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

The Accounting Principles and Assurance Services Committee (the "Committee") of the California Society of Certified Public Accountants ("CalCPA") respectfully submits its comments on the referenced proposals. The Committee is the senior technical committee of CalCPA. CalCPA has approximately 43,000 members. The Committee consists of 57 members, of whom 43 percent are from local or regional CPA firms, 30 percent are from large multi-office CPA firms, 13 percent are sole practitioners in public practice, 9 percent are in academia and 5 percent are in international CPA firms. Members of the Committee are with CPA firms serving a large number of public and nonpublic business entities, as well as many non-business entities such as not-for-profits, pension plans and governmental organizations.

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.

The Committee agrees that disclosure should be required for legally enforceable agreements in which an entity or entities receive value from a government. The Committee believes that disclosure should be expanded to include transactions in which the government is 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. Government assistance is essentially the same whether it is under a legally enforceable agreement or nondiscretionary. There are many nondiscretionary assistance programs, and there is the same lack of transparency for them as there is for legally enforceable agreements. For an entity operating in numerous jurisdictions, their terms and conditions are no more readily apparent or otherwise known to a financial statement user than they are for legally enforceable agreements.

However, disclosures concerning government assistance under income tax laws, be it discretionary or nondiscretionary, should be disclosed pursuant to ASC Topic 740. The Committee believes that the Board should amend Topic 740 to provide clarity regarding

disclosure of assistance such as tax credits, tax holidays and other incentives under income tax provisions. Such matters are often not apparent in disclosures under Topic 740. We believe having some income tax related disclosures covered in Topic 740 and others under the proposed amendments would add an unnecessary level of confusion and potential duplication, especially as to income tax disclosures.

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.

The Committee agrees that disclosure requirements should be the same for both domestic assistance and foreign assistance. The Committee believes it would be useful for entities to disclose separately assistance from governments in the largest countries in which the entity operates, or, alternatively if the majority of its operations are in one country, the assistance from governments in that country and assistance from governments in all other countries in the aggregate. (We do not believe it is appropriate to define assistance as domestic and foreign; that may work for U.S. based entities but not for non-U.S. based entities; further, an entity may have its largest operations outside of its home country.)

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.

The Committee believes that disclosures under Topic 832 should exclude all income-tax-related assistance because the Committee believes all income tax related disclosures should be made pursuant to Topic 740. However, the Committee believes the need for such disclosures under Topic 740 should be explicit and the extent of the disclosures clarified so that they include the same type of disclosures as those that would be required under the proposal but are currently not clearly required by Topic 740.

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.

The Committee does not see any reason to exclude NFPs from the scope of the proposed amendments to the extent that such assistance does not meet the definition of a contribution in ASC Topic 958.

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?

The Committee believes that many entities will need to establish or modify procedures and controls to capture the data subject to disclosure under the proposal. The Board, in discussing Benefits and Costs (paragraphs BC28 through 300), states that its assessment is more qualitative than quantitative, and concludes that the information to make disclosures "should be available." Many entities do not have the comprehensive

information required by the proposal in a centralized location necessary for inclusion in its financial statements, and if the entity operates on a decentralized basis, defining information requirements and assembling such information could be a major undertaking. The Committee suggests that the Board conduct research into the potential costs by surveying a reasonable number of entities.

The disclosures of the amount of government assistance received but not recognized directly in the financial statements could be particularly problematic both to capture the information about the programs and to quantify the assistance in the usual situation where there is no market comparable data. The expense of doing this may exceed and benefit.

Therefore, the Committee has significant questions as to whether the disclosure requirements are operable on a cost-beneficial basis. We believe information, once obtained, should be auditable, but it may be very difficult to detect information that is missing. It could take a lengthy period of time to implement systems and to place sufficient controls in place to assure reliable reporting of all required information.

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 Committee agrees 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. However, as pointed out in our response to Question 5, we have reservations about the operability and auditability of such information. Many entities, particularly smaller entities, may simply conclude that disclosures are impracticable and not disclose the information.

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.

While the Committee does not have specific information, we suggest that provision be made for not disclosing required information because of legal or similar restrictions imposed by the government entity rendering the assistance.

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.

No comment. We are not users.

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?

The proposed amendments should not include additional specific interim disclosure requirements. It is beyond the scope of what should be included in interim financial statements.

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.

The Committee agrees with the proposed transition provisions. We do not believe the disclosures should be required on a retrospective basis, as that could be impracticable for many entities.

The Board should consider a deferred effective date with early adoption permitted. Deferral may be necessary to accommodate entities that need additional time to obtain the information necessary for the proposed disclosures and have such information audited.

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.

The Committee has two recommendations for nonpublic business entities:

- The disclosures of the amount of government assistance received but not recognized directly in the financial statements should be made optional, not just excludable if impracticable. The information may be unduly expensive for many of these businesses to assemble and we believe it may be of little use to the users of their financial statements. The existence of the government assistance program should be disclosed, so if it is important to the user then the user can ask the issuer about it.
- The effective date should be deferred for a year past the effective date for public business entities to allow needed time for implementation.

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?

While the Committee does not have specific quantitative information, we believe the time to implement the proposed amendments will vary substantially among entities based on the number and complexity of government assistance arrangements and the systems they currently have to capture the information to be disclosed. This may fall disproportionately heavily on entities that are not public business entities if they have many of government assistance programs because they tend to have less sophisticated accounting and control systems.

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We thank you for the opportunity to comment on this matter. We would be glad to discuss our opinions with you further should you have any questions or require additional information.

Sincerely,

A handwritten signature in black ink, appearing to read "A.J. Major III". The signature is written in a cursive style with a large initial "A" and "J" and the name "Major" followed by "III" which is underlined.

A.J. Major III
Chair
Accounting Principles and Assurance Services Committee
California Society of Certified Public Accountants