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Technical Director
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Financial Accounting Standards Board
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Sent via email to director@fasb.org

Dear FASB:

Please accept this belated comment on your Exposure Draft on Disclosure by Business Entities about Government Assistance.

Government Assistance is Salient Private-Sector Financial Information

As frequent users of corporate financial statements, we applaud the FASB for this proposed update to GAAP. We believe that government assistance is indeed a salient factor in the financial results of many companies and that therefore users of financial statements will be well served by statements' including such information.

As facial evidence of that, we would cite examples from two very different companies: retailer Cabela's and manufacturer Boeing.

When Cabela's (the outdoor sporting goods chain) went public in 2004, its IPO prospectus made clear that the company routinely sought discretionary government assistance.

Historically, we have been able to negotiate economic development arrangements relating to the construction of a number of our new destination retail stores, including free land, monetary grants and the recapture of incremental sales, property or other taxes through economic development bonds [i.e., TIF], with many local and state governments. The government grants have been recorded as deferred grant income and have been classified as a reduction to the cost basis of the applicable property and equipment. The deferred grant income is amortized to earnings, as a reduction of depreciation expense...

...We may not be able to obtain similar economic development packages in the future. The failure to [do so] could cause us to significantly alter our destination retail store strategy or format. As a result, we could be forced to invest less capital in our stores which could have an adverse effect on our ability to construct the stores as attractive tourist and entertainment shopping destinations, possibly leading to a decrease in revenues or revenue growth. In addition, the failure to obtain similar economic development packages for stores built in the future would have an adverse impact on our cash flows and on the return on investment in these stores.

Cabela's went on to seek government assistance at dozens of facilities (stores and warehouses) totaling more than \$1 billion. In cases such as South Carolina, it (and/or its privately held competitor Bass Pro Shops) even advocated for new legislation for government assistance targeted to "destination retail" establishments with eligibility rules mirroring its/their store format(s).

In Boeing's case, the company has staged three unusually public auctions seeking government assistance: in 2003 for its 787 "Dreamliner" production; in 2005 for its corporate headquarters; and in 2013 for its 777 production. The 787 and 777 auctions were "won" by Washington State with assistance packages that the state valued at \$3.2 billion and \$8.7 billion, respectively. Chicago "won" the headquarters with about \$56 million in assistance. Boeing set up another 787 production line in South Carolina that has also received a very large series of government assistance packages that have never been publicly quantified but which we believe total at least several hundred millions of dollars.

These are not the only government assistance deals Boeing has received. In our Subsidy Tracker, we show a total of 935 federal, state and local awards totaling more than \$14 billion (including most of those cited above).

This government assistance has figured into Boeing's financial results both directly and indirectly. Most recently, in its 787 auction, the company used competing assistance offers from more than 20 states to pressure its unionized Puget Sound production workforce to agree, on a hotly contested vote taken twice, to the discontinuation of future defined pension benefits and the substitution of a defined contribution retirement plan.

While we consider Cabela's and Boeing to be aggressive about government assistance, they are not at all exceptional. What was decades ago dubbed "the economic war among the states" that centered on states and cities offering assistance to large manufacturing facilities has since spread to financial services, high technology, retailing, and other service-sector companies.

For these reasons, we applaud the FASB's proposal to require an inclusive definition of government assistance to include, in the FASB's words: "tax credits, tax exemptions, tax abatements, loan guarantees, cash grants, project grants, and low-interest or interest-free loans." We also applaud the FASB's proposal for the disclosure of the assistance's significant terms and conditions, and the quantitative impact of it on a company's income statement and balance sheet.

Risk Management

We view this information as critical for shareholders and other stakeholders from a risk-management perspective. That is, we do not believe that the recent trajectory in the growth of government assistance via economic development subsidies is sustainable. For example, the annual number and cost of what we call "megadeals"—essentially nine- and ten-figure packages—has roughly doubled since 2008.

That is, states and localities are putting many more eggs in fewer baskets, an inherently risky strategy, especially when disruptive new technologies and globalization are upending so many companies' business plans.

For example, numerous metro areas have excess retail capacity in the form of dead malls ("greyfields") or abandoned big-box stores ("ghostboxes"), and the rise of online retailing augurs ominously for bricks and mortar stores. We believe it is inevitable that a growing number of government officials will grow disinclined to continue such assistance, so shareholders of companies that depend heavily on such subsidies deserve to know their degree of dependence. Similarly, communities receiving assistance demands from such companies need to know how much assistance figures into their business plans.

Burden and Confidentiality

We strongly disagree with comments such as those from the U.S. Chamber of Commerce, the Council on State Taxation and the American Bankers Association regarding burden and confidentiality.

On burden, it is evident to us from numerous sources that companies, especially those with many real estate holdings, dedicate considerable staff resources, sometimes aided by site location consultants and/or incentives negotiators, to obtaining government assistance. We believe that such information figures into companies' tax planning and is closely recorded by those financial departments that generate GAAP-regulated reports. Indeed, one consultant long ago pitched its wares by suggesting to companies that they could turn their government relations departments into profit centers via government assistance. Recapitulating what a company has so obtained could not be burdensome.

On confidentiality, there are long-resolved disclosure precedents as well as stakeholder equity issues. As we have documented in 50-state "report card" studies since 2007, every state now has some degree of online assistance disclosure that names recipients and specifies the value of the assistance. We have found that about one third of big cities and counties already do so as well. Many of the state disclosures now include even corporate income tax credits, and of course property tax abatements, which are often the largest-dollar form of assistance, have always been in the public record at tax assessors' offices. Similarly, low-interest loans are public records at industrial development authorities, as are training grants at workforce investment boards.

There has never been any persuasive evidence of harm to any company's proprietary advantage resulting from such disclosures. As the leading national organization long advocating for and collecting records from such public-sector reporting, we would know if there had been.

Reporting Quality

As we were with GASB's Exposure Draft on Tax Abatement Disclosures, we are disappointed that FASB is not recommending that companies report future-year government assistance. Companies have such data and use them to plan, so why should shareholders and other stakeholders be denied access to them? Again, given all of our arguments about risk, these numbers are salient.

We note that the Exposure Draft does not specify how much disaggregation companies would have to provide. We recommend substantial detail, absolutely including local geographic specificity, and with dollar-specific values down to a specific threshold of perhaps \$5,000 or \$10,000.

We support the FASB's suggestion that the disclosure should include assistance from foreign governments. Within the European Union, for example, the assistance regimen is far more regulated and rational than it is in the United States, such that reporting it is certainly feasible.

As of Right and Other Assistance

We note that the FASB recommends excluding as-of-right assistance except when a firm has entered into "a legally enforceable agreement with a government to receive value." Here we note that what constitutes such a contract has been a source of ambiguity to us in seeking to interpret GASB's final wording in Statement No. 77. For the record, we will restate that it is common for government assistance to be enacted at the behest of a single company or group of companies, and that routine monitoring and performance standards built into such programs (e.g., "clawbacks" or "performance-based incentive" structures) make them legally enforceable.

We recommend against the FASB keeping its "impracticable" exclusion regarding any assistance not explicitly reflected in the financial statements (e.g. a loan guarantee).

Thank you for receiving our comment. We hope that the FASB's deliberations proceed productively and would be glad to answer any follow-up questions or provide supporting evidence for our assertions.

Sincerely,



Greg LeRoy
Executive Director