

September 18, 2015

David R. Bean, CPA
Director of Research and Technical Activities
GASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: June 2, 2015 Exposure Draft of a Proposed Statement of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Irrevocable Split-Interest Agreements* [Project No. 3-26E]

Dear Mr. Bean:

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 appreciates the Board's efforts in developing this standard, since it establishes definitive accounting practices for a series of transactions where there has been a lack of clarity until now. This is particularly true in the college and university world, where there is clear FASB guidance on how to account for split-interest agreements but a lack of guidance in the GASB world.

TIC agrees with the provisions of the ED, most of which are clearly stated. TIC believes, however, that it would be extremely helpful for governments to have illustrations of the journal entries that will be needed to record the activity throughout the life of a split-

interest agreement. TIC recommends that examples of various types of split-interest agreements, with the appropriate journal entries, be added to a future Implementation Guide.

TIC also noted several areas involving the scope and measurement sections of the ED that could create inconsistencies in practice if not corrected. TIC has provided some recommendations below for clarifying certain sections of the standard and for providing additional implementation guidance, which would facilitate transition to the final standard.

SPECIFIC COMMENTS

Scope

Paragraph 3 of the ED limits the scope of the proposed statement to split-interest agreements “created through trusts or equivalent arrangements.” As discussed in paragraph B5, certain split-interest agreements, such as charitable gift annuities, may or may not be created through trusts. Although paragraph B5 states that “...the instrument used to create the irrevocable split-interest agreements should not be considered a distinguishing factor in defining the scope of this Statement,” the ED also states that its scope includes “equivalent arrangements.” TIC therefore believes that additional guidance is needed around the term “equivalent arrangements,” so that governments will know whether split-interest agreements that involve the segregation of assets (but not in a formal trust) would be required to apply the provisions of this proposed standard. TIC recommends defining “equivalent arrangements” as “legally enforceable agreements” that set forth requirements for both the lead interest and the remainder interest with respect to donated resources.

Measurement Issues

Initial Measurement of the Lead Interest Benefit

The ED provides guidance on the measurement of the lead interest benefit when the government is either the lead interest beneficiary (recognized as a liability under paragraph 13) or the remainder interest beneficiary (recognized as a deferred inflow of resources under paragraph 20). The measurement guidance in both paragraphs is the same; that is, the government needs to use an “established valuation technique that takes into account the specific provisions in the agreement as well as the risks implied in the agreement.” However, there is no linkage in the ED between the “risks implied in the agreement” and the four named assumptions that need to be considered when measuring the liability. Paragraphs 13 and 14 also fail to clarify when use of a present value technique (and a discount rate) would be appropriate. If the Board had intended that discounting should not apply to shorter-term agreements, that notion is not obvious from these paragraphs. Inconsistencies in practice could result from these omissions.

The last sentence of paragraph B11 indicates that the Board decided to identify in the standard some of the possible measurement assumptions that a government should consider but decided against “providing specific guidance on the approach to incorporate the assumptions.” TIC believes it would be a mistake not to provide any guidance regarding these assumptions. This additional guidance will be especially important for those governments that have not previously recognized split-interest agreements in their financial statements. First-time recognition and measurement of a new financial statement element always poses the highest risk of error. TIC believes at least some additional guidance is necessary to ensure that the new standard is implemented properly.

The AICPA has prepared a Financial Reporting Whitepaper, *Measurement of Fair Value for Certain Transactions of Not-for-Profit Entities*, which provides detailed guidance on measuring beneficial interests in trusts for the not-for-profit sector. The examples included in the paper illustrate how the discount rate should reflect all of the risks associated with the cash flows, such as the cash flows from the trust to the beneficiary and the cash flows within the trust itself. Although the focus of the whitepaper is fair value measurement, rather than settlement value as required by the ED, TIC believes it may contain useful guidance that could be adapted for governmental entities.

TIC therefore recommends that the Board provide additional guidance in the final standard and in the Implementation Guide on how the inherent risks of the agreement affect the measurement assumptions, as well as information on use of the discount rate. TIC believes the final standard should describe the types of risk inherent in each applicable measurement assumption and when use of discounting is appropriate, and the Implementation Guide should provide illustrative examples similar to those in the AICPA whitepaper, modified as appropriate for governmental standards.

Subsequent Measurement of the Remainder Interest Liability

TIC believes the first sentence of paragraph 16, quoted below, could be misinterpreted by preparers and practitioners:

The liability generally should be reported at settlement amount throughout the term of the irrevocable split-interest agreement.

As discussed in GASB Concepts Statement No. 6, *Measurement of Elements of Financial Statements*, paragraph 43, the “settlement amount” measurement attribute can be used as either an initial measurement approach or a remeasured approach. TIC was therefore uncertain whether the Board intended that the liability be remeasured at each reporting date based on an updated estimate of settlement value.

TIC suggests rewriting the sentence to clarify that: The liability is initially measured and reported at the settlement amount and is not subsequently revalued unless the term of the irrevocable split-interest agreement is life-contingent and a mortality adjustment creates a significant change in the settlement amount at the financial reporting date.

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 "Scot Phillips". The signature is written in a cursive, slightly slanted style.

Scot Phillips, Chair
PCPS Technical Issues Committee

cc: PCPS Executive and Technical Issues Committees