

February 10, 2016

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

(Sent via e-mail to director@fasb.org)

Re: File Reference No. 2015-340

Dear Mr. Golden:

The International Business Machines Corporation (“IBM” or “the company”) appreciates the opportunity to comment on the proposed Accounting Standards Update: Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance (the “proposed amendment” or “exposure draft”), issued by the Financial Accounting Standards Board (“FASB”).

The company appreciates the FASB’s efforts to respond to possible diversity in accounting for government assistance, however, we are concerned with the Board’s approach to addressing that potential diversity through extensive disclosure. In our view, standard setting is most successful when recognition, measurement and disclosure are addressed together. As noted in the Basis for Conclusions paragraph 2, the primary purpose of the project is to address diversity in recognition, measurement and disclosure. We realize this approach of addressing disclosure before providing recognition and measurement guidance may have been used in the past, however, we do not believe this approach will provide benefits to investors. In addition, we are concerned with the precedence in standard setting.

Furthermore, we are not certain there is an issue related to government assistance requiring standard setting on either recognition and measurement or disclosure. In instances where prescriptive accounting guidance does not exist in US GAAP, preparers of financial statements apply general accounting principles. Financial statement preparers are already required to provide disclosures regarding material changes in expected cash flows through risks and uncertainties disclosure requirements. There are also existing disclosure requirements regarding tax credits and tax rate reconciliations. We believe the costs of the proposed amendment would significantly outweigh the benefits. We would recommend a more extensive and formal outreach with both preparers and users of financial statements before proceeding further with this project or exposure draft.

If the FASB continues with the proposed amendment on disclosing government assistance, we believe the disclosures should be limited to the general nature of the agreements and should not require disclosure of specific terms and conditions, which may include confidential or proprietary information for both governments and entities. Limiting the scope in this regard would be more consistent with recently issued guidance for governments by the Government Accounting Standards Board, Statement 77. In addition, the scope should be limited by removing income taxes and assistance received but not recognized directly in any financial statement line item. Removing income taxes from the scope would be consistent with International Accounting Standards (IFRS), *Accounting for Government Grants and Disclosure of Government Assistance* (IAS 20). We believe the benefits would not justify the cost to disclose, unless impracticable, the amount of assistance received but not recognized directly in the any financial statement line item.

If FASB outreach were to determine the need for standard setting in this area, convergence with International Financial Reporting Standards (IFRS) should be considered for recognition, measurement and disclosure. Many entities are already following the principles outlined in IAS 20 and convergence is critical to achieve process efficiencies and reduced cost of implementation for global preparers.

Thank you for the opportunity to comment on the exposure draft. If you have any questions, please contact me at (914) 766-2477.

Sincerely,

Alison Yara
VP, Acctg. Policy & Financial Reporting
IBM Corporation
3D-10, Bldg 2
294 Route 100, Somers, NY 10589
914-766-2477 Office
ayara@us.ibm.com

ATTACHMENT 1

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.

Yes, we agree that the scope of the proposed amendment should be limited to legally enforceable agreements in which an entity or entities receive value from a government.

Yes, we agree that the scope of the proposed amendment 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.

We also believe the scope of the proposed amendment should exclude agreements within the scope of Topic 740, Income Taxes. Removing income taxes from the scope would result in converged disclosures with the IFRS requirements in IAS 20 which scopes out income taxes from the standard entirely, as follows:

2. This Standard does not deal with:
 - (b) Government assistance that is provided for an entity in the form of benefits that are available in determining taxable profit or tax loss, or are determined or limited on the basis of income tax liability. Examples of such benefits are income tax holidays, investment tax credits, accelerated depreciation allowances and reduced income tax rates.

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.

We agree that the proposed disclosure requirements should be the same for both domestic assistance and foreign assistance. However, the confidential and proprietary nature of these agreements may be interpreted and applied very differently from country to country. This will require significant judgment and tracking of the rules in each jurisdiction and in related agreements to ensure the entity is not breaching confidential and proprietary provisions. This would be very costly and time consuming.

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.

No, we believe that the scope of the proposed amendment should exclude agreements within the scope of Topic 740, Income Taxes.

In addition to our response above regarding aligning requirements with IAS 20, the disclosure requirements within Topic 740 already provide users of financial statements with information on rate reductions due to tax credits in foreign jurisdictions and tax rate reconciliations that would highlight any material benefits received causing changes to the expected statutory rate.

We also believe the requirements are redundant with SEC disclosure requirements under SAB Topic 11.c for tax holidays, which require the filer to disclose the aggregate dollar value and the per share effects of the tax holiday, as well as, the terms of the arrangement, including the date on which the special tax status will terminate.

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.

We would agree that the proposed amendment should exclude NFP entities since guidance already exists in Topic 958 of the codification.

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?

Many entities only have visibility at a consolidated level to any material items under the current requirements to disclose material risks and uncertainties.

The proposed amendment is not likely operable or auditable for many entities today as systems and controls would need to be put in place to capture the breadth of information required by the proposed amendment. For many entities, this activity and related compliance (including recognition in financial statements) may be handled locally. Each agreement is unique and therefore could result in extremely lengthy and cumbersome disclosure. The impacts of the assistance are not usually recorded separately in the financial statements but are reductions to other items so they are not easily identified for separate disclosure. For example, incentives received to hire a certain number of people in a specific jurisdiction may be recorded as an offset to those related labor costs.

The expense of implementing internal controls for such a disclosure would significantly outweigh the 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.

The cost of complying with the requirement in the proposed amendment to disclose government assistance received but not recognized in the financial statements would significantly outweigh the benefit. We agree with the Basis for Conclusions paragraph 31, that an entity would incur significant costs to establish procedures and controls to provide the value of these items and may require engagement of third-party experts to estimate an appropriate fair value. Entities would need to track these items separately from their normal systems. Additional costs would also be incurred in audit fees.

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.

Yes, in many cases there are restrictions that exist in government assistance agreements that would preclude an entity from disclosing specific terms and conditions of such agreements. Many entities and governments enter into agreements with the intention and understanding that these agreements are of a proprietary nature even if they must be made available in certain circumstances (e.g. under the Freedom of Information Act in the U.S.).

Many agreements have robust confidentiality clauses that could prohibit disclosure of the terms and conditions to any third parties. Certain agreements could require auditors, tax consultants and legal advisors to provide written acknowledgment and respect the confidential nature of the information. Some clauses may even limit the sharing of the agreement internally other than for the purpose of monitoring compliance with the terms and conditions of the agreement. Noncompliance with these confidentiality clauses could result in legal, financial and reputational consequences.

The broad scope and level of disclosure suggested in the proposed amendment could provide competitors with information not readily available to them under existing accounting guidance and disclosures. If the FASB proceeds with such detailed disclosures competitors may begin to rely on an entity's accounting disclosures as a roadmap which can be used in their own business decisions and related economic analysis. Sharing this type of information in a public SEC filing may impact entities negatively. For example, an entity could have to compete to reach labor targets to obtain government assistance where there is a limited labor pool.

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.

We do not agree that the information required by the proposed amendment would improve transparency about government assistance agreements for users. The current requirements to disclose material risks and uncertainties are at the appropriate level for users to understand how government assistance affects an entity's financial position and future cash flows. Material commercial agreements would also be disclosed under these disclosure requirements. It is unclear why government assistance disclosures would be more meaningful than commercial agreements to investors.

As previously discussed, we are concerned that disclosure of potentially inconsistent accounting policies from entity to entity is not meaningful for investors to facilitate better investment decisions. The original scope of the project as outlined in the Basis for Conclusions paragraph 2, was diversity in recognition, measurement and disclosure. If the FASB concludes through outreach that diversity in practice is too pervasive, then recognition and measurement should be addressed.

A project similar in scope to IAS 20, which focuses on recognition and measurement of grants, the related line items impacted and less extensive disclosure (outlining only types of assistance), would likely be more meaningful to users of financial statements.

Entities make many trade-offs when entering into these types of agreements. The proposed amendment provides for requirements for disclosure, which focus only on assistance received. Value may be interpreted differently from entity to entity. Certain grants only have value if contractually agreed commitments are met by an entity. Furthermore, when an entity enters into these types of agreements they may incur significant costs.

The decisions made by entities in this area may be complex and without the full context of the entity's decisions around the cost of labor, infrastructure development, cost of natural resources, and the entity's presence in a market or location, this could lead to misguided decisions by users of financial statements. It would be extremely difficult to condense this analysis and decision making into a meaningful disclosure and, as such we recommend that disclosure should be limited as noted above (to types of assistance only).

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?

No, the proposed amendment should not include additional interim disclosure requirements. The existing requirements to update disclosures when there is a material change are sufficient.

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.

No, the proposed amendment should be applied to agreements prospectively. Limiting the scope to agreements entered into after the effective date, with retrospective application permitted, would reduce some of the concerns previously mentioned, such as possibly amending or signing new agreements to remove confidentiality clauses. In addition, the cost of implementation would be lower.

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.

We would expect nonpublic companies would have similar concerns with the proposed amendment.

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?

If the FASB continues with this proposed amendment, preparers could need a significant amount of time to understand any confidentiality restrictions on an agreement-by-agreement basis, and to

implement systems and/or processes to collect the data. Costly and time consuming modifications to government assistance agreements related to confidentiality clauses may be required in order to ensure the entity is not breaching such agreements. Renegotiations could result in terminations or increased requirements by the governments, neither of which will benefit entities or their investors. In addition, as noted in question 5, internal controls will be needed to ensure the disclosures are complete, accurate and auditable. We would expect many companies would need 18-36 months to accomplish this daunting task due to the granularity outlined in the proposed amendment; especially for global preparers, which may have a number of individually insignificant agreements.