



February 10, 2016

Ms. Susan Coper
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 2015-340

Dear Ms. Coper:

PricewaterhouseCoopers LLP appreciates the opportunity to comment on the FASB's proposed Accounting Standards Update, *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance*.

We acknowledge the importance of transparent disclosures that improve the user's ability to analyze an entity's financial results and prospects for future cash flows. However, we believe disclosures are most helpful when they are anchored to, and complement, an underlying set of recognition and measurement principles. We understand that the genesis of this project was a comparison of US GAAP and IFRS by the SEC's Office of the Chief Accountant, in which the SEC staff noted that US GAAP "contains areas for continued development" and cited government grants as one of those areas. While this has long been acknowledged as a gap in the authoritative body of US GAAP, recognizing the Board's otherwise full agenda, and an ongoing disclosure framework program, we question the timing, priority, and scope of this project.

The scope of the proposed standard (1) is too broad, (2) depends on a potentially challenging assessment of whether a government has exercised discretion, and (3) could include arrangements subject to other recognition, measurement, and disclosure guidance. We are concerned this will create significant incremental costs for preparers and challenges for auditors that, in our view, are not justified by the perceived incremental benefits to users. As a result, we do not support the proposal.

Some arrangements included within the scope of the proposed guidance would also be subject to Topic 740's comprehensive recognition, measurement, and disclosure requirements for income taxes and various forms of government assistance administered through an income tax regime. In addition, we note that the Board is currently deliberating possible changes to the disclosure requirements of Topic 740 in its disclosure framework project. Thus, we believe it would be more appropriate for the proposed guidance on government assistance to explicitly exclude arrangements subject to Topic 740 from its scope. To the extent the Board believes additional or different disclosures of arrangements subject to Topic 740 are warranted, they should be developed in the context of the underlying accounting and reporting model for income taxes. This approach would be consistent with the scope of the international standard for government grants, IAS 20, which explicitly scopes out income taxes accounted for under IAS 12.



We believe the scope of the proposed guidance will be challenging to apply in practice and recommend that the board consider providing additional guidance and/or examples illustrating the application of the scope of the proposed standard. As proposed, the standard would apply “to an entity or entities that have entered into a legally enforceable agreement with a government to receive value (assistance) in which the government determines whether an entity will receive assistance and/or how much assistance an entity will receive.” The proposal acknowledges that whether an agreement is determined to be legally enforceable will vary by jurisdiction. As a result, even where a contract exists, it could be challenging to determine what will be legally enforceable. In addition, we have seen situations where entities and governments enter into arrangements without the explicit intention of receiving/providing government assistance; however, such arrangements are challenged as bias on the part of the government, (i.e., providing benefit for a particular entity versus another). For example, we note that the European Union is currently challenging member states on whether they have provided government assistance. These ongoing legal disputes confirm that there is not a common understanding of the definition of assistance. If governments cannot agree on what qualifies as assistance, it seems unlikely that preparers would apply a consistent definition.

In addition, discretion on the part of the government seems to be a key feature of arrangements that would be subject to the proposed guidance. We believe this concept will also be challenging to interpret. For example, the government may have discretion in determining the terms offered to an entity, but the underlying substance of the arrangement may not be to provide government assistance. Unlike a commercial arrangement, where a bilateral transfer of value occurs and there is typically a specific contractual arrangement, it is much more difficult to assess the economic substance of an arrangement with a government. The government also exercises discretion when a company requests clarification or confirmation on the treatment of a transaction by obtaining a ruling. It is possible these transactions would meet the scope requirements of the proposed standard.

Similarly, we are concerned that some may interpret obtaining a tax ruling, or an advanced pricing agreement for transfer pricing, or even situations where entities file for a change in status as being within the scope of the proposed guidance.

The proposal defines government to include "domestic and foreign local, regional, and national governments, related governmental entities, and intergovernmental organizations." While it may be clear when an entity has entered into an arrangement with some of these entities, the range of organizations that might be considered "related governmental entities" or "intergovernmental organizations" is extremely broad. As a result of the breadth and number of organizations and the related volume of potential arrangements to evaluate, we believe implementation of the proposal will create significant, incremental costs for preparers. In many cases, information about arrangements potentially subject to the proposed guidance will be distributed throughout the organization—e.g., finance, business development, legal, logistics—and across the globe. We expect that preparers would need to expend significant effort to identify and maintain a comprehensive inventory of all government transactions in order to assess which transactions (1) constitute “government assistance” and (2) would be material, either individually or in the aggregate. This will result in the collateral costs of implementing internal controls related to these efforts and the attendant incremental audit efforts. We do not believe a sufficient case has been made that the benefits to users would outweigh the cost and complexity of applying the proposed guidance.

Finally, we note that the proposed standard would require an entity to disclose not only the amount of government assistance included in the financial statements but also the amount of government assistance received but not recognized directly in the financial statements (e.g., the incremental interest the entity would have paid if they had not received a below market interest loan from the government). We question the value compared to the cost and effort of including this proforma financial information in the footnotes.



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Our detailed responses to the questions in the exposure draft are contained in the appendix to this letter. If you have any questions regarding our comments, please contact Patrick Durbin at (973) 236-5152, Steve Mack at (408) 808-2997, or Jennifer Spang at (973) 236-4757.

Sincerely,

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

PricewaterhouseCoopers LLP



Appendix A

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.*

As stated in our cover letter, we do not agree with the scope of the proposed amendments. Determining whether arrangements are legally enforceable and whether the government has exercised discretion will be extremely challenging to apply in practice. We believe the scope would be much more operational if aligned with the scope of IAS 20 and focused specifically on direct forms of government grants.

We believe that a term such as “discretion” can easily be misinterpreted. The scope of the proposed amendments, as currently written, may include a voluminous population of arrangements that we do not believe the Board intended to subject to the additional disclosures. For example, an entity may request approval from the IRS for a change in accounting method (e.g., a change in inventory costing or depreciation method) or period. The IRS has discretion in approving such requests, they may be legally enforceable, and could be considered as providing value, but we believe that the FASB did not intend to require additional disclosure for items of this nature.

The following examples might similarly be considered to be subject to the provisions of the proposed standard; however, we do not believe it is reasonable to conclude these represent a form of assistance:

- An application for relief with the IRS for missed deadlines or failure to make a tax election by the due date
- Closing agreement between the IRS and an entity for the purpose of settling a tax liability
- Advanced pricing arrangements

We believe the scope needs to be more clearly articulated in order to preclude the above arrangements from being captured by the scope and subject to the required additional disclosures.

We note that assistance that is “broadly available” would not be in scope; however, we also believe that this terms can be easily misinterpreted. For example, there are many location-based tax incentives and credits available to entities for business investment and job creation. Such incentives may be negotiated and discretionary in nature or may be publicized and made broadly available to certain types of businesses or activities, such as research and development and manufacturing credits. We question whether this form of incentive would be considered broadly available because it is only available to certain kinds of businesses and activities. We believe that in certain situations, only the governmental entity providing the benefit would be able to assess whether specific terms are being provided on a broad basis. As a result, an entity may not be able to assess which transactions would be in scope as they may not have visibility into the benefits being provided to others.

On the other hand, special tax status or classification rulings are sometimes available in foreign jurisdictions where the programs are driven by fairly objective eligibility requirements that are publicized and available, but may be discretionary in nature due to the approval process. For example, China has the High and New-Technology Enterprise program that provides R&D tax credits and reduced tax rates to promote innovation. Malaysia has similar incentives for High-technology and manufacturing companies



that provide for an investment tax allowance or income exemption. Both of those programs require approval, which involves discretion on the part of the government.

We envision similar questions being raised by financial institutions that issue Federal Housing Administration (FHA) loans. The FHA provides mortgage insurance on loans made by lenders approved by the FHA. In order to be approved to offer FHA insured loans, there are certain lending standards and requirements established by the FHA that must be met, such as annual audits. We understand there are instances where FHA has discretion in granting exceptions to some of those requirements. It is not clear if the value conveyed in granting the exception would be in the scope of the proposed guidance.

Furthermore, there may be situations where multiple entities would benefit as a result of discretion exercised by a government agency. In such cases, it is not clear whether all benefitting parties would be subject to the proposed guidance. For example, FHA insurance provides loss protection in the event the borrower defaults on their loan. This benefits the lender by reducing the lender's risk, as the FHA will pay claims to the lender in the event of the borrower's default. The lender is able to provide loans to borrowers who otherwise would not be considered creditworthy. This increases their lending base, thus increasing interest income and other revenues associated with the lending relationship (e.g., ability to cross-sell other products to the lending base). On the other hand, the FHA insurance also benefits borrowers who may not otherwise have been able to obtain a mortgage. In addition, as a result of the FHA insurance, the lender is able to provide the loan at a lower interest rate than would otherwise be available, which decreases the overall cost of borrowing to the borrower. Thus, both the lending institution and the borrower could, in theory, be viewed to benefit from this assistance. It is likely that the establishment of the FHA insurance program was designed to benefit the borrower, but it is not clear if the proposed guidance would consider this to be "government assistance" to the lending institution. We believe that the guidance should provide greater clarity as to the scope of the disclosure requirements to enhance the consistency of its application.

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 believe that the scope of the proposed disclosure requirements should be the same for 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.*

No. We believe arrangements within the scope of the comprehensive recognition, measurement, and disclosure guidance of Topic 740 should be excluded from the scope of the proposal. If the Board believes additional disclosures are necessary for arrangements accounted for under Topic 740 that have certain unique characteristics, those disclosures should be considered in the context of the Board's broader review of the Topic 740 disclosures in its disclosure framework project.

We think it would appropriate to include certain non-income tax related incentives in the scope of the proposed guidance that are not accounted for under Topic 740, such as property tax abatements and payroll tax incentives.



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 understand that not-for-profit specific considerations related to government grants are within the scope of the FASB's research project, "Revenue Recognition of Grants and Contracts by Not-for-Profit Entities." Therefore, we agree with the exclusion of not-for-profit entities from the scope of the proposal.

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?*

We believe there will be unique challenges in operationalizing and auditing certain aspects of the proposed standard. Although the disclosure requirements are limited to those considered material, the assessment of materiality is a matter of judgment to be made on an item by item basis and over time. As a result, entities would be required to demonstrate compliance with the requirements of the proposed guidance on an ongoing basis. The cost of establishing controls and processes to ensure compliance with the disclosure requirements may be considerable and we question whether the benefit would outweigh such costs.

We expect that it may be challenging to quantify the benefit received but not recognized in the financial statements. As these balances are, by definition, not reflected in the financial statements, entities likely do not have the internal controls and processes in place to capture the necessary information. For example, in instances such as loan guarantees or low interest rates, it would be challenging to determine the fair value of the benefit received. The entity-specific nature of the benefit would make it difficult to identify comparable transactions entered into between willing participants in an open market. As the determination of the benefit itself may be complex and require significant judgment, we expect auditing the balance would be similarly challenging. The complexity and subjectivity associated with the valuation process, the lack of available and reliable data, and the number and significance of assumptions that would need to be made may create challenges for the auditor to conclude that disclosures are complete.

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 believe that it may be challenging to comply with the requirement to disclose the amount of government assistance received but not recognized directly in the financial statement. There is currently no accounting and measurement guidance related to government assistance in US GAAP, resulting in diversity in practice. Certain types of assistance, e.g., low interest loans, loan guarantees, would require implementation of internal controls, processes, and procedures to identify the benefits, and determine the value of the benefit, which may require engagement of a valuation expert, if the benefit is entity specific, e.g., loan guarantees. Beyond impracticability, we question if the perceived benefit would outweigh the cost and complexity of applying this aspect of the proposed guidance.



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 we believe this question is more appropriately addressed directly by preparers, we can share some observations from our practical experience.

We believe government entities require confidentiality of some negotiated arrangements. In other cases, confidentiality is important to the entity for competitive reasons. The terms negotiated between an entity and a specific jurisdiction often benefit both the jurisdiction—e.g., through job creation, increased taxable base for various forms of taxes such a property, sales, or income—and the entity. When negotiating the terms of these arrangements, an entity may be entertaining proposals from multiple governments with various terms. By disclosing the terms agreed upon with one government, the entity would be put at a competitive disadvantage as this information could be used as a reference by another government. Similarly, disclosure of some arrangements could cause competitive harm to the entity. For example, an entity may wish to relocate its headquarters to take advantage of better geography, an improved labor pool, and less costly real estate. As part of their selection process, the company may be able to negotiate an attractive incentives package to relocate to a specific state. Requiring disclosures related to the incentives received may put the entity at a disadvantage by allowing competitors to adjust their pricing to remain competitive.

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 defer to respondents from the user community.

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?*

We agree that disclosures about government assistance should be limited to material changes occurring since the most recent annual period, as each interim period is intended to be an update from the prior annual 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.*

Yes. We agree with the application of the guidance for all agreements (a) existing at the effective date and (b) entered into after the effective date, with retrospective application 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.*

No. The same guidance should apply to both public business entities 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 defer to preparers to estimate the time required, but as noted in our cover letter, we believe adoption of the proposed guidance as presently scoped would require significant effort.