ACCOUNTING FOR CORPORATE GOVERNMENT ASSISTANCE

by

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ABSTRACT

This paper explores accounting for corporate government assistance, current attitudes toward disclosing such assistance, and the impacts of accounting for such assistance on companies' financial statements. Specifically, this study investigates the significance of accounting for corporate government assistance and its potential effects on companies' financial statements. The Financial Accounting Standards Board, the body that establishes financial accounting standards in the United States, recently issued a proposal on how to account for such assistance in the United States, suggesting that companies should be required to disclose information about the government assistance they receive. I analyze whether accounting for corporate government assistance affects the way that investors value a company, and I find that accounting for such assistance could change the way that investors value companies.

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INTRODUCTION

Many companies across the United States receive government assistance. All levels of government, from the federal level to the county and city level, provide financial assistance or benefits to companies to influence firm decisions (Story, Fehr, & Watkins, 2012). Called "corporate welfare" by its critics, corporate government assistance encompasses a wide range of transactions that are worth billions of dollars annually. According to a 2012 *New York Times* investigation, states, counties, and cities alone provide more than $80 billion a year in corporate assistance (Story, 2012). Government assistance – including grants, loans, free or discounted services, income tax credits, and property tax abatements – is widespread across the United States, influencing companies in most industries.

My thesis examines the issue of accounting for government assistance in companies' financial statements. The Financial Accounting Standard Board's (FASB) current technical agenda includes the topic of disclosures about government assistance. The inclusion or exclusion of government assistance in companies' financial statements affects comparability between not only different companies' statements, but also different fiscal years of operation of a company. On November 12, 2015, the FASB issued a proposal/exposure draft regarding how such assistance should be presented. My thesis examines examples of corporate government assistance and considers how such assistance might be treated in the financial statements by examining classification, recognition, and measurement. Specifically, I will study whether accounting for government assistance could change the way investors value companies. I then discuss what the FASB has issued, and how my findings could impact the Board's proposal and implementation decision.

LITERATURE REVIEW AND BACKGROUND

Some research has addressed government assistance in the scope of a welfare spectrum that encompasses both corporate and social welfare. Farnsworth (2013) discusses how corporate government assistance fits into a welfare state. He points out how politicians across the political spectrum worldwide oppose corporate government assistance, though for different reasons. Additionally, he breaks down total welfare spending in OECD countries along different welfare lines. Ruane (2013) points out that companies not only seek corporate government assistance, but that they also use it to "influence policy through their ability to make investment decisions and create jobs" (p. 24). This topic of companies using corporate government assistance to influence policy, in addition to such assistance being used to influence the companies, has become popular among politicians. Ralph Nader decries such assistance as "a function of political corruption" and "legalized bribery" (Nader, 2000, p.13).

Previous research addresses the difficulty of estimating the scope of corporate government assistance. According to Farnsworth (2013), this is due to both government attempts to hide corporate assistance information and lack of research by academics (2013, p. 5). In their testimony to Congress in 2000, economists Stephen Moore and Dean Stansel stated that "currently it is virtually impossible to keep an inventory of what companies are getting, how much, from how many agencies" (Farnsworth, 2012, p. 16). As Farnsworth (2012) points out, this is despite the United States being "one of the most open [countries] as corporate welfare declarations are concerned" (p. 16). The difficulty in discovering the scope of corporate government assistance is part of a broader lack of research, both academic and non-academic, on corporate government assistance. Despite the billions of dollars a year that it encompasses, researchers both inside and outside of the accounting field have largely ignored it. However, in

2012, an SEC report called the *Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for US Issuers* addressed the need for guidance for corporate government assistance (Financial Accounting Foundation, p. 1).

Despite the large scope of government assistance, few researchers and accountants have discussed its impact on companies' financial statements within the United States. Outside of the United States, the International Accounting Standards Board (IASB) has specific guidelines for recording government assistance, such as grants. Recently, in the United States, the Governmental Accounting Standards Board (GASB) ruled in favor of disclosing corporate tax abatements. While the FASB placed disclosures of corporate government assistance on its technical agenda, prompted by an SEC report, not all Board members are convinced that such disclosures are appropriate. Chairman Russell Golden has stated that though he thinks they would be beneficial, the disclosures would cause "a substantial increase in cost" for companies (Dymkowski, 2015, p. 1). In the following section, I explore definitions of corporate government assistance, provide examples of such assistance, describe possible ways of how to account for it, examine stakeholders' opinions on such assistance, discuss the FASB's exposure draft, and research stakeholders' reception to the exposure draft.

What is Corporate Government Assistance?

One of the first issues regarding corporate government assistance is what exactly it encompasses and how it is defined. Economists Stephen Moore and Dean Stansel of the Cato Institute define corporate government assistance as "special government subsidies or benefits that are targeted to specific industries or corporations." (Bennett, 2015, p.1; Moore & Stansel, 1996). In his exploration of corporate government assistance, termed "corporate welfare," within a welfare spectrum, Farnsworth (2013) describes corporate government assistance as "the various benefits and services that directly, or indirectly, meet the needs of businesses" (2013, p.5). This definition expands on Moore's and Stansel's (1996), which emphasizes how corporate government assistance functions to influence firm behavior.

The FASB, in its July 24, 2015 meeting, defined its scope of government assistance as any "legally enforceable agreement in which an entity receives value or benefit from the government" (p. 2). The November exposure draft confirms this definition, as any entity that receives assistance from the government (ASC 832-10-15-3). This scope excludes all transactions when the government is a customer – and is paying for benefits it has received – and situations when the government is obligated to provide assistance to the company. A government is obligated to provide such assistance when "an entity meets the applicable eligibility requirements that are broadly available without specific arrangement between the entity and the government" (ASC 832-10-15-4(a)). Because this paper provides recommendations about the FASB's proposal, I use the FASB's definition of corporate government assistance moving forward.

Types of Government Assistance in the United States

The FASB's scope of corporate government assistance encompasses a wide range of arrangements, such as property tax abatements, free or discounted services, and sales tax breaks. In contrast to the FASB's decision scope, which does not give specific examples, the International Accounting Standards Board (IASB) focuses primarily on grants, which can encompass both monetary grants and non-monetary grants. A grant, in the sense of how the IASB uses the term, is the equivalent of a subsidy, subvention, or premium (Monea, Monea, Cotlet, & Ravas, 2010, p. 2). Because this paper provides recommendations regarding financial reporting for corporate government assistance for American companies and compares these recommendations to what the FASB has published, I focus on examples of corporate government assistance in the United States.

Some forms of assistance in the United States are more prevalent than others. According to *The New York Times*, of the annual $80 billion given to companies by non-federal governments in the United States, "income tax breaks add up to $18 billion and sales tax relief around $52 billion" (Story, 2012). Each state, city, and municipality decides the amounts of assistance to provide, and in which forms. Therefore, looking across the US, states provide different types of assistance for different dollar amounts. The state of Texas provides the most government assistance in terms of dollars, while Alaska spends the most per capita, $991, followed by West Virginia, $845, and Nebraska, $763 (Story, Fehr, & Watkins, 2012). Vermont provides the majority of its aid in the form of sales tax refunds and other sales tax discounts or exemptions, while Indiana focuses primarily on corporate income tax reductions, rebates, or credits (Story, Fehr, & Watkins, 2012). The differences among states in terms of dollars spent and the primary forms of government assistance used highlight different governments' – city, county, and state – strategies to influence company decisions and to create economic growth.

How to Account for Corporate Government Assistance

Unlike the FASB, both the IASB, formerly the International Accounting Standards Committee (IASC), and the GASB have adopted reporting requirements for corporate government assistance. Due to the lack of formal guidance regarding corporate government assistance, companies using United States GAAP have turned to several sources of guidance, including *Accounting Standards Codification (ASC) 958, Not-for-Profit Entities*, *ASC 450 Contingencies*, and *IAS 20*, *Accounting for Government Grants and Disclosures of Government Assistance*, if they account for corporate government assistance at all (Financial Accounting

Foundation, p. 1). Developed by the IASB, International Financial Reporting Standards (IFRS) have been at least partially adopted by many countries around the world, including the European Union and many countries in the G20 (IFRS Foundation). The IASC issued guidance on how to account for corporate government assistance through International Accounting Standard (IAS) 20, and the IASB updated it in 2008 for it to comply with *IAS 39, Financial Instruments: Recognition and Measurement*. The GASB provides accounting standards for government entities in the United States. In August 2015, it released Statement 77 on Tax Abatement Disclosures. The following section discusses how I think corporate government assistance could be accounted for, an example of assistance, how two different standard setters account for it, and how two accounting firms suggested accounting for it before the FASB's involvement.

Corporate government assistance encompasses aid or benefits from the government, and I believe that if companies were to recognize such assistance on the face of the financial statements, they could classify the assistance on the balance sheet as an asset, liability, or combination of both. The FASB defines assets as "probable future economic benefits obtained […] as a result of past transactions or events" and liabilities as "probable future sacrifices of economic benefits arising from present obligations […] as a result of past transactions or events" (FASB, 2008, p. 2). While companies can receive free or discounted services, which meet the definition of probable future economic benefits, some, if not most, forms of assistance come with strings attached. Therefore, companies cannot classify such assistance exclusively as an asset. These strings, which the company must meet to obtain the government assistance, are a present obligation that will lead to "probable future sacrifices" (FASB, 2008, p. 2). If a company did recognize government assistance with strings attached on the face of its financial statements, it could classify the assistance as an asset, liability, or combination of the two, depending on how much of the requirements the firm has met.

As these asset and liability amounts change as the company either meets the requirements or does not, the changes should be reflected on the income statement as revenues and expenses. Revenues are “inflows or other enhancements of assets of an entity or settlements of its liabilities (or a combination of both)” from either performing services or delivering goods (FASB, 2008, p. 2). Expenses are “outflows or other using up of assets or incurrences of liabilities” (FASB, 2008 p. 2). Therefore, as the company either meets the requirements to receive the government assistance or does not, I believe that the changes in the asset and/or liability on the balance sheet could be reflected on the income statement as either a revenue or an expense.

A 2015 headline from the Fort Worth Star-Telegram reads: GE seeks changes in Fort Worth incentive package. While the Fort Worth GE location can receive property tax abatements up to 85%, the company must meet requirements set by the Fort Worth City Council (Baker, 2015). The Council requires that the GE plant employ a certain number of employees who live in Fort Worth. Once the firm meets these requirements, it can receive tax abatements. The assistance package that GE received contains an obligation: the obligation to employ a certain number of Fort Worth residents. This requirement to employ a certain number of citizens is a present obligation that the company must meet to receive its abatements. Therefore, were GE to recognize and measure this assistance on its financial statements, it would not be able to classify it exclusively as an asset. Because the abatements require the company to meet certain requirements, GE should also classify part of it as a liability, depending on how many Fort Worth residents it employs.

IAS 20 explains how to account for government assistance under IFRS. First considered in 1981 and effective beginning in 1984, IAS 20 applies to most government grants and forms of government assistance. Interestingly, it does not apply to government agricultural grants (IAS 20.2). Instead, these grants fall under *IAS 41, Agriculture*. Under IFRS, some government loans fall under corporate government assistance, such as forgivable loans when the company receiving the loan will most likely meet the forgiveness terms and government loans that are issued below the market rate (IAS 20.10). Unlike the potential scope of the FASB's decision, IAS 20 provides guidance on not only how to disclose assistance, but also on how to account for it on the balance sheet. IFRS allows companies two options to account for government assistance, the capital approach and the income approach. Under the capital approach, the company recognizes a government grant "outside profit or loss," while under the income approach, the company recognizes the grant as part of profit or loss over a span of at least one period (IAS 20.13). The time period that the grant is recognized is whenever the company expenses related costs (IAS 20.12).

Those in support of the capital approach argue that government grants should not be part of a company's profit or loss, because the firm does not have to repay such grants. These grants are seen as a "financing device," so they belong on the balance sheet and not the income statement (IAS 20.13). Additionally, these grants are not earned. Those in favor of the income approach believe that government grants should be recognized as profit or loss, and not as equity, because companies receive these grants from the government, and not shareholders. While followers of the capital approach believe that government grants are unearned, supporters of the income approach point out that firms usually have to meet certain conditions to receive grants. Because the firm will have related costs to meeting the conditions to receive the grant, supporters argue, these grants should be accounted for on the income statement.

IAS 20 also explains how to account for non-monetary government assistance, such as discounted resources or land, and it refers to such assistance as non-monetary government grants. Both the asset received and the grant are put on the books at the asset's fair value (IAS 20.23). In addition to assistance being placed on the balance sheet, IFRS also requires companies to disclose the accounting policy for each grant, all types of government assistance the company has received, and conditions related to the assistance (IAS 20.39).

Narrower in scope, GASB No. 77 focuses on accounting for a specific type of corporate government assistance, property tax abatements. Not applicable to public companies in the US, the GASB's decision applies to all non-federal government bodies. While IAS 20 requires both the disclosure and the recognition of amounts on the balance sheet, GASB 77 focuses exclusively on disclosures. Required disclosures include the amount of the tax abatement, additional conditions or commitments made by the government, and descriptive information (GASB 77-7). The objectives of GASB 77 are to assist users in assessing whether current year revenues exceed current year expenditures, if there is compliance with laws and contracts, how that government obtains and uses its financial resources, and how that government's financial position has changed (GASB, p. 1). These objectives differ slightly from the FASB's objectives for its upcoming decision, because they do not specifically mention recognition of the future effects of government assistance. This standard further differs from the FASB's proposal, because it focuses on entities offering the government assistance, not receiving it. Instead of requiring recipients of government assistance to disclose information, GASB No. 77 looks at the other side of the transaction and requires the governments offering the property tax abatements to disclose it.

Though the FASB has not yet issued any formal decision regarding how to account for corporate government assistance, Ernst and Young (EY) included information regarding how to account for it in a 2010 accounting update. It acknowledges that some companies are already recording corporate government assistance in their financial statements by stating that "entities must carefully assess the requirements of the particular programs under which they receive assistance" (p.1). Far from being comprehensive, this bulletin update discusses only how to account for investment tax credits and grants. To account for tax credits, EY instructs firms to follow *ASC 740, Income Taxes*, specifically the guidance on investment tax credits. To account for government grants, EY refers to IAS 20, mentioned above.

Similar to EY, PricewaterhouseCoopers (PwC) also issued a publication on how to account for corporate government assistance, specifically government grants. In response to the American Recovery and Reinvestment Act of 2009 (ARRA), a $787 billion stimulus package, this document details how to account for grants in the utilities sector. This publication (2009) emphasizes that recipients of the stimulus package must comply with a variety of existing government regulations regarding topics such as labor distribution, materials management, and contract/subcontract administration (PwC, p.8). Additionally, certain government grants may require companies to follow other laws, such as the Buy American Act and the False Claims Act. Just as the EY document refers to IAS 20, so does this publication. It discusses how there are several ways to account for grants: a reduction of costs, a deferred credit that is amortized over the period of the grant or the life of the asset, revenue, or other income (PwC, 2009). Alternatively, firms could classify the grants as revenue, provided that all four criteria of revenue recognition are met with the grant. This occurs when the amount of the grant is fixed, the obligation required by the grant has been fulfilled by the company, collectability is reasonably assured, and there is evidence that an arrangement exists (PwC, 2009). The document then details specific tax treatments under new requirements given by ARRA.

Stakeholders' Opinions

The FASB's decision regarding the disclosure of corporate government assistance will indirectly or direct affect politicians, investors, and companies. All of these stakeholders will likely attempt to influence the FASB's decision in ways that benefit themselves. As shown in the Board's meeting minutes, the FASB already narrowed the scope of its decision even before it issued the exposure draft. For example, in its August 6th meeting, the Board decided not to include any quantitative information regarding future periods based on "predictions, forecasts, or other similar assertions about uncertain or unknown future events that are beyond management's control," despite its objectives that the proposal should enhance users' ability to assess the "assistance that has not been recognized in the financial statements but may have an effect on the financial statements in future periods." The following section explores the political environment and stakeholders' opinions on assistance. It also details the opinions of some of the FASB's advisory committees, which both help the FASB with its technical agenda and advise it on possible new items to add to the agenda.

Governors and mayors. Decried by the Federal Reserve Bank of Minneapolis as the "economic war among the states," the phenomenon of companies relocating due to government assistance occurs across the country, in all fifty states and hundreds of cities, as governments try to bolster economic development through job creation (Rolnick & Burstein, 1995, p. 1). Though on the surface beneficial to that community where jobs are created, the bidding war between governments to attract economic investment can also hurt the community. Governments struggling with funding infrastructure, schools, and pensions can exacerbate these problems by agreeing to provide such incentives as property tax abatements to companies and thereby reducing the tax base. Additionally, the Lincoln Institute of Land Policy, a policy think tank, found that there is "little evidence that these tax incentives are an effective instrument to promote economic development," yet city and state governments are losing "$5 to $10 billion each year in foregone revenue" (Lincoln Institute of Land Policy, 2012, p.2).

Economists Michael Hicks and Michael LaFaive (2011) conducted a study on tax credits that the state of Michigan offered from 1995 to 2002, which found "little, if any, benefit accruing" to those areas that offered the tax credits to companies, and what jobs were created by the tax credits tended to be transient (p. 11). Additionally, another study found that though in the short run communities must bid against one another to attract economic development, this development is temporary in the long run, as companies choose to move based on incentives in the future (Vogel, 2000). This reflects the idea that, at times, this bidding war can be similar to a zero-sum game. The jobs that are created when a company moves locations are often lost in the community where that company is leaving. Toyota is creating about 4,000 jobs when it moves to North Texas, but it will impact thousands of its current workers in California, Kentucky, and New York (Vogel, 2000). The following section briefly describes Toyota's move to Texas and illustrates the trend of governments attracting companies to their states or cities.

Toyota. A 2014 headline in the Fort Worth Star-Telegram details how car-maker Toyota will move its United States headquarters to Plano, Texas. Former Texas governor Rick Perry trumpets this move as a success to his campaign that focused on enticing California businesses to the Lone Star state. In return for creating jobs and investing in Plano, Texas, through the Texas

Enterprise Fund, an "incentive tool" to woo businesses to Texas, will give Toyota $40 million, or $10,000 for each of the expected 4,000 jobs that will be created (Office of the Governor, 2014; Duss, 2014). This move reflects the trend of governments enticing companies to expand to or relocate to that state or city and create jobs in that community.

Other politicians. Though many governors and mayors are in favor of using corporate government assistance to influence companies' behavior, other politicians have differing opinions. Farnsworth (2013) points out that both "the radical Left and Right are relatively united in opposing" corporate government assistance, though for different reasons (p. 6). From the Koch brothers to Ralph Nader, many politicians have called for ending corporate government assistance, with Nader calling it "legalized bribery" and the "hijacking of local democracy" (Nader, 2000, p. 13-22). However, the issue of corporate government assistance is more complex, especially when companies donate to politicians' campaigns here in the United States.

FASB advisory committees. The FASB has several advisory committees, and this paper describes the findings of the Financial Accounting Standards Advisory Council and the Private Company Council. The Financial Accounting Standards Advisory Council (FASAC) advises the FASB on topics on the Board's technical agenda. In its March 28, 2013 meeting handout, it discusses the specific types of corporate government assistance that the FASB should include in its discussion of corporate government assistance: grants related to assets or capital projects, payments for expenditures, low-interest and interest-free loans, bond guarantees, emissions trading schemes, revenue subsidies, insurance, and tax assistance. The publication points out that American firms currently apply a variety of guidance to account for government assistance, such as IAS 20, *ASC 450, Contingencies*, and *ASC 958, Not-for-Profit Entities* (p.18). In the further discussion section, the document states that "the FASB staff has not been able to determine an approximate number of reporting entities that receive a material amount of government assistance" (FASAC, 2013, p.19). This statement by the committee is interesting, since there is an online database called Good Jobs First (www.goodjobsfirst.org) which provides information on corporate government assistance for numerous American and international companies. Companies such as Alcoa, Boeing, Nike, and Intel, among others, have received billions of dollars in government subsidies (Mattera, Tarczynska, & LeRoy, 2013). Additionally, as referenced in the FASB's exposure draft published at the end of 2015, *The New York Times* also has a database of corporate government assistance. The FASAC's publication also refers to a *New York Times* article about government assistance that is referenced in this paper, though not the database. It states that "a full accounting" for government assistance may not be possible due to the complexity of issuing such assistance, since thousands of agencies offer corporate government assistance (FASAC, 2013, p. 19; Story, 2012).

The Private Company Council (PCC) serves as an advisory committee to the FASB regarding items on the technical agenda that apply to private companies, and works with the FASB on United States GAAP for private companies. Its purpose is to represent private companies' voices in the FASB decision making process. According to the minutes of their July 21st meeting, some members of the council are concerned that disclosures of corporate government assistance could force companies to disclose sensitive information, though much of the information regarding this assistance is publicly available (p.8). Though in its meeting minutes the PCC states that it supports the disclosure of "general terms," of corporate government assistance, a handful members believe that disaggregating amounts or calculating future values would be too costly for some firms (p.9). The FASB's recent exposure document (2015) addresses the PCC's concerns and emphasizes that the proposed accounting update would benefit private companies by providing increased transparency and additional information to users of their financial statements. It also recognizes the internal disagreement between members, with some members of the PCC "strongly support[ing]" the proposed changes, and others opposing it (22).

FASB Exposure Draft

The FASB issued an exposure draft regarding the proposed accounting update to corporate government assistance accounting in late 2015. This document formally lists the purpose of the proposed accounting rules, which is to increase transparency in: the types of arrangements, the accounting of such arrangements, and the effects of these arrangements on companies' financial statements (Financial Accounting Standards Board, 2015, p. 1). According to the FASB, the increased transparency would help users assess the types of government assistance an entity receives and enforceable conditions of the assistance. Required company disclosures would include information about the assistance, the line items on the financial statements affected by the assistance, contingencies and commitments that some of the assistance requires, and how much assistance a firm receives but does not recognize in the financial statements directly (Financial Accounting Standards Board, 2015, p. 2). The proposed accounting standards for government assistance would align with IFRS' existing standard on government assistance: IAS 20 (Accounting for Government Grants and Disclosure of Government Assistance). IAS 20 goes beyond the FASB's proposed updates, which do not discuss recognition and measurement of government assistance. In late 2015 and early 2016 the FASB allowed stakeholders to respond to the proposed accounting update to account for government assistance. Questions included asking stakeholders how such disclosures would affect confidentiality and competitive advantage, the scope of the update, and the required disclosures.

The FASB addresses the high costs that the new accounting standard would impose on many firms, who would have to aggregate information regarding government assistance (Financial Accounting Standards Board, 2015, p. 23). The Board states that the benefits of the disclosures would outweigh the costs, since the disclosures would inform “present and potential investors, creditors, donors, and other capital market participants,” while only current investors would bear the costs (Financial Accounting Standards Board, 2015, p. 23). Additionally, some firms have already implemented systems to track and aggregate government assistance, which will lead to lower costs (Financial Accounting Standards Board, 2015, p. 23).

The Chairman of the FASB, Russell Golden, expressed reservations regarding the proposals in the exposure document. Though he supports the objectives of the proposals, he thinks that the required disclosures could be too expensive for firms. He points out that specific types of assistance, such as loan guarantees and low interest rate loans, would require firms to introduce costly new procedures (Financial Accounting Standards Board, 2015, p. 24). Contrary to the overall Board’s belief stated above that the benefits would outweigh the costs, he believes the opposite will be true.

Accounting Firms’ Initial Reception to the Exposure Draft

After the release of the topic exposure draft on November 12, 2015, several accounting firms issued updates to their clients, informing them of the impending FASB decision. PwC’s accounting brief (2015) states that the FASB decision is important, because “the arrangements potentially subject to the guidance cover a broad range of activities” (p. 2). It also raises the concerns that the required disclosures could affect confidential information and that it will be hard to identify all arrangements in which firms have contracts with government entities (PricewaterhouseCoopers, 2015, p. 2). KPMG's publication (2015) also addresses the difficulty companies would have in fully quantifying the amount of benefits received and that are not already included on the financial statements. Additionally, it points out that firms may have to create new controls and systems to aggregate such data (KPMG, 2015, p. 4). Firms further expressed their opinions and views regarding the proposal on corporate government assistance in comment letters written to the FASB, which are discussed below.

Comment Letters on the Exposure Draft

After the release of the exposure draft, the FASB opened a 90-day window for stakeholders to submit comment letters regarding the proposal on corporate government assistance, ending February 10, 2016. Forty organizations and individuals submitted letters regarding the FASB's proposal of increased disclosures of government assistance. These commenters ranged from major accounting firms to Fortune 500 companies to concerned American citizens. Though diverse in origination, most comment letters oppose or critique the FASB's proposal to increase transparency regarding corporate government assistance. Of the 40 letters, only two are completely supportive of the proposal.

The big four. Though KPMG, EY, PwC, and Deloitte applaud the FASB's efforts to increase transparency, each firm opposes aspects of the FASB's proposal (KPMG LLP, 2016; Ernst and Young LLP, 2016; PricewaterhouseCoopers LLP, 2016; Deloitte and Touche LLP, 2016). All of the Big 4 accounting firms believe that the proposal is too broad, and Deloitte also thinks the FASB should go beyond just disclosure of corporate assistance and elaborate on recognition and measurement of such assistance (Deloitte and Touche LLP, 2016).

EY's letter states that though it supports the FASB's address of accounting for corporate government assistance, it disagrees with the Board's proposed scope. The letter proposes that instead of making such broad and sweeping proposals – which could increase diversity instead of reduce it – the FASB should significantly narrow its scope. Additionally, it suggests the alternative of having the Emerging Issues Task Force lead the project and "clearly define the scope of and develop recognition and measurement guidance for government grants" (Ernt and Young LLP, 2016, p. 1). Interestingly, this alternative route that EY proposes focuses only on government grants. Though grants do make up a large percentage of corporate government assistance, and are the focus of IAS 20, EY's suggestion ignores other aspects of government assistance such as low cost loans, property tax abatements, and free or discounted services. As one of only two firms that had previously published suggestions on how to account for corporate government assistance, EY references its 2010 accounting update (see discussion above) to bolster its argument against the scope of the proposal. The letter states that the broad scope of the proposal would overlap with existing FASB guidance, including *ASC 740, Income Taxes* and *ASC 470, Debt*. Interestingly, EY believes that it is "unclear how users [of financial statements] would benefit from the proposed disclosure requirements" (Ernst and Young LLP, 2016, p. 6).

While EY opposes the scope of the FASB's proposal and suggests narrowing it, Deloitte encourages the Board to move beyond just disclosure, and look into both recognition and measurement (Deloitte and Touche LLP, 2016, p. 1**)**. Were the Board unable to expand the scope to recognition and measurement, Deloitte, like EY, PwC, and KPMG, believes that the proposed disclosure requirements "go beyond what is necessary to achieve the Board's objective" (Deloitte and Touche LLP, 2016, p. 2). The firm further critiques the proposal by pointing out that the proposed standard does not clearly define how companies could quantitatively account for "value received" from government assistance.

All of the firms expressed concerns regarding the cost of aggregating and disclosing information. They argue that the proposal should be better aligned with IAS 20 (see above); this is interesting, since IAS 20 goes beyond what the FASB's proposal would require, since it addresses not only disclosure, but also recognition and measurement of government assistance. While the firms suggest that the FASB's proposal is too broad, they advocate for alignment with a policy that would require even great disclosure. The firms' opposition to the FASB's proposal is a steep hurdle that threatens the proposed standard to increase transparency.

Companies. Companies expressed their opinions on the proposal either directly or through organizations that represent them. Like the comment letters of the Big 4, these letters are critical of the proposal, especially the cost of implementation, the broad scope which would potentially lead to increased diversity in disclosure, and the publication of companies' confidential information. Companies cited a variety of reasons of why they oppose the proposal draft. However, some of these reasons conflict with one another. They say that they are already accounting for government assistance using existing guidance, yet they also say that it is too difficult and costly to track such assistance.

Not surprisingly, some of the harshest critics of the proposal are companies that have received massive amounts of government assistance in the past few years. Ford Motor Company has received over $4 billion from state, local, and federal governments (Good Jobs First, 2016). This total excludes the $28 billion bailout assistance it received in over 160 different instances (Good Jobs First, 2016). Though the FASB's proposal does not cover the $28 billion bailout assistance, the $4 billion would fall under its proposed scope. While Ford provides several objections against the proposal – it is too broad, too costly to implement, and would disclose confidential information to competitors – it does not mention one that immediately comes to mind after viewing the 337 different forms of government assistance the car company has received since 1992: it does not want to publicize the large amount of aid –outside of the bailouts that angered so many Americans – that it has received (Callahan, 2016, p. 1-2; Good Jobs First, 2016). According to Good Jobs First, Ford has received the fifth largest amount of total corporate government assistance from the United States, excluding its bailout aid. Though Ford's objection that the exposure draft would lead to the publication of confidential information, such as deals between it and governments, which could anger many Americans, according to the FASB, the benefits of requiring such disclosure, including increased transparency, outweigh this cost.

Other companies that submitted comment letters were IBM, General Motors, Northrop Grumman, Eli Lilley, Wells Fargo, and AT&T. Out of thousands of companies in the United States, the handful of firms that submitted comment letters directly in their own names, and not under an umbrella organization, have received billions of dollars of government assistance. Combined, these firms have received over $8.9 billion in government assistance in the past few decades (Good Jobs First, 2016). This total excludes the over $380 billion that these same companies have received in bailout assistance (Good Jobs First, 2016). Their opposition stems not only from the reasons they give in their letters, which the accounting firms and Ford mention above, but also perhaps because they do not want to publicize the large amounts of aid they are receiving in both dollar totals and the large number of forms of assistance: these companies have benefitted from over 1,600 individual grants, loans, tax benefits, and other forms of assistance.

Three umbrella organizations representing companies that submitted letters were the American Bankers Association, National Rural Electric Cooperative Association, and the Silicon Valley Tax Directors Group. Combined, these organizations represent hundreds of companies in different industries. All of these organizations raise similar objections to those mentioned above: overlap with existing guidance, costly implementation, and an incorrect scope that would not increase transparency and would increase diversity. The letters also point out industry-specific issues with the proposal.

For example, the American Bankers Association discusses concerns regarding privately-negotiated municipal bonds, tax-advantaged investments, government loan guarantees, and business with government sponsored enterprises, while the National Rural Electric Cooperative Association raises the issues of the loans that many of the companies it represents receive from the Department of the Treasury and the Department of Agriculture (Wasson, 2016; Gullette, 2016). The number and variety of industry-specific concerns that these letters raise show that disclosures of government assistance across industries could be difficult. While many comment letters criticize the FASB's scope as too broad, which could lead to too much diversity in disclosure – which is already an issue the Board is seeking to address – this broad approach could make it easier for the proposal to apply to all industries, instead of specific ones.

Investors. Though one of the primary groups that this proposal would benefit, investors had mixed reactions to the accounting for government assistance exposure draft. The Global Financial Institutions Accounting Committee of the Securities Industry and Financial Markets Association (SIFMA) raises the concerns that other stakeholders discuss: the scope of the proposal is too broad and implementation of the proposal would be too costly (Bridges, 2016). Additionally, the committee believes that the proposal would not "better align US generally accepted accounting principles with International Financial Reporting Standards" and questions whether the proposal would truly benefit users of financial statements (Bridges, 2016, p. 1). The latter objection to the proposal is especially damaging to the FASB, since the members of SIFMA – banks, asset management companies, and securities firms – make up a significant amount of users of financial statements and are one of the groups that this proposal intends to help. However, perhaps the SIFMA committee raises these objections not as users of financial statements, but instead as preparers. These banks, asset management companies, and security firms prepare financial statements in addition to using them. The objections that SIFMA raises are similar to those of the companies – preparers of financial statements – mentioned above. If the committee submitted its letter from the viewpoint of preparers, then perhaps investors' opinions on the proposals are not as mixed as they initially appear.

Though SIFMA raises several objections to the proposal, R.G. Associates, Inc., an investment research and management firm, praises the FABS's proposal, stating that the exposure draft's "proposed disclosures are a worthwhile first step in bringing" information regarding government assistance to light, since "information about the amount, nature, and timing of governmental assistance is sparse and inconsistent" (Ciesielski, 2016, p. 1). This letter points out one of the key benefits of disclosing corporate government assistance: "investor expectations may be more accurately framed if this information is provided by all entities in a consistent manner" (Ciesielski, 2016, 1). Though most of the comment letters the FASB received criticize the proposal as too broad, leading to too much diversity – and inconsistency – in disclosure, the proposal draft is a "good start" in confronting that issue (Ciesielski, 2016, p. 1). Contrary to other comment letters, R.G. Associate's specifically states that it agrees with the scope of the proposal, should encompass government assistance already encompassed in existing codification, specifically *Topic 740, Income Taxes*, and would increase transparency (Ciesielski, 2016).

Other letters. In addition to letters sent by public accounting firms, companies, and investors, the Board also received letters from trade organizations, accounting societies, and others. The trade organizations that submitted a comment letter question the necessity of the FASB's proposal. The U.S. Chamber of Commerce, the Real Estate Roundtable, the Clearinghouse, and the National Association of Manufacturers do not understand what the point of the proposal is, stating that "it is unclear what issues FASB is seeking to resolve, what investor is being promoted, and with whom FASB consulted in developing the proposal" (U.S. Chamber of Commerce, 2016, p. 3). The accounting societies were more positive of the proposal, with the Virginia Society of Certified Public Accountants stating that they "support the Board's efforts to improve transparency about government assistance" and that the "proposed required disclosures should allow for more useful information for the analysis of an entity's financial results and future cash flows by users of financial statements" (Valadez, 2016, p. 3). However, accountants' letters also raised the same concerns mentioned above: scope of the proposal, cost of implementation, and complexity. The American Institute of CPAs Private Companies Practice Section suggests that qualitative disclosures, instead of both qualitative and quantitative disclosures, would be more cost effective and just as beneficial to users of financial statements (Westervelt, 2016, p. 6).

The group Good Jobs First submitted a belated comment letter in the middle of March. This group, which promotes accountability, tracks government assistance for hundreds of companies across the United States, and is the data source for the study below, applauds the FASB's efforts to bring corporate government assistance to light (LeRoy, 2016). Furthermore, its letter states that Good Jobs First supports the FASB's "inclusive definition of government assistance," along with its "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" (LeRoy, 2016, p. 3). The letter also contradicts objections to the proposal that other comment letters raised about burden and confidentiality. It points out that the required disclosures would not be burdensome, since companies already track government assistance and use it as a factor in planning, and that many government already provide disclosures about the government assistance they offer, along with its recipients (LeRoy, 2016). Good Jobs First, a national policy resource center with five employees, keeps track of and aggregates corporate government assistance data for hundreds of companies across the U.S.

Most comment letters to the FASB raised similar objectives to the exposure draft and its goals of increasing transparency regarding companies that benefit government assistance, decreasing diversity about how to account for such assistance, and better aligning U.S. GAAP with IFRS. Letter consistently criticize that the scope of the proposal is too broad and overlaps with existing accounting guidance, the proposal would increase diversity instead of decreasing it, and the proposal would not align U.S. accounting with IFRS. These across-the-board critiques pose challenges to the FASB's proposal and the likelihood that decisive guidance regarding corporate government assistance will be published

Summary

The above section defined corporate government assistance, explored stakeholders' opinions and the political environment, discussed current accounting standards by accounting standard-setting organizations other than the FASB, and researched the exposure draft and its reception. The following section explores whether disclosures of government assistance are necessary to investors.

DATA COLLECTION AND METHODOLOGY

Research Question and Hypothesis

To investigate whether corporate government assistance is significant on the financial statements and could influence the decisions of investors, this study looks to answer the question: Will accounting for corporate government assistance change the way investors value a company? My alternative hypothesis is that there is a change in how investors value a company when that company accounts for corporate government assistance on the financial statements.

Methodology

I use the fundamental accounting equation that assets equal liabilities plus owners' equity. This equation is an identity, true by definition. Rearranged and transformed to measurement at market values, this equation states that the market value of equity equals the market value of assets less the market value of liabilities:

$$MV_{Equity} = MV_{Assets} - MV_{Liabilities}$$

where the market value of equity, the firm's market capitalization, should equal the assets and liabilities on a firm's financial statements. In my study, I assume that there is a mismeasurement of the book value of companies' assets and liabilities, and that these amounts are not market value because they do not include any government assistance. Therefore, to convert these book values of assets and liabilities into market values, I add a corporate government assistance amount in the equation. My assumption that the book values of assets and liabilities are incorrectly measured raises the issue that perhaps the book values exclude other amounts or pieces of information, in addition to corporate government assistance. Because I am not aware of these other amounts or information, I exclude these from my analysis. However, the exclusion of such information could impact the results of my regressions. In my study, market capitalization is the dependent variable, while assets, liabilities, beta, and government assistance are the independent variables. I include beta as a dependent variable as a measure of a company's risk. I do not break down government assistance into assets and liabilities; instead, I analyze it as a net asset.

I collected company-specific data for corporate government assistance, including annual totals, from Good Jobs First, a policy center that promotes "corporate and government accountability in economic development and smart growth for working families" (Good Jobs First, 2016, p.1). With a database of hundreds, if not thousands, of companies, Good Jobs First is a better data source than the database created by the *New York Times* to document government assistance. While the *Times* provides excellent state-aggregated data and information on the largest corporate recipients of government assistance, it does not have such comprehensive information for individual companies, especially smaller ones.

I used several factors to select companies for my study. First, I created three categories to divide companies by size; small companies had a market capitalization of less than $2 billion as of January 2016, mid-sized companies have market capitalizations between $2 billion and $10 billion, and large companies have market capitalizations greater than $10 billion. I further divided companies by GICS sector. I collected at least three companies per GICS sector, trying to incorporate as many industry groups as possible. By dividing the data by size and by GICS sector and industry, I tried to incorporate as many different types of companies as possible in my analysis.

I collected data for approximately forty companies that file their financial statements in the United States. I used Bloomberg to collect the market capitalization, book value of assets, book value of liabilities, and beta for each company from 1996 to 2015. I included beta as a measure of risk, because it measures the volatility of a company's stock compared to an entire market. The market I used was the Russell 3000, which incorporates the 3000 largest American stocks, since I include American companies of various sizes in my study. There were slight differences in a handful of numbers collected from Bloomberg and what should have been the same numbers that collected from companies' financial statements on the SEC's database of companies' filings, EDGAR. Though much of the data does not differ between the two sources, there are significant differences in total assets and/or total liabilities for NiSource, Telephone and Data Systems, and Sempra Energy. These significant differences are shown in Tables 1 and 2. I ran both of my regressions with and without these companies. The inclusion of these companies did not affect my results.

Table 1

Company	Ticker	Assets (EDGAR)	Assets (Bloomberg)	Difference	% Difference
Telephone and Data Systems	TDS	$2,667,276	$8,854,422	($6,187,146)	-70%
Sempra Energy	SRE	$17,423,000	$39,732,000	($22,309,000)	-56%

Table 2

Company	Ticker	Liabilities (EDGAR)	Liabilities (Bloomberg)	Difference	% Difference
NiSource	NI	$10,535,100	$18,691,000	($8,155,900)	-44%
Telephone and Data Systems	TDS	$433,502	$4,398,261	($3,964,759)	-90%
Sempra Energy	SRE	$6,097,000	$27,632,000	($21,535,000)	-78%

I conducted two studies: a levels regression and a differences regression. In the levels regression, I looked at the market capitalization, assets, liabilities, beta, and corporate government assistance for 33 companies for their fiscal 2014. In the differences regression, I looked at the change in market capitalization, along with the changes in assets, liabilities, and market capitalizations for 32 companies from 2000 to 2015. I included a differences regression in my study to control for potential correlated omitted variables in my levels regression, which could skew my results.

RESULTS

I looked at the p-value of the corporate government assistance variable to interpret my results on whether recognizing and measuring corporate government assistance will impact the valuation of a company. In a regression, the p-value determines statistical significance.

Levels Regression

In my levels regression, I found that corporate government assistance is not significant, since its p-value was greater than 0.1. This means that corporate government assistance may not impact the way investors value a company. However, there may be other causes of this result: I may not have collected enough data, since I looked at only 33 companies. My test could have been insufficiently precise. Perhaps, the relationship between the valuation of a company and its corporate government assistance is not linear. Or, investors could be ignoring corporate government assistance altogether. Another possibility is that firms are already accounting for government assistance in their financials, since one of their objections to the new proposal is that they are already accounting for such assistance using a patchwork of existing guidance. However, the firms' objections that tracking government assistance is too costly suggests that firms are not already accounting for such assistance, since they claim that they are not tracking it. Tables 3 and 4 show my results.

Table 3

Regression Statistics	
R Square	0.69
Adjusted R Square	0.65
Observations	33

Table 4

	Coefficients	t Statistic	P-value
Intercept	32822490.364	1.762	0.089
Assets	1.686	3.203	0.003
Liabilities	-1.752	-3.030	0.005
Beta	-19092261.928	-1.330	0.194
Government Assistance	25.402	1.276	0.212

Differences Regression

My differences regression found the change in corporate government assistance to be significant, with a p-value of 0.03. This means that accounting for corporate government assistance could change the way investors value a company. If investors were already incorporating measurements of corporate government assistance into their valuations of companies, then my study would have found nothing. However, because my study found that the change in corporate government assistance is significant, then it is possible that investors are not including these amounts in their analysis. The exclusion of corporate government assistance could be due to several reasons, such as investors not understanding the information or that it is too costly to obtain such information. These findings further suggest that markets are inefficient; the stock prices of the companies I studied do not reflect all available information. Because the change in corporate government assistance variable is significant, I can reject my null hypothesis in this instance. Again, this result could have been influenced by the small sample size I collected or by an insufficiently precise regression. I believe that difference in my results in both regressions is due to correlated omitted variables. Tables 5 and 6 show my results.

Table 5

Regression Statistics	
R Square	0.10
Adjusted R Square	0.09
Observations	370

Table 6

	Coefficients	t Statistic	P-value
Intercept	572555.416	0.705	0.481
Change in Assets	0.707	5.768	0.000
Change in Liabilities	-0.753	-5.616	0.000
Change in Government Assistance	2.025	2.187	0.029
Change in Beta	-149844.085	-0.148	0.882

CONCLUSION AND IMPLICATIONS

While my two regressions had mixed results, they are an encouraging first step in determining whether corporate government assistance should be measured and recognized on the face of companies' financial statements. My differences regression shows that corporate government assistance could impact the way investors value a company, and this conclusion has implications for the FASB's upcoming decision on corporate government assistance.

The FASB has entered its "exposure draft redeliberations process." The Board will take into account all of the comment letters it has received and will consider revisions to its proposal. The unedited proposal only considers requiring companies to disclose corporate government assistance, not recognize and measure it on the face of the financial statements. While many companies oppose even disclosing information on the corporate government assistance they receive, my study suggests that the Board should go further than requiring just firm disclosures, though further research is necessary due to my limited scope. The Board is caught between two forces: companies that do not want to disclose or recognize the assistance they receive and investors who could use the information about government assistance to better and more accurately value a company.

Already, the Board has shown that it considers companies' objections to be important. The initial exposure draft only looks at the disclosure of government assistance, and ignores the possibility of requiring recognition and measurement. Though the opinions of companies are important, the Board should also consider the need investors have of such information. If markets are inefficient, then disclosures of corporate government assistance could help investors more accurately value companies. Furthermore, the Board should examine the credibility of each stakeholder's opinion. Companies may be some of the loudest opponents to the proposal, but they are also some of the least credible. They provide contradictory reasons of why they oppose the proposal: it is unnecessary, because they already account for assistance, and it is too expensive to follow, because it is hard to keep track of assistance. Yet if it is too difficult and costly to track government assistance, then how are these firms accounting for it already, like they claim? My study bolsters the opinion of investors that companies should discuss the impacts of corporate government assistance they receive and suggests that the Board should go further than just requiring disclosures.

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