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Via Email to [director@fasb.org](mailto:director@fasb.org)

Re: [File reference 2017-270](#)

Dear Ms. Cospers:

Grant Thornton LLP appreciates the opportunity to comment on proposed Accounting Standards Update, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. We commend the Board on its efforts to improve the clarity of guidance for distinguishing between contribution and exchange transactions, and between conditional and unconditional contributions.

We believe the examples provided in the implementation guidance for this proposed standard will prove beneficial. They are clear and comprehensive, and demonstrate a thoughtful approach that encompasses many of the everyday situations we see in practice. The examples illustrate the application of the proposed guidance in a helpful manner we believe is consistent with the Board's intentions.

Responses to questions for respondents

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

We believe the proposed amendments would provide improved guidance while still striking a reasonable balance of judgment in its application. Since the Board is preserving the revenue recognition principles in Subtopic 958-605, rather than reconsidering them, the proposed guidance is a significant improvement. We believe that certain clarifications could be made to further enhance the operability of the proposed guidance and the consistency in which it would be applied. We propose these clarifications in our responses to the questions below.

**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 that overall, the proposed amendments would provide much needed guidance around the concept of commensurate value and help distinguish between a contribution within the scope of 958-605 and an exchange transaction within the scope of other applicable guidance. However, we believe that the proposed amendment could be clarified to more thoroughly address some of the nuances we see in practice. For example, in proposed paragraph 958-605-15-5A(b), language could be added to address whether a resource provider entering into an agreement intended to expand its capacity or further its mission is receiving commensurate value in return. We have encountered agreements intended to serve this purpose, and believe that addressing this fact pattern would assist entities in their application of the updated guidance. Consider the following:

NFP A provides services to a population of veterans in a certain region. NFP A has identified a group of underserved veterans on the edge of the region that it does not have the capacity to serve. NFP B is already operating in that location. NFP A provides funds (with no stipulated level of services to be provided and no stipulation causing unused funds to be returned) to NFP B to serve these underserved veterans. Despite furthering its mission to serve veterans, NFP A is not receiving the benefit of the funds provided, but instead is using the agreement to enable NFP B to serve them. Therefore, NFP A is not receiving commensurate value in return for assets transferred.

We believe that the nature of the transaction described is consistent with a contribution (unconditional) from NFP A to NFP B, rather than an exchange transaction to expand capacity in furtherance of NFP A's mission. We suggest revising paragraph 958-605-15-5A(b) as follows to provide more specificity for this type of fact pattern. Our proposed additions are denoted by underlined text:

958-605-15-5A

b. Execution or furtherance of the resource provider's mission (including expanding capacity) or the positive sentiment of acting as a donor shall not constitute commensurate value received by the resource provider for purposes of determining whether the transfer of assets is a contribution or an exchange transaction.

**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?**

Evaluating when donor-imposed conditions have been overcome or satisfied is an area in which we see diversity in practice as well as a level of confusion among preparers. We agree that a "donor-imposed condition" should include both a barrier and a right of return or right of release. We suggest that the term "promisor" in proposed paragraph 958-605-25-5A be replaced with the term "donor" to provide more consistency of terminology. Our proposed additions are denoted by underlined text and our proposed deletions are denoted by strikethrough:

958-605-25-5A

A donor imposed condition must have both:

- a. A barrier
- b. A right of return to the donor for assets transferred or a right of release of the ~~promisor~~ donor from its obligation to transfer assets.”

With the clarification above, we believe that the proposed amendment of the definition of “donor-imposed condition” to include both a barrier and a right of return or right of release will result in more uniformity of interpretation and application of the guidance.

**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 believe that the proposed table of indicators describing examples of barriers is useful guidance to assist in forming judgments. We agree that no single indicator should be determinative, but rather all should be considered (along with an assessment of whether a right of return to the resource provider exists).

In considering the proposed table of indicators, we have the following observations and suggested revisions that we believe would improve how the indicators are presented and described:

#### Measurable Performance-Related Barrier or Other Measurable Barrier

We recommend bifurcating this indicator into two separate indicators for ease of understanding and application. Then, for Other Measurable Barrier, we recommend including additional illustrative guidance or examples to clarify its underlying concept. Examples could include opening a new location, obtaining tax exempt status, or receiving a construction permit for a proposed building project, among others. Also, the use of the word ‘stipulation’ in the discussion of an Other Measurable Barrier might be confusing to a reader since there is a separate indicator in the table for stipulations. A straightforward edit might be to change the word ‘stipulation’ in this indicator to a similar word, such as ‘requirement’.

#### Stipulations That Are Related to the Purpose of the Agreement

We believe the explanatory text for this indicator should be revised. The current proposed wording uses the term itself as the definition, and provides examples only in the negative. We recommend that adding an example(s) of stipulations related to the purpose of the agreement, as opposed to only those that are not related, would provide enhanced clarity as to the applicability of this indicator. An example of such a stipulation could be the requirement that an entity spend funds in a manner consistent with federal cost principles.

#### Limited Discretion by the Recipient

The proposed definition states that limited discretion excludes situations where there is broad discretion. We believe that this indicator could be clarified by providing more guidance on what

constitutes limited, as opposed to broad, discretion. The concept of limited discretion in the proposed guidance is similar to that found in paragraphs 958-605-55-13 through 55-14 related to determining if an entity receives a contribution as an agent, trustee, or intermediary. If the Board's intention is that this indicator be drawn in parallel with that concept, elements from that guidance (for example, discretion to choose the timing of the distribution or discretion to choose the beneficiary) could be added to the table as examples to assist in clarifying that intended connection.

The last sentence in the table for this indicator states that if this indicator is not present, along with any other indicator of a barrier, then the contract would be considered unconditional. We believe that this sentence does not add incremental guidance as similar wording could be added to any of the other proposed indicators. Retaining this sentence could lead to misinterpretation that this indicator is elevated above the others. Accordingly, the Board might consider deleting this sentence or moving it to the end of proposed paragraph 958-605-25-5C, so that it is part of the lead-in to the table as a whole.

#### Additional Action(s)

We believe the proposed definition of Additional Actions could be applied too broadly, and that the proposed amendment could benefit from some clarification. Please consider the following example:

A health and welfare organization provides meals to underresourced individuals. A donor provides a contribution to the organization to start a literacy program. This literacy program would be outside the scope of the activities and the current mission of the organization, and undertaking this new program would be a substantial shift in the scope and focus of the organization.

We believe this fact pattern would constitute a differentiated, incremental effort illustrating the concept intended by this indicator. This type of action is in its nature different from a stipulation in an agreement that the funds be used to provide a set number of meals to individuals, which would just be increasing the volume of an action already occurring at the organization. We suggest that this indicator could be clarified if it were renamed to be "Incremental ~~Additional~~ Action(s)".

#### Order of Indicators

We suggest reordering the table of indicators. Although the proposed guidance is clear that no one indicator receives more weight than the others, we believe that two of the indicators are more complex than the others, and that it might be more useful to include those first in the ordering of the table. We suggest the following order:

1. Measurable Performance-Related Barrier
2. Other Measurable Barrier (our proposed separate presentation of this as an indicator)
3. Incremental Action(s) (our proposed replacement of the name Additional Action(s))
4. Limited Discretion by the Recipient
5. Stipulations That Are Related to the Purpose of the Agreement

**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?**

Yes. We believe that the proposed amendments related to distinguishing between conditional and unconditional contributions should apply equally to the recipient and the resource provider. BC38 reiterates the Board's intent to have accounting consistency and provide symmetry between the parties. We are concerned that the proposed guidance does not address whether an entity should consider the other party's accounting treatment as it forms its own accounting conclusion. Unless the Board intends that symmetry is an objective, we do not believe that the parties' independent application of the proposed guidance will necessarily result in symmetrical reporting. If, on the other hand, symmetry is an objective, we suggest that the Board clarify its intent in the proposed guidance.

**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.**

"Contribution" in the Master Glossary is currently defined, in part, in terms of an unconditional transfer of cash or other assets to an entity. We believe this definition is inconsistent with the proposed amendments that address the distinction between a 'conditional contribution' and an 'unconditional contribution,' but are clear that both are considered contributions, just of different types. Specifically, the first sentence in proposed paragraph 958-605-25-2A states, in part, "After a contribution has been deemed unconditional, an entity shall consider whether the contribution is restricted..."

This language suggests that the transaction was a contribution before becoming unconditional, albeit a conditional contribution. We believe that clarity and consistency could be added to the first paragraph of the Master Glossary definition of "Contribution" by making the following changes. Our proposed additions are denoted by underlined text and our proposed deletions are denoted by strikethrough:

~~A~~ conditional or unconditional transfer of cash or other assets to an entity or a settlement or cancellation of its liabilities in a voluntary nonreciprocal transfer by another entity acting other than as an owner. ...

"Stipulation" is currently defined in the Master Glossary and we believe the definition should be revised. We suggest that the definition incorporate the term barrier, as well as link the definition to the two areas of analysis to which it relates. The following is one possible approach to defining the term stipulation that we believe would provide additional clarity (our proposed addition is denoted by underlined text and proposed deletion is denoted by strikethrough):

A statement by a donor that creates either a barrier that, together with a right of return or a right of release, causes a transfer of resources (or a settlement or cancellation of liabilities) to be treated as a conditional contribution, or places a restriction on the use of an unconditional transferred of resources (or settlement or cancellation of liabilities).

“Promise to Give”, “Unconditional Promise to Give” and “Conditional Promise to Give” in the Master Glossary also should be revised to reflect the wording generally used in the proposed amendments. For example, the concept of a barrier could be woven into these definitions.

Finally, we suggest a minor further revision to the Master Glossary definition of “Donor-Imposed Condition”. Our suggested addition is denoted in underline and our proposed deletion is denoted in strikethrough:

A donor stipulation (donors include other types of ~~contributors~~ resource providers, including makers of certain grants) that represents a barrier that must be overcome before the recipient is entitled to the assets transferred or promised. ...

**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 believe that both a resource provider and a recipient alike should provide additional ongoing disclosure around the presence and accounting impact of barrier(s) and right(s) of return or right(s) of release in their arrangements. As to the extent of additional recurring disclosures, however, we defer to preparers and users to provide their input. As to transition, we believe that the required transition disclosures in proposed paragraph 958-10-65-2 would be beneficial.

**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?**

We defer to preparers and users with regard to operability and usefulness.

**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?**

The required adoption of Topic 606 is on the horizon. We do not believe that there is an incremental benefit in adopting the proposed amendments before adopting Topic 606. We make this comment because, when there is a change in accounting (for example from contribution to exchange transaction), early adoption of the proposed amendments results in accounting for the transaction under Topic 605 for a period of time, followed by a potential

second change when Topic 606 is later adopted. This could introduce unnecessary variability or inconsistency, and the effort to update internal accounting policies, processes, and controls, would be more effectively and efficiently undertaken in conjunction with adopting Topic 606. We therefore believe that the effective dates in this amendment should be aligned with the adoption of Topic 606.

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We would be pleased to discuss our comments with you. If you have any questions, please contact Doug Reynolds at 617-848-4877, [doug.reynolds@us.gt.com](mailto:doug.reynolds@us.gt.com), or Dennis Morrone at 732-516-5582, [dennis.morrone@us.gt.com](mailto:dennis.morrone@us.gt.com).

Sincerely,

/s/ Grant Thornton LLP