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2015-340
Comment Letter No. 26

Ms. Susan M. Cospers
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10 February 2016

Proposed Accounting Standards Update, *Disclosures by Business Entities about Government Assistance* (File Reference No. 2015-340)

Dear Ms. Cospers:

We appreciate the opportunity to comment on the Proposed Accounting Standards Update (ASU), *Disclosures by Business Entities about Government Assistance* (the Proposed Standard), from the Financial Accounting Standards Board (FASB or Board).

While we support the FASB's objective of improving the reporting and disclosure of certain government assistance arrangements, we do not agree that the approach taken by the Board in the Proposed Standard meets that objective. We believe the Board should first develop recognition and measurement guidance for government assistance arrangements. To help alleviate the Board's concerns about resources, we recommend that the Board or the Emerging Issues Task Force take on a narrow project to clearly define the scope of and develop recognition and measurement guidance for government grants that addresses the significant diversity in practice that exists today. In developing this guidance, we suggest that the Board start with the concepts in International Accounting Standards 20, *Accounting for Government Grants and Disclosure of Government Assistance* (IAS 20). We believe that only after the Board develops recognition and measurement guidance should it consider disclosure requirements for the arrangements within the scope of that guidance.

We believe that the FASB should address the accounting for government assistance. If the Board rejects this recommendation, we believe that it should limit the disclosure requirements to government assistance arrangements that are not in the scope of existing topics in the Accounting Standards Codification (ASC or Codification). If the Board believes that government assistance disclosures should be required for arrangements that are accounted for under other topics in the Codification such as ASC 740, *Income Taxes*, and ASC 470, *Debt*, we believe that the Board should amend the disclosure requirements in those topics to specifically address those matters. Additionally, because the title of the Proposed Standard refers to "government assistance" and because the proposal does not amend other topics in the Codification, we are concerned that constituents may not have focused on the scope of the proposal and provided their feedback to the Board.

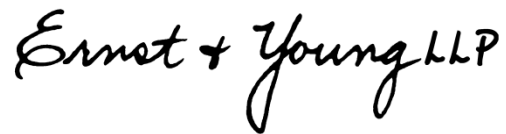
We believe the scope of the Proposed Standard (i.e., a legally enforceable agreement with a government to receive value) is ambiguous and may be interpreted too broadly. As a result, there is a risk for significant unintended consequences. In our responses to the Board's questions, we describe

several legally enforceable agreements with governments that might be interpreted to be within the scope of the Proposed Standard and question whether the Board intended for them to be. In addition, we also disagree with the Board's proposal to require disclosure of assistance that is not directly recorded in the financial statements (e.g., below-market borrowings, agreements with tax authorities, tax abatements). We believe that the requirement to disclose these estimates would represent a fundamental expansion of the purpose of the notes to the financial statements that should not be undertaken without a more comprehensive assessment.¹

Our responses to certain of the questions posed in the Proposed Standard are set out in the appendix to this letter.

We would be pleased to discuss our comments with the Board or its staff at your convenience.

Very truly yours,



¹ While we recognize that similar disclosures are required for related party transactions, we believe requiring the identification and potential valuation of transactions with a third party (i.e., a governmental entity) presents significantly greater challenges.

**Appendix – Responses to questions raised in the Proposed Accounting Standards Update,
*Disclosures by Business Entities about Government Assistance***

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 agree that transactions in which the government is legally required to provide a nondiscretionary level of assistance simply because the entity meets applicable eligibility requirements should be scoped out of the Proposed Standard. However, we also believe that if the accounting for an arrangement with a governmental entity is in the scope of another ASC topic (e.g., ASC 740, *Income Taxes*, ASC 470, *Debt*, ASC 450, *Contingencies*, ASC 606, *Revenue from Contracts with Customers*), the arrangement should not be in the scope of the Proposed Standard, and any perceived deficiencies in disclosures in those standards should be separately addressed.

We are also concerned that the proposed scope (i.e., a legally enforceable agreement with a government to receive value) is ambiguous and that preparers, auditors and regulators will potentially reach different conclusions about what is in and out of scope. As a result, we believe this definition needs to be more fully developed to be operational. To illustrate, consider the following examples that we believe could be considered to be within the scope of the current proposal:

- ▶ An entity that is audited by a taxing authority and, after disagreeing with the tax authority on an income tax position and its income tax obligation, reaches a compromise on its income tax obligation that is formalized in a legally enforceable settlement agreement.
- ▶ An entity enters into a tax agreement with the governmental taxing authority (e.g., a state in the US, a country in the European Union) that addresses the apportionment of income between jurisdictions and the valuation of certain transactions.
- ▶ An entity and a government may enter into a legally enforceable settlement agreement at the conclusion of a sales tax audit resulting in a compromise on the entity's sales tax obligation.

In each case, we wonder whether the Board believes that the arrangements are within the scope of the Proposed Standard. It is also not clear why the Board believes that the existing disclosures in ASC 740 and ASC 450 are deficient, and if so, why those deficiencies aren't better addressed in an ASC 740 and ASC 450 disclosure project.

We also think that the scope exception for transactions in which the government is “solely a customer” is too restrictive and that there are many other arm’s-length transactions that involve governments that should be excluded from the scope of the Proposed Standard. Consider the following situations:

- ▶ An entity provides medical services to individuals. Certain individuals’ services are covered by Medicare or Medicaid, and the entity is paid directly by Medicare or Medicaid. These payments from the government are reflected as revenue (i.e., in the scope of ASC 606). The entity has a legally enforceable agreement with a government as part of these programs. Does the Board believe that the government is solely a customer in this arrangement? That is, does the Board believe that this arrangement is within the scope of the Proposed Standard, and does it intend for it to be?
- ▶ The government owns certain assets (e.g., mineral resources) but wishes to have a third party develop and monetize those assets. Through a competitive bidding process, the government partners with an entity and licenses its rights to the assets in return for an up-front payment from the entity. The government and the entity enter into a legally enforceable agreement that contains the terms and conditions of the license and states the royalties that the government will receive as the entity monetizes the assets. The government is not a customer of the entity in this arrangement. Does the Board believe that this arrangement is within the scope of the Proposed Standard, and does it intend for it to be?

Also, we believe the examples in ASC 832-10-55-4 through 55-15 would be enhanced by a more thorough analysis of the conclusions for each individual fact pattern.

As we said earlier, we believe the FASB should address the accounting for government assistance. If the Board rejects our recommendation to provide recognition and measurement guidance for government assistance, we believe that the Board should limit the disclosure requirements to government assistance arrangements that are not in the scope of and accounted for under existing Codification topics. If the Board believes that government assistance disclosures should be required for arrangements that are accounted for under other topics in the Codification such as ASC 740 and ASC 470, we believe that the Board should amend the disclosure requirements in those topics to specifically address those matters. Additionally, because the title of the Proposed Standard refers to “government assistance” and because the proposal does not amend other topics in the Codification, we are concerned that constituents may not have focused on the scope of the proposal and provided their feedback to the Board.

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.

If the Board moves forward with the Proposed Standard, we believe that the proposed disclosure requirements should be the same for both domestic and foreign assistance. However, we believe that there will be operational challenges for preparers with respect to the accumulation of data related to foreign assistance that will be necessary to comply with the proposed disclosure requirements. Refer to our response to Question 5 for additional detail. We also believe that our concerns regarding the scope of the Proposed Standard apply to both domestic and 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.

We do not believe that the scope of the proposed amendments should include government assistance agreements that are within the scope of ASC 740.

We observe that ASC 740 currently contains disclosure requirements and that the Board is revisiting those disclosure requirements as part of an active project. If the Board believes that more disclosures about the accounting for income taxes should be required, we believe the Board should amend ASC 740. However, we are not aware of any feedback that the Board has received that would suggest that ASC 740 should be amended to incorporate disclosure requirements like those included in the Proposed Standard. Further, the reports issued by the Financial Accounting Foundation on post-implementation reviews of FASB Statement No. 109, *Accounting for Income Taxes*, and FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, do not highlight concerns that would suggest that ASC 740 should be amended to incorporate disclosure requirements like those included in the Proposed Standard. Therefore, we question the benefits of requiring similar disclosures related to the accounting for income taxes. In addition, we are concerned that addressing disclosure requirements related to matters addressed in other ASC topics as part of this project may result in any new requirements being overlooked by key constituents (e.g., a preparer might not think that a project on government assistance would affect the disclosure related to income taxes or a revenue transaction).

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.

Yes, we agree that the scope of the proposed amendments should exclude NFP entities.

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?

With respect to the operability of the proposed disclosure requirements, we understand that many entities likely do not have the systems, processes and controls to capture the data required to comply with the proposed disclosure requirements. This may be particularly true for multinational companies that have thousands of government assistance agreements around the world and would need to develop a variety of processes and controls needed to capture and potentially measure assistance that is not directly recorded in the financial statements. The Board should pay close attention to the feedback from preparers on this topic.

We also believe that preparers and auditors would benefit from example disclosures, which would more clearly illustrate the presentation and depth of disclosures that the Board is seeking under the Proposed Standard. Example disclosures also could be used to clarify the application of the Board's materiality concepts. For example, it appears that an entity would evaluate whether individual agreements are material for purposes of complying with the disclosure requirements in paragraph 832-10-50-4. In addition an entity also would be required to aggregate its government assistance agreements to assess whether those agreements are material in the aggregate. Based on the information required by this paragraph, it's unclear how an entity could provide meaningful disclosure for agreements in the aggregate, given that agreements often have dissimilar terms and conditions (e.g., tax rates, interest rates). We believe that these concepts should be clarified. It would be helpful if the Board provided clarifications in the Basis for Conclusions if this Proposed Standard is finalized before the Proposed ASU, *Assessing Whether Disclosures Are Material*, is finalized.

Further, with respect to the proposed disclosure requirement in paragraph 832-10-50-3(d), we believe that requirement is inoperable. See our response to Question 6 below.

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.

We do not agree. We believe that entities may incur significant costs and experience significant operational challenges if they attempt to identify and determine the amount of assistance received but not directly recognized in any financial statement line item because entities typically do not value items that are not recognized in the financial statements. To determine the value of this assistance, entities would likely have to develop new systems, processes and controls to capture such data, which may be particularly challenging for multinational companies that receive various forms of assistance from governments around the world. Additionally, some government assistance may be difficult to identify and/or value, especially if there aren't comparable transactions in the marketplace.

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 the financial statements? If so, be specific.

Based on our review of the Proposed Standard, it is unclear how users would benefit from the proposed disclosure requirements. If the Board moves forward with the Proposed Standard, we believe the Board should provide more transparency into how it has assessed the needs of users related to government assistance disclosures and how the information to be disclosed would improve the usefulness of the financial statements. Also, we believe that the Board should articulate how the perceived benefits to users would justify the costs and complexity of complying with the Proposed Standard.

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?

If the Board moves forward with the Proposed Standard, we agree that it is not necessary to include additional interim disclosure requirements in ASC 270.

Question 10: Do you agree the amendments in this proposed Updated 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.

If the Board moves forward with the Proposed Standard, we agree with the application of the amendments to agreements existing at the effective date and entered into after that date. We agree that retrospective application should be permitted.

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.

If the Board moves forward with the Proposed Standard, we believe the amendments should apply to both public and 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?

We believe that preparers are in a better position to respond to this question. However, based on our outreach, we believe the time and associated cost for preparers to implement the proposed amendments could be significant because many entities likely do not have the systems, processes and controls to capture the data required to comply with the proposed disclosure requirements.