NRECA
America's Electric Cooperatives

September 8, 2022

Elizabeth Gagnon
Financial Accounting Standards Board
Supervising Project Manager
eagagnon@fasb.org

re: Accounting for Government Grants – Invitation to Comment

Dear Ms. Gagnon:

The National Rural Electric Cooperative Association is the national trade association representing nearly 900 electric cooperatives and other rural electric utilities. America's electric cooperatives are owned by the people that they serve and comprise a unique sector of the electric industry. From growing regions to remote farming communities, electric cooperatives power 1 in 8 Americans and serve as engines of economic development for 42 million Americans across 56 percent of the nation's landscape. Electric cooperatives supply electricity to approximately 92% of all persistent poverty counties in the United States.

Government Grants are Important to Electric Cooperatives

Government grants have long been and will continue to be an important part of electric cooperative operations. The vast majority of government grants in our industry are to support assets used in providing electric or broadband service. It is a fundamental element of electric utility ratemaking that the utility should not charge its customers for costs which it did not incur. This principle also applies to electric cooperatives – we cannot charge our members for any portion of an asset which was not an incurred cost to the cooperative. As a result, we have historically netted the value of a government grant against the asset for which it was intended. In this manner, the net asset value is used in the computation of depreciation which is part of an electric cooperatives cost of service and embedded in the rate that it charges its members.

IAS 20 Is Particularly Helpful Except for the Prescribed Approach to Accounting for Government Loans with Below Market Interest Rates

IAS 20 ***Accounting for Government Grants and Disclosure of Government Assistance*** provides that grants that are for the purpose of reimbursement of expenses or losses incurred in the current or prior periods or for immediate financial support of the entity should be recognized in profit or loss over the periods related to expenses for which the grant is intended to compensate or when the entity becomes qualified to receive a grant for immediate financial support. Additionally, IAS 20 provides that a grant relating to assets may be presented in one of two ways: as deferred income to be recognized over the life of the underlying asset, or by deducting the grant from the asset's carrying amount. We urge the FASB to retain this treatment for grants related to assets in any future accounting standard.

Government Loans with Below Market Interest Rates

We urge the FASB to avoid the IAS 20 conclusion that a below market interest rate on a loan is a government grant. Under IAS 20, the difference between the initial carrying value of the loan determined in accordance with **IFRS 9 *Financial Instruments*** and the proceeds received is recognized as a government grant. Under IFRS 9, financial liabilities held at amortized cost are initially recognized at fair value less transaction costs and are thereafter carried at amortized cost using the effective interest method.

Approximately 480 of our members borrow for construction projects from the Rural Utilities Service (RUS) which is part of the U.S. Department of Agriculture. As a result, they have access to loans at below market rates. We use the term "borrow from RUS" in a colloquial manner. RUS serves as guarantor for the vast majority of its loans which originate at the Treasury Department or the Federal Financing Bank. RUS holds its loans to maturity and has no ability to trade them. There is no primary or secondary market for RUS loans. RUS loan covenants are debt related metrics which assume that interest expense on long-term debt is based on the terms and conditions of the loan contract. Some electric cooperatives may have a large number individual loans with each loan subject to multiple draws over an extended period of time. Under these circumstances, having to determine the fair market value of each loan would be exceptionally burdensome for our members who do not have large accounting staffs. It is important to note that electric cooperatives that borrow from RUS have access to other nongovernmental lenders. They choose to borrow from RUS because it is the lowest cost of capital, and it is important for them to keep rates for electric and broadband service as low as possible considering the significantly lower incomes in the areas they serve. Electric cooperatives have on average, 8 members per mile of line which is by far the lowest in the electric industry. As a result, electric cooperative rates are typically higher than the rates of municipal or investor owned utilities. Thus, we have the need to keep our rates as low as possible consistent with reliable electric and broadband service.

Existing GAAP Does not Require Private Entities to Record Debt at Fair Market Value

Current GAAP is not deficient in allowing entities that are not public business entities to avoid electing the fair value option for a financial liability under ASC 825 10 15-4. Under ASC 825 10 50-2A, only a very small number of electric cooperatives meet the definition of a public business entity and are required to disclose fair value of financial instruments measured at amortized cost. In our industry, essentially all of our members record loans at their amortized cost with interest expense computed based on the terms of the loan contract with additional adequate footnote disclosure. We cannot see how to do otherwise would be an improvement. Our stakeholders have been using GAAP related to long-term debt for many decades and we see no incremental benefit to recording RUS debt at fair value based solely on the fact that the stated interest rate on the loan is below a market rate of interest on debt instruments which, unlike RUS loans, may be traded in primary or secondary markets. Additionally, if RUS debt were required to be initially recorded at fair value in the statement of financial position with interest expense based on the effective interest method, this may introduce volatility in our reported results. For ratemaking purposes, our members may be required to keep separate ledgers based on the historical amortized cost of RUS debt and contractual interest expense since interest expense in rates for electric and broadband service in our industry is determined based on actual cost, not based on interest expense determined under IFRS 9 using the effective interest method related to debt recorded at fair market value.

Mandating Accounting Recognition Which Results in the Reporting of Debt That Does Not Agree with the Contractual Liability of the Entity for the Obligation Is Without Value Our Stakeholders

We hope the FASB will not require electric cooperatives to adopt IFRS 9 for loans with below market interest rates when the FASB does not otherwise require that long term debt be presented at fair value or disclosed in our financial statements except for those few electric cooperatives who disclose the fair value of their long-term debt because they are deemed to be public business entities. Having to adopt the IAS 20 requirement that below market interest rate debt is a government grant would be particularly burdensome for private entities such as electric cooperatives. The exercise in IAS 20 for below market loans does not reflect the actual long-term debt liability of the entity and does not reflect the underlying loan contract. As we previously noted, our stakeholders rely on the historical amortized cost of long-term debt and actual interest expense based on our underlying loan documents. Electric cooperative rates and mortgage covenants are based in part on contractual interest expense.

Below Market Government Loans Based on Statutory Authority Are Not Grants

In our industry, we find that grants are typically authorized by federal or state statute. By their very nature, we note that grants are open to all who may have a need based on the statute, but funding is usually significantly limited, and this ensures that the grantor government entity must decide which entity will be awarded a grant. Grants, by their very nature, are discretionary to the governmental entity. On the other hand, below market loans based on statutory lending authority are mandatory for those entities who wish to borrow and otherwise meet the requirements of the statute and the regulations of the lender. The only potential limiting factor would be annual appropriations from Congress. In our experience, annual appropriations are typically more than sufficient to cover the demand for all electric and broadband loans. Electric cooperatives have been eligible and have been receiving below market loans from RUS and its predecessor the Rural Electrification Administration since 1936. Electric cooperative RUS debt and related interest expense has been based on the contractual terms and conditions of their specific RUS loans and our stakeholders, including RUS, rely on this information which has been GAAP in the US since 1936.

Recording a Below Market Government Loan Based on IAS 20 Would be Complex and Burdensome for NRECA's Members and be of No Value to Our Stakeholders

ASU 2021-10 Government Assistance (Topic 832) notes, in the basis for conclusions:

"BC31. Respondents expressed significant concerns about the cost and complexity of complying with this proposed requirement. They noted that entities might need to develop and implement new systems, procedures, and processes to capture the information because many do not measure assistance not recognized."

"Additionally, some respondents questioned the meaning of impracticable and how some types of assistance, such as loan guarantees, should be measured. Practitioners raised concerns about auditability and the difficulty of identifying comparable transactions entered into between willing participants in an open market. In response, the Board decided to eliminate the proposed disclosure requirement because the expected benefit would not justify the expected cost."

In order for electric cooperatives to determine the fair market value of below market loans from RUS, they would have to develop and implement new systems, procedures and processes to capture the information required to determine fair value because we do not measure RUS loans in this manner. As previously noted, RUS loans are for construction projects which may span many years and each loan will have multiple draws over an extended period of time as construction on electric utility infrastructure progresses. In order to determine the fair value for each loan, electric cooperatives would have to compute a separate fair value for each draw for every loan – potentially a large number of calculations. Electric cooperatives have never measured RUS debt at fair value and are not required under current GAAP in the US to do so. Considering this fact, we hope that the Board would, if they decide to incorporate IAS 20 into existing US GAAP, eliminate the IAS 20 requirement to treat below market loans as a government grant. In the case of electric cooperatives, the benefits to our stakeholders, which as we have pointed out are non-existent, would not justify the cost.

For these reasons, we urge the FASB to consider incorporating IAS 20 into US GAAP except for the IAS 20 approach of treating a below market interest rate government loan as a grant. We do not believe that any change to current US GAAP regarding accounting for long-term debt is warranted.

If you have any questions, please don’t hesitate to reach out to me.

Warm regards,

Russell Wasson
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The National Rural Electric Cooperative Association
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