



American Institute of CPAs
220 Leigh Farm Road
Durham, NC 27707-8110

February 10, 2016

Susan M. Cospers, CPA
Technical Director
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: November 12, 2015 Exposure Draft of a Proposed Accounting Standards Update (ASU), *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance* [File Reference No. 2015-340]

Dear Ms. Cospers:

The American Institute of CPAs (AICPA) is the world's largest member association representing the accounting profession, with more than 412,000 members in 144 countries, and a history of serving the public interest since 1887. One of the objectives that the Council of the AICPA established for the PCPS Executive Committee is to speak on behalf of local and regional firms and represent those firms' interests on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC has reviewed the ED and is providing the following comments for your consideration.

GENERAL COMMENTS

TIC believes many of the proposed disclosures will be useful to financial statement users. However, the proposed disclosures relating to the quantitative benefits of government assistance received but not recognized directly in the financial statements adds too much complexity and potentially excessive cost. When government assistance agreements are silent as to the value of benefits granted, TIC believes quantitative disclosures can be replaced by qualitative disclosures that will serve users well without placing undue burdens on business entities.

TIC also is recommending clarifications for the final standard as to the definition of a government, the meaning of the phrase "government assistance received but not recognized directly in the financial statements" and foreign government assistance in the form of pass-through grants to U.S. business entities. TIC favors a longer transition period for private business entities.

SPECIFIC COMMENTS

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.*

Generally, TIC believes the scope definition for this ED has been articulated appropriately. Limiting the scope to legally enforceable agreements represents a manageable parameter that will mitigate disclosure overload.

However, to prevent any misunderstanding about which entities meet the definition of a governmental entity, TIC suggests that paragraph 832-10-15-6 refer to applicable authoritative standard setters in the public sector for guidance.

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.*

TIC noted that the ED did not address foreign assistance provided in the form of a pass-through grant to a U.S. business entity by a governmental intermediary. In this case, the entity receiving the grant may not have been aware of the identity of the entity making the original grant or the significant terms and conditions of the original agreement. TIC believes the proposed disclosures regarding foreign assistance should be required only if the intermediary has entered into a legally enforceable agreement with the U.S. for-profit subrecipient. In such cases, the subrecipient should not be responsible for disclosing any of the terms and conditions of the agreement between the foreign grantor and the intermediary. TIC requests that the final standard specifically address pass-through grants and clarify the circumstances where the disclosure requirements would apply.

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.*

Yes, TIC agrees that the scope of this proposal should include agreements within the scope of Topic 740, Income Taxes. TIC believes it would be inconsistent to exclude income-tax-related assistance while including other tax-related assistance (such as property or sales tax relief).

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, TIC agrees that the scope of this proposal should exclude NFP entities. Much of their government assistance is through Federal grant funding, which has its own set of reporting and compliance requirements.

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?*

Overall, TIC believes most of the proposed disclosures should be operable and auditable. In a large majority of cases, a legally enforceable agreement will include the specific information needed to fulfill the disclosure requirements.

The proposed disclosures may present implementation challenges, however, when the agreement between the government and the business entity does not include the value of the benefit received and the value is not readily calculable from the provisions of the agreement. In such cases, private business entities are unlikely to have systems in place to derive this information.

TIC also believes that private company financial statement users will not expect or need the specific financial statement impact to be disclosed. For example, a business entity may have received a favorable lease arrangement from a governmental entity. The entity is unlikely to calculate on its own the amount of the cost savings in rent expense. TIC believes that lenders and other creditors will focus on the actual cash flows in the current and future periods rather than how much money the entity is saving. A disclosure that includes the amount of lease payments and additional qualitative disclosures stating that the lease is favorable compared to market rates will be enough for private company users to understand the benefit of the government assistance. Other potential difficult valuations include the amounts of utility bill rebates and sales tax abatements.

Private entities, especially small start-ups, should not have to incur cost to disclose the benefits of government assistance. TIC therefore recommends that the Board remove the requirement to disclose any quantitative information beyond what is already included in the agreement or is easily derivable from the agreement. Additional qualitative disclosures could be provided as to the level of importance of the benefit to the entity.

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.*

TIC supports a requirement to disclose government assistance received but not recognized directly in the financial statements, as long as the disclosure of the amount of

the assistance is information that is readily available. All of the other disclosure requirements relating to the nature of the assistance, the form in which it has been received and the significant terms and conditions of the agreement would be appropriate.

Valuation of government assistance in the form of free technical or marketing advice or expertise or loan guarantees will present measurement challenges. These items were listed in International Accounting Standard (IAS) 20, *Accounting for Government Grants and Disclosure of Government Assistance*, as “examples of assistance that cannot reasonably have a value placed on them.” Under IAS 20, disclosure of these items was limited to the “nature, extent and duration of the assistance.” Under the Board’s current proposal, a business entity would have to calculate a value for these forms of assistance (as well as similar “intangible benefits”) unless impracticable to do so. This raises measurement questions and difficulties that would add tremendous complexity to the proposal.

TIC assumes that, before concluding that a disclosure was impracticable, the business entity would have to make a reasonable effort to provide the requested quantitative disclosure and could not waive it based on inconvenience alone. This begs the question of what constitutes “reasonable effort.” One interpretation is that the entity would need to obtain, or at least attempt to obtain, a fair value for the loan guarantee or the governmental services provided. TIC believes this outcome would be burdensome and potentially very costly for private entities. In some cases, the effort involved in deriving the amount of the assistance could negate the benefit derived. TIC believes this would make no sense from a user benefit standpoint and hopefully is not the Board’s intent.

Of course, another interpretation of “reasonable effort” is that obtaining fair values for these forms of assistance would be unreasonable. At a minimum, potentially different interpretations of this section could spark debates between preparers and auditors as to the Board’s intent, resulting in diversity in practice.

TIC therefore reiterates its recommendation above and requests that the Board amend paragraph 832-10-50-3d to limit the disclosures for government assistance received but not recognized directly in the financial statements to only those amounts that are readily determinable from the contract. If the values are not readily determinable from the contract, then the entity should disclose that fact.

TIC also recommends that the final standard include additional clarification and examples of the circumstances that would meet the Board’s definition of “government assistance received but not recognized directly in the financial statements.” The implementation guidance in paragraph 832-10-55-3 assumes that government assistance in the form of a tax or interest rate abatement meets the definition of “received but not recognized directly” even if the reduction of expenses to which the abatement relates occurs in the current period. TIC believes the phrase should be clarified in the final standard to avoid potential confusion.

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.*

TIC has not responded to this question since it is addressed to preparers.

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.*

TIC has not responded to this question since it is addressed to financial statement 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?*

TIC believes additional interim disclosure requirements are unnecessary.

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.*

TIC supports the proposed transition requirements. TIC believes optional retrospective application is an important concession so as to mitigate costs to preparers.

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.*

For the most part, TIC believes the proposed amendments are suitable for both public and nonpublic business entities. As discussed above, when the government assistance agreement does not specify a value or if the value is not readily determinable from the terms of the agreement, nonpublic entities will bear a greater cost burden to derive an estimate for disclosure purposes. TIC recommends that an exception be made for private companies (if not for all business entities) to disclose general information surrounding the assistance arrangement in lieu of quantitative amounts in situations where specific information-gathering becomes costly or difficult.

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?*

TIC believes a transition period of at least one year beyond the effective date for public companies is necessary to ensure that private entities are fully aware of the accounting change. In addition, the extra time would give them an opportunity to benefit from disclosure examples prepared by public companies.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

A handwritten signature in black ink that reads "Michael A. Westervelt". The signature is written in a cursive, slightly slanted style.

Michael A. Westervelt, Chair
PCPS Technical Issues Committee
cc: PCPS Executive and Technical Issues Committees