be asked to make representations to the auditors that the company's books and records are accurate and complete in this regard.

Further, it is unclear whether the Proposal may require disclosure of confidential information, including but not limited to confidential tax return information. Accordingly, we recommend that FASB add confidentiality provisions similar to those included in Governmental Accounting Standards Board Statement No. 77, Tax Abatement Disclosures to any new accounting standard on this topic.

The Proposal recognizes that there will be challenges to estimate the value of government assistance received by an entity for which no amount has been recorded directly in any financial statement line item. For example, estimating these values may require the use of specialists. In addition, for these and other aspects of the Proposal, companies will likely have to incur significant costs to develop and institute new systems, procedures, and processes, as current systems and processes were not developed to track unrecorded amounts.

The Proposal provides an impracticability determination to help mitigate some aspects of the challenges in estimating the value of government assistance received but not recognized directly in the financial statements. However, any such "impracticable" determinations will likely be complicated. For example, such determinations will be subject to audit and, in turn, the audits subject to PCAOB inspections for public companies—which may contribute to the "second-guessing" of managements' determinations of impracticability.

These costs and challenges reinforce and exacerbate concerns expressed by Chairman Golden.[6] Concerns that the costs of applying the proposed amendments would not justify the benefits caused Chairman Golden to dissent on the Proposal. We strongly agree with Chairman Golden's view and believe it underlines the need for more outreach with a broad based group of stakeholders

Concluding Comments

In conclusion, because of the significant concerns raised by the proposed amendments, we encourage FASB to postpone proceeding with the Proposal until a more complete understanding has been reached on whether these disclosures are needed in the GAAP footnotes and the consequences of doing so. As part of this process, we believe that FASB should coordinate with the SEC and PCAOB and engage in more public outreach, including roundtables. In any event, it is clear that the scope of any new accounting standard on this topic would need to be more narrowly defined.

We stand ready to assist in these efforts for effective disclosures that convey relevant information for market participants, while maintaining the important objective of mitigating disclosure overload and financial reporting complexity.

Sincerely,

National Association of Manufacturers
The Clearinghouse
The Real Estate Roundtable
U.S. Chamber of Commerce

[6] *See* the Proposal, page 24.