



Invested in America

February 10, 2016

Russell G. Golden
Chairman Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT, 06856-5116

Re: Proposed Accounting Standards Update: *Government Assistance (Topic 832) Disclosures by Business Entities about Government Assistance* (File Ref No. 2015-340)

Dear Mr. Golden:

The Global Financial Institutions Accounting Committee (“GFI”) of the Securities Industry and Financial Markets Association (“SIFMA”)¹ appreciates the opportunity to provide comments on the Financial Accounting Standards Board’s (“FASB” or the “Board”) Proposed Accounting Standards Update: *Government Assistance (Topic 832) Disclosures by Business Entities about Government Assistance* (the “Proposed Update”).

We support the FASB’s effort to increase transparency and to address diversity in practice. However, the GFI is concerned that the Proposed Update will not achieve the Board’s objectives as we believe that the scope is overly broad, significant incremental costs would be incurred to comply with the guidance, and it would result in potentially redundant disclosure requirements. If there were legally enforceable arrangements (with governments or any other party) that had a material effect on the financial statements, such activity would be disclosed pursuant to other standards. Therefore, we would respectfully suggest the FASB revisit the underlying premise of the Proposed Update and the need for such guidance.

Additionally, we do not believe that the Proposed Update will better align U.S. generally accepted accounting principles (“US GAAP”) with International Financial Reporting Standards (“IFRS”) in this area, particularly with respect to income tax-related benefits. We also question the benefit of the information to users, as well as the feasibility of implementing the guidance, particularly the requirement to disclose benefits received but not recognized in financial statements.

¹ SIFMA is the voice of the U.S. securities industry. We represent the broker-dealers, banks and asset managers whose nearly 1 million employees provide access to the capital markets, raising over \$2.5 trillion for businesses and municipalities in the U.S., serving clients with over \$20 trillion in assets and managing more than \$67 trillion in assets for individual and institutional clients including mutual funds and retirement plans. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit <http://www.sifma.org>.

Objectives

The Proposed Update's stated objective is to increase the transparency about government assistance arrangements and reduce diversity in practice. It is unclear how the Proposed Update aligns with the objectives of the FASB's broader Disclosure Framework project, which aims to improve the effectiveness of disclosures by clearly communicating information that is most important to users of financial statements. As part of the broader project, the Board 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 Proposed Update is likely to lead to additional diversity in practice, rather than less, and the proposed disclosure requirements will only increase the volume of the financial statement footnotes without a clear benefit to users.

Specifically, the benefit of disclosure of each of the items potentially meeting the scope is not evident. We question the value of such expansive information and the degree to which such information would benefit users when analyzing an entity's financial results and prospects for future cash flows. In addition, there are already existing disclosure requirements that provide relevant information on material arrangements inclusive of government assistance. This information includes discussion within the risk sections of the Management's Discussion & Analysis ("MD&A") presented with the financial statements. Similarly, the financial statement impact of material tax credits are already disclosed in the Income Taxes section of financial statement footnotes. Overall, it is unclear how the Proposed Update corresponds with needs of the investor community or with initiatives of the FASB, particularly when the FASB is supporting projects related to disclosure simplification.

Scope

As discussed in detail below, the GFI believes that the scope is overly broad and as a result we are concerned that the proposed guidance will not decrease diversity in practice; rather, the lack of clarity in the scope may inadvertently sweep in a host of standard government programs² for which disclosure is not particularly meaningful or useful to investors. In addition to the unintended consequence of including disclosure requirements for items of little informational value, the proposed disclosures could also lead to a duplication of existing disclosure requirements based upon current footnote and MD&A disclosure requirements. We believe the scope of the Proposed Update should be more focused and, at a minimum, exclude income tax benefits that are already disclosed within Income Taxes information.

Comparisons to IFRS

We understand that the genesis of the project was a difference between US GAAP and IFRS. However, the scope of the Proposed Update goes beyond that of International Accounting Standard ("IAS") 20, *Accounting for Government Grants and Disclosure*

² In the attached Appendix, we have included various government programs that we have considered in our review of the Proposed Update.

of Government Assistance. In particular, we note that IAS 20 explicitly scopes out income-tax-related benefits and we encourage the FASB to consider whether an explicit scope exception would be a clearer and more efficient method of achieving the FASB objective rather than relying on the proposed scoping criteria which focuses on a level of discretion present in providing assistance. As a result of this narrower scope, our understanding is that incremental disclosures pursuant to IAS 20 are very limited in practice³.

Comparisons to Existing Disclosure Requirements

We also believe the existing US GAAP disclosure requirement related to Income Taxes, specifically the reconciliation of the effective tax rate to the statutory tax rate, is sufficient to understand the significant components of a company's effective tax rate. If the FASB's view is that the requirements of existing US GAAP do not provide sufficient transparency, we encourage the FASB to consider those requirements as part of its Disclosure Framework project related to Income Taxes. Further, we do not hold the view under Basis for Conclusions paragraph 8 ("BC8") that "most income-tax related assistance would not be within the scope of the proposed amendments." We believe this assertion can only be made on an entity-by-entity basis. Many companies receive income tax benefits in the form of income tax credits, some of which may be considered subject to a legally enforceable arrangement and discretionary (e.g., new markets tax credits).

Arrangements in the Normal Course of Business

We are also concerned by the potential for unintended consequences when applying the concept of government discretion to the government programs that the GFI members participate in through the normal course of business. Many of these programs are widely available to financial institutions that meet certain criteria, but reserve the discretion of a governmental agency as a safeguard in the government's regulation of the industry. One example is access to the Federal Reserve's discount window. While we do not believe the FASB intended the benefit from these types of programs to be included in the scope of the Proposed Update, we believe the proposed guidance would benefit from clarification to exclude such arrangements.

Other Unintended Consequences

In our review of the Proposed Update, we identified a considerable number of governmental programs or arrangements which the GFI does not believe the FASB intended to include within the scope of the Proposed Update⁴. However, absent further clarification – and despite the GFI's initial interpretations – many of these programs or arrangements could remain open to interpretation which presents a risk of scope creep, increased cost, and disparity in the application of the Proposed Update.

³ SIFMA discussed the Proposed Update with members of our IFRS Accounting Committee, which consists of senior US accounting policy professionals of financial institutions whose parent organizations file consolidated financial statements under IFRS.

⁴ In the attached Appendix, we have included various government programs that we have considered in our review of the Proposed Update.

Many government loan programs were created to provide benefit to individuals (e.g., student loan and home loan guarantee programs) or small businesses (e.g., small business loan guarantee programs) *through* our members. The GFI is concerned with interpretations that any indirect benefits provided by the existence of the programs to our members may be considered “value” or “assistance” in applying the requirements of the Proposed Update. These programs are designed to increase access to and affordability of secondary education, home ownership, and small business financing as opposed to assisting the lender. Additionally, other programs offer benefits in the form of tax credits to promote other government initiatives (e.g., community development and alternative energy). Once again these programs are not to assist our members, but rather to incentivize investment in potentially underserved communities and sectors. The transactions within these programs generally would not be economically viable absent government support. The GFI views the tax credits received from these programs as incentives to support government initiatives, and, therefore, we do not view these programs as similar to those for which a firm is the intended recipient of assistance.

In light of these distinctions, we are concerned that the FASB’s characterization of assistance as all forms of value received except those provided through a customer relationship could be subject to different interpretations. Accordingly, we recommend the FASB exclude all such programs from the scope of the Proposed Update.

In addition, the GFI is also concerned that the Proposed Update may require reference to confidential information, including but not limited to confidential tax return information. We believe the FASB should add confidentiality provisions similar to those included in Governmental Accounting Standards Board Statement No. 77, *Tax Abatement Disclosures*.

Feasibility

We are concerned that the disclosures required by the Proposed Update would be very difficult or costly to operationalize. First, the scope of the Proposed Update creates significant challenges in identifying the types of activities that could require disclosure. In addition, the disclosure of “the amount of government assistance received but not recognized directly in the financial statements” would be particularly problematic. Although the Proposed Update states that it would not create new accounting requirements other than additional disclosures for which information should be available⁵, the requirement to provide quantification of the value of government benefits that have not been recognized directly poses particular operational issues. Current accounting systems are designed to track assets, liabilities, as well as income and expense to be recorded directly in the financial statements. As acknowledged in BC31, such systems have not been developed to track amounts *not recorded*. We believe that the proposed requirements will require newly established procedures, controls, and third-party consultations in order to comply with the new guidance. In addition, the quantification of these benefits may require companies to develop

⁵ Proposed Update, Basis for Conclusion paragraph 29

assumptions for hypothetical transactions in order to measure the difference in results between the actual transaction with the government assistance and a hypothetical transaction without any such assistance. We are concerned by the costs and complexities of the assumptions that would be required to be developed and the additional processes and mechanisms that would be necessary to track and report otherwise unrecorded hypothetical transactions. In our view, these costs and complexities vastly outweigh any perceived benefit that the Board is trying to achieve by requiring such disclosures.

Thank you again for the opportunity to provide our views. The Global Financial Institutions Accounting Committee would be pleased to discuss our response with the FASB staff. If you have any questions or require further information concerning any of the matters discussed in this letter, please contact me at 212-902-7052.

Regards,

A handwritten signature in black ink that reads "Timothy J. Bridges". The signature is written in a cursive style and is underlined with a single horizontal line.

Timothy Bridges
Chairman
SIFMA Global Financial Institutions Accounting Committee

cc:

Mary Kay Scucci, PhD, CPA, Managing Director, SIFMA
Susan Cospier, Technical Director, FASB
Hugh Shields, Executive Technical Director, IASB

Appendix

In our review of the Proposed Update, we considered many arrangements with government involvement to evaluate whether government assistance exists through a legally enforceable contract including discretion in the amount that we would receive. The following list may not include all potential arrangements, but does represent items that we discussed during our review, including our tentative conclusions based on our understanding of the Proposed Update.

Arrangements in the scope

- Property tax abatements
- Economic incentive grants
- Sales tax exemptions
- Utility rate reductions

Arrangements for which scope application is unclear or which may inadvertently be included in scope

- New Market Tax Credits
- Certain Employment/job tax credits

Arrangements we believe the FASB did not intend to include in the scope but which may require further clarification

- Low Income Housing Tax Credits
- Employment training grants
- Loan guarantees – Home (e.g., Veterans Administration, Government National Mortgage Association, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation), Small Business Administration, Student
- Renewable energy tax credits and/or cash grants
- Federal Reserve discount window lending
- Federal Deposit Insurance Corporation (FDIC) or Securities Investor Protection Corporation (SIPC) insurance