



October 23, 2017

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

Re: FASB August 3, 2017 Proposed Accounting Standards Update *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* [File Reference No. 2017-270]

Dear Ms. Cospers:

The American Institute of CPAs (AICPA) is the world's largest member association representing the accounting profession, with more than 418,000 members in 143 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 Proposed Accounting Standards Update, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ED) and is providing the following comments for your consideration.

GENERAL COMMENTS

TIC appreciates the effort of the Board to clarify the accounting guidance for contributions received and contributions made under FASB ASC 606. This ED also addresses whether a promise is conditional or unconditional as a conditional promise is not recognized in the financial statements until the condition is substantially met. TIC believes these are welcome clarifications and this guidance will be helpful for all entities that receive and give contributions.

TIC's additional detailed comments on the ED are outlined below.

SPECIFIC COMMENTS

Question 1: *Would the amendments in this proposed Update provide clarifying guidance that would be operable in practice? If not, why not?*

TIC generally agrees that this proposed guidance would be operable in practice. For exchange transactions, TIC appreciates the removal of the old chart with easier to understand criteria. TIC also appreciates the clarification of the concept of general good and that it does not constitute an exchange, which TIC thinks will be helpful for practitioners as they implement the new revenue recognition guidance.

Question 2: *Would the proposed amendments clarify whether a resource provider is receiving commensurate value in return for assets transferred and when a transaction is within the scope of Subtopic 958-605? If not, why not?*

The general concept of this ED is if the resource provider receives commensurate value, then it is a reciprocal transaction. TIC thinks the improvements related to the requirements should make it easier for an entity to determine that it does not qualify as an exchange transaction.

However, TIC would like to have some additional guidance or examples in the standard regarding an outsourced service arrangement or when an entity is negotiating a rate that is not yet commensurate with the services received. Examples could include when a government is outsourcing, to an NFP, a service it would otherwise provide to its citizens.

Question 3: *Should the definition of the term donor-imposed condition include both (a) a barrier that must be overcome and (b) a right of return of the assets transferred or a right of release of the promisor from its obligation to transfer assets? If not, why not?*

TIC agrees that both aspects including a barrier and the right of return should be included in the final standard. As the verbiage in a grant can vary significantly, the more principles-based approach will make it easier for entities to implement and TIC believes this will result in less of a check-the-box mentality for practitioners. TIC does think it would be helpful to clearly denote in 958-605-25-5A that BOTH a barrier and a right of return should be present in order to have a donor-imposed condition. As the ED is currently written, there could be misinterpretation where a reader may think that if either of these indicators are present, there is a donor-imposed condition due to the lack of the term AND in the text, e.g., “a. A barrier, and”.

Question 4: *Does the proposed table of indicators to describe a barrier provide useful guidance that will allow for the application of appropriate judgment? Should no single indicator be determinative? What changes should be made, if any, to the proposed indicators?*

As proposed, TIC believes that the language regarding “additional actions” as well as “limited discretion” could cause confusion. A TIC member who listened to the recent NAC meeting noted there was a lengthy discussion as several participants also were confused by this language. TIC

understands the examples being addressed by the language. We would propose that in lieu of limited discretion, that the FASB use terms like “narrowly pre-determined guidelines” or “narrowly defined qualifications” which better describe the intent. TIC also believes that “additional actions” use language like “significant ramp up costs” or “material business changes” to better describe the intent of the condition. TIC agrees that no single indicator should be determinative.

Question 5: *Should the proposed amendments about distinguishing between conditional contributions and unconditional contributions be applied equally to both the recipient and the resource provider?*

TIC agrees that having consistency between the recipient and the resource provider would be ideal as if the recipient and the provider have the same accounting rules that would be easier to apply in practice. However, it might be impracticable to achieve. For example, there would be many cases where the grantor entity could follow GASB standards but the recipient entity could follow FASB standards.

Question 6: *Should certain other terms and/or their definitions be clarified (for example, contribution or donor-imposed restriction)? If yes, list which term(s) and/or definition(s) should be clarified, why they should be clarified, and any recommended changes.*

The AICPA’s Not-for-Profit Industry Expert Panel raised a great point in their letter regarding the definition of a contribution that TIC also wanted to point out. It was recommended that the definition of “conditional contribution” and “unconditional contribution” be added to the FASB ASC Master Glossary. There is an inherent conflict that needs to be addressed because the definition of “contribution” begins with the phrase, “An unconditional transfer of cash or other assets....” That conflict could be addressed by removing the word “unconditional” from the definition of contribution and adding the phrase, “A contribution may be either conditional or unconditional” to the end of the definition. Further, we recommend that the definitions of “conditional contributions” and “conditional promises to give” be aligned, as appropriate. TIC thinks that this would be a welcome clarification and result in less confusion with definitions.

Question 7: *Should current recurring disclosure requirements be amended for either a recipient or a resource provider? Should new disclosure requirements be added? If yes, what amendment(s) and/or addition(s) do you recommend? Please explain why.*

TIC believes that current disclosures are adequate and that no new disclosures would be needed.

Question 8: *Would the proposed transition requirements be operable, and would they provide decision-useful information? If not, please explain why and what you would recommend. Would modified prospective application be more operable than prospective application? If not, why not?*

TIC believes that since we are so close to the required transition dates for not-for-profit entities that are conduit debt obligors, the proposed transition using a modified prospective basis will be

very difficult to apply in such a short timeframe. TIC believes one way to address this would be to go with the lease concept and that anything in progress would be permitted as a practical expedient which would allow constituents to continue with the current methodology and only apply this prospectively.

Question 9: Should the effective date of the proposed amendments be the same as the effective date of Topic 606? Should early adoption of the proposed amendments be permitted?

This proposed standard is intended to be effective January 1, 2018 for certain entities (PBEs and conduit debt obligors, for example), which is aligned with the revenue recognition standard effective dates. However, it appears that this proposed standard will not be issued as final until the second quarter of 2018. TIC is concerned that this standard will essentially not be issued until after the effective date of the revenue recognition standard for certain entities and, therefore, there will not be enough time to adopt the amendments made by this standard. TIC would urge the Board to reconsider the effective date of the revenue recognition standard for not-for-profit conduit debt obligors given the fact that this standard will not be issued until 2018, after FASB ASC 606 is effective for those entities.

TIC also has some thoughts about additional relief for private entities we have been discussing with the Center for Plain English Accounting (CPEA) with regard to the new standards on revenue recognition that we plan to send under separate cover following this letter.

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, flowing style.

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