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2017-270
Comment Letter No. 31

Ms. Susan M. Cospers
Technical Director
Financial Accounting Standards Board
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P.O. Box 5116
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1 November 2017

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

Dear Ms. Cospers:

We appreciate the opportunity to comment on the proposed Accounting Standards Update (ASU) issued by the Financial Accounting Standards Board (FASB or Board).

We support the FASB's proposal to clarify the scope and accounting guidance for contributions received and contributions made. We agree that the proposed amendments would help entities evaluate whether a transfer of assets should be accounted for as an exchange transaction or a contribution and distinguish between a conditional and an unconditional contribution. However, we have concerns about certain aspects of the Board's proposal.

The proposal would retain a scope exception from the contributions received guidance for transfers of assets that business entities receive from government entities. Although the Board decided against addressing the recognition and measurement of government assistance to business entities as part of its disclosure-only project, we continue to believe that recognition and measurement guidance for government assistance is important. Also, we believe the financial reporting for not-for-profit (NFP) entities should generally be consistent with that of business entities, unless there are substantive reasons for differences. Comparability among all entities, including NFPs and business entities, could improve the usefulness of financial statements and make them easier for users to understand.

The scope exception also could result in a business entity accounting differently for similar research grants depending on the source (i.e., government versus private foundation or corporation). This possible outcome would be out of step with the Board's view that the type of resource provider should not dictate whether a grant is accounted for as an exchange transaction or a contribution.

We agree that the proposed table of indicators would help entities determine whether an agreement includes a barrier that must be overcome for the recipient to be entitled to the transferred assets and that no single indicator should be determinative. However, as described, some of the indicators might be difficult to apply in practice and would likely result in diversity in practice. We recommend that the FASB clarify the guidance as suggested in our responses to the questions in the proposal.



We also are concerned that the proposed effective date of 1 January 2018 for NFP conduit bond obligors and public business entities with calendar year ends could create implementation challenges if the guidance is not finalized until the second quarter of 2018. While many NFPs have a 30 June or 30 September year end, adopting a standard that will likely be issued after its effective date could be difficult for calendar year-end entities.

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Our responses to the questions in the proposed update are included in Appendix A to this letter. We have included other editorial suggestions in Appendix B.

We would be pleased to discuss our comments with the Board members or the FASB staff at your convenience.

Very truly yours,

Ernst & Young LLP

Appendix A – Responses to questions in the proposed ASU

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

We agree that the proposed amendments would help entities evaluate whether a transfer of assets should be accounted for as an exchange transaction or a contribution and distinguish between a conditional and an unconditional contribution. However, we believe a few changes would help clarify the proposed guidance.

As written, the last sentence of paragraph 958-605-25-5D could lead an entity to believe that an ambiguous donor stipulation creates a presumption that a contribution is conditional without consideration of whether the right of return criterion has been met. We believe the Board intended this paragraph to mean that an ambiguous stipulation is presumed to be a barrier (rather than creating a presumption that the agreement is conditional), which would still require the entity to determine whether the right to receive payment depends on meeting that barrier. However, the language here and in paragraph 958-605-55-16 could be misinterpreted. We recommend that the FASB revise the language to clarify its intent.

In addition, we recommend that the Board move its implementation guidance and illustrations, including the proposed amendments that would help entities differentiate between contributions and exchange transactions, to the Contributions Received subsections or revise the scope defined in paragraph 958-605-15-4 to clarify that this guidance also would apply to business entities. Likewise, the Board should consider revising paragraph 958-605-55-4, which currently refers only to NFP recipients, to clarify that business entities also should follow this guidance.

We also recommend that the Board clarify existing guidance to make it consistent with the proposed amendments as follows:

- ▶ Paragraph 958-605-25-2 was amended to address the accounting by the resource provider and the recipient for a conditional contribution. We recommend that the Board clarify its intent that the accounting by the resource provider and the recipient should also align when a barrier does not exist.
- ▶ The current guidance in paragraph 958-605-55-20 says that promises to give services generally involve personal services that are often implicitly conditioned on the individual's availability. However, the proposed description of a barrier and the related examples do not address implicit conditions. We recommend that the Board clarify whether implicit conditions could also be considered barriers.

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?

We believe the proposed amendments would 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. However, the proposed amendments do not address the accounting for a transaction that is a partial exchange and a partial contribution. This proposed guidance offers an opportunity for the Board to provide clarity in this area as well, either in this project or a standalone project.

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?

We agree that the term *donor-imposed condition* should include both a barrier that must be overcome and a right of return of the assets transferred or a right of release of the promisor from its obligation to transfer assets. However, while the proposal includes examples of provisions that would and would not be considered a barrier, it does not include examples of right of return provisions that would meet the requirement of paragraph 958-605-25-5B that an agreement “be sufficiently clear to be able to support a reasonable conclusion about when a recipient would be entitled to the transfer of assets.” We recommend that the Board include examples of provisions that would and would not meet this threshold. Examples would also help clarify whether the right of return can be implied.

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?

We agree that the proposed table of indicators would help entities determine whether an agreement includes a barrier. However, we believe the following revisions would clarify the proposed guidance:

- ▶ **Limited discretion by the recipient:** The proposed guidance only describes the absence of limited discretion (i.e., a situation when the recipient has broad discretion), which could make it difficult for entities to differentiate between limited discretion as a donor-imposed condition and a donor-imposed restriction because both limit the use of transferred assets. We recommend that the Board clarify whether the term is intended to apply only to specific types of limitations (e.g., agreements that contain a measurable barrier or qualifying expenses).
- ▶ **Stipulations that are related to the purpose of the agreement:** The proposed guidance says that administrative tasks generally would not indicate the existence of a barrier. However, the reporting requirements for many government grants can be so substantive (due to their cost-reimbursement and special reporting requirements) that they might not be considered administrative tasks. We recommend that the Board include an example to clarify whether such substantive tasks would be related to the purpose of the agreement.

- ▶ Additional action(s): We believe this indicator is difficult to understand and is unlikely to stand alone as a barrier (consistent with the example in paragraph 958-605-55-70K). We recommend that it be incorporated as a type of measurable barrier.
- ▶ Examples: We recommend that the Board incorporate terminology typically used in government grant agreements (e.g., reimbursement grants, milestone grants, matching grants, block grants) into some of the examples to provide a frame of reference to help entities apply the guidance.

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?

We agree that the proposed amendments about distinguishing between conditional contributions and unconditional contributions should be applied equally to both the resource provider and the recipient. We believe the proposed guidance would lead to more consistency in the counterparties' accounting for a transaction as a conditional or unconditional contribution. However, while a recipient generally would know whether the barrier has been met, there could be instances when the counterparty (i.e., the resource provider) may not know unless there is some type of reporting requirement. In those cases, the timing of recognition could be affected by the timing of the reporting. This is likely true under current guidance as well.

Also, the Board may want to clarify that when the resource provider is a government entity subject to the accounting principles of the Governmental Accounting Standards Board and/or the Federal Accounting Standards Advisory Board, the accounting by both entities would not necessarily be the same.

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.

We recommend that the definition of a *contribution* be amended. The current definition refers to an "unconditional transfer," which could be confusing unless a separate definition is provided for a *conditional contribution*. Any changes to the definition also will need to be considered in the context of the contributions measurement guidance.

We also recommend that the term *qualifying expenses* be more clearly defined. We are concerned that difficulty in differentiating between an agreement with qualifying expenses and one with a general budget would result in diversity in practice. We believe the Board should clarify whether its intent is to limit the definition of qualifying expenses to grants with expenses that are reimbursable based on specified government cost principles. However, we note that such a limit would seem contrary to the overall notion that the accounting should not be driven by the resource provider. We believe some entities would conclude that certain budget requirements of a private foundation grant also meet the proposed description of the limited discretion barrier.

We note that the concept of conditions being *substantially met* is used throughout the guidance. We recommend that the Board define the term and use it consistently (i.e., instead of *met*) unless the terms are intended to have different meanings, in which case both should be defined.

We also recommend that the definition of a *conditional promise to give* be aligned with the proposed revisions to the definition of a donor-imposed condition (i.e., replace the reference to a future and uncertain event).

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.

We agree with the Board's decision to not require additional recurring disclosures. We note that there may be some overlap with the required disclosure about availability of financial assets and liquidity disclosures (i.e., in paragraph 958-210-50-1A). Entities may already be disclosing the dollar amount of assets that are not available for immediate use or general expenditures, and this could encompass conditional contributions received in advance.

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?

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?

Because the amendments in this proposal could affect whether transfers of assets are accounted for as exchange transactions under Accounting Standards Codification (ASC) 606, we agree with the Board's decision to align the effective date of the proposal with the effective date of the new revenue recognition standard.

However, we understand that the FASB expects to issue the final ASU in the second quarter of 2018, and the proposed effective date for not-for-profit conduit bond obligors and public business entities with calendar year ends would be 1 January 2018. We believe this timing could pose implementation issues for some entities as the effective date would precede issuance of the final standard. We believe it is important for the Board to consider accelerating the timing of this project so a final ASU can be issued as soon as possible. Another alternative would be to provide transition relief and guidance for entities that have already adopted ASC 606 in a reporting period for which financial statements have been issued.

We also believe that certain transition requirements need further clarification. The proposal describes a completed agreement as one for which all of the revenue (or expense) was recognized before the effective date. However, ASC 606 defines that term as one for which "all (or substantially all)" of the revenue was recognized. We recommend that the guidance use terms consistent with those in ASC 606 if the analysis is supposed to be the same. Also, while the effective dates would be aligned, it is unclear whether an entity would be required to use the retrospective transition method for this guidance if it elects to do so when adopting ASC 606.

Paragraph 958-10-65-2(e)(3) requires disclosure in the year of adoption of the reasons for significant changes in financial statement line items resulting from the application of the proposed amendments. Some entities may believe this would require dual record-keeping in the year of adoption in order to meet disclosure requirements. We recommend that the Board clarify that these disclosures are intended to be qualitative in nature (as noted in paragraph BC45 in the proposed standard).

Appendix B – Additional editorial suggestions

Reference	Comment
Summary	<p>In discussing the reasons for the proposed amendments, the FASB notes that “Diversity in practice ... is most prevalent for government grants and contracts.”</p> <p>We recommend that the FASB consider adding a reminder in conjunction with that statement to indicate that transfers of assets from the government to business entities is not in the scope of this guidance.</p>
958-605-15-5A	<p>This paragraph references paragraphs 958-605-55-13A through 55-14I for additional clarification.</p> <p>We recommend that the FASB consider highlighting that these are examples, similar to the language in paragraph 958-605-25-5C, so stakeholders know where to find examples of this guidance.</p>
958-605-25-2	<p>The last sentence of this paragraph repeats some of the language in paragraph 958-605-15-5 and expands the transactions in the scope of the Contributions Received subsections to include a settlement or cancellation of liabilities.</p> <p>We recommend that the additional guidance (i.e., a settlement or cancellation of liabilities) be deleted here and added as paragraph 958-605-15-5(b) so the scope of the guidance is clear.</p>
958-605-25-2A	<p>The guidance refers to “the current definition of a donor-imposed restriction.” We suggest that the word “current” be deleted.</p>
958-605-25-5A through 958-605-25-5D	<p>These paragraphs discuss conditional contributions. We recommend that they be moved to follow paragraph 958-605-25-2, (i.e., as paragraphs 958-605-25-2A through 958-605-25-2D).</p> <p>The current paragraph 958-605-25-2A discusses donor-imposed restrictions. We recommend that this paragraph be combined with paragraph 958-605-25-3. This would allow the discussion of conditions to precede the one on restrictions and would maintain the current flow of the discussion in paragraph 958-605-25-4 through the end of the subsection on types of contributed assets.</p>
958-605-25-5A	<p>We recommend that the FASB add the word “both” to make it clear that both criteria must be met to be considered a conditional contribution and to be consistent with 958-605-25-5D.</p>

Reference	Comment
958-605-55-1A	<p>Paragraph 958-605-15-6 lists five transactions that are not in the scope of the Contributions Received guidance, but only some of these transactions are included in the flowchart.</p> <p>We recommend that the FASB add the other transactions to improve clarity. Also, we recommend that terminology in the flowchart be made consistent with the guidance elsewhere. ASC 958-605-25-11, 25-13 and 55-15 use the term “substantially met,” but the decision tree uses the term “met.” Likewise, paragraph 958-605-15-6(e) indicates that a payment may be part of an existing exchange transaction between a recipient and an identified customer, but the decision tree uses the term “third-party payer.” Finally, we recommend that the decision tree use the same language as in 958-605-15-6(e) when providing accounting guidance for transactions that are not in the scope of the guidance.</p>
958-605-55-4	<p>This paragraph, which provides clarification of when a grant would likely be considered a contribution rather than an exchange transaction, seems to be similar to the guidance in 958-605-15-5A.</p> <p>We recommend that the FASB consider moving this guidance to that paragraph.</p>
958-605-55-5	<p>This paragraph includes an example that clarifies the guidance on distinguishing between exchange transactions and contributions.</p> <p>We recommend that the FASB consider including this with the other examples in paragraphs 958-605-55-14 through 14I.</p>
958-605-55-14	<p>Some of the references in the examples are incorrect. For example, paragraph 958-605-55-14E refers to paragraph 958-605-15-5A(e) but should refer to paragraph 958-605-15-6(e).</p>
958-605-55-14C	<p>We recommend that the FASB consider clarifying that the transaction in this example is part of an existing exchange transaction (similar to the language in 958-605-55-14E).</p>
958-605-55-16	<p>Paragraphs 958-605-55-16 and 55-17 address the distinction between conditional and unconditional contributions, but are included under a header about distinguishing between donor-imposed conditions and restrictions. We recommend that the FASB:</p> <ul style="list-style-type: none"> ▶ Delete the first sentence in paragraph 958-605-55-16 (discussing if stipulations are ambiguous) as it seems to be redundant with 958-605-25-5D and move the second sentence there. ▶ Move the rest of that paragraph (which discusses providing an annual report) to the discussion of stipulations related to the purpose of an agreement (in paragraph 958-605-55-17E) ▶ Use paragraph 958-605-55-17 (which includes an example of a matching grant being a conditional promise to give) as a new example following paragraph 958-605-55-70R

Reference	Comment
958-605-55-17A	<p>This repeats the guidance in paragraph 958-605-25-5A about the two criteria necessary for a contribution to be considered a conditional contribution.</p> <p>We recommend that the FASB delete this paragraph.</p>
958-605-55-20	<p>The term “personal services” is not defined or addressed in the guidance and does not appear in any of the examples. Also, it is unclear whether contributed services “generally” involve personal services, so this may be better written as “may involve.”</p> <p>We recommend that the FASB further clarify the guidance on personal services.</p>
958-605-55-70B	<p>This paragraph discusses qualifying expenses and contains useful information, but seems out of place in the Illustrations section as it is not an example.</p> <p>We recommend that the FASB consider moving the guidance to the implementation guidance on indicators (i.e., as paragraph 958-605-55-17G).</p>
958-605-55-70R	<p>The duplicate word “that” in the first sentence should be deleted.</p>
720-25-15-3	<p>The phrase “which is in the Contributions Received Subsection of this Subtopic” should be deleted because there is no Contributions Received Subsection in ASC 720.</p>