



November 3, 2017

Ms. Susan Cospers  
Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116

**RE: File Reference No. 2017-270**

Dear Ms. Cospers:

PricewaterhouseCoopers LLP appreciates the opportunity to comment on the proposed Accounting Standards Update, *Not-for-Profit Entities - (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (the "ASU").

The goal of this project was to better align the accounting used for various types of nonexchange transactions, primarily focusing on federal government grants and cooperative agreements (the mechanisms used to award funds when benefits are received by the public, rather than directly by the federal government itself). The proposed amendments indicate that cooperative agreements and grants are nonexchange transactions, and that those arrangements should be accounted for using the contribution accounting requirements of ASC 958-605, rather than ASC 606, *Revenue from Contracts with Customers*. Because ASC 958-605 categorically excludes transfers from governments to business entities, business entities would be exempt from applying the ASC 958-605 requirements to their grants and cooperative agreements.

We recognize that there are challenges associated with shifting an entire class of transactions from the exchange model to the nonexchange model of recognition. There are additional challenges associated with doing so for only a subset of entities (i.e., for NFPs but not business entities). While we support the objectives of the project, we have specific concerns with some of the proposed amendments, as described in our responses to selected "Questions to Respondents" in the Appendix.

We acknowledge the importance of addressing these issues for NFPs at this time, due to the pervasiveness of these arrangements as revenue sources. However, we reiterate our long-standing view regarding the importance of maintaining consistency between business entities and NFPs in accounting for similar transactions. Therefore, if the Board were to undertake a project related to the recognition and measurement of government grants by business entities, and that project reached conclusions that differ from those in this proposal (for example, a conclusion that government grants are a category of nonreciprocal transactions that differ from contributions), we believe that the guidance being proposed now for NFPs would need to be reconsidered to keep the models aligned.

\* \* \* \* \*

If you have any questions regarding our comments, please contact David Schmid at (973) 997-0768 or Martha Garner at (973) 236-7294.

Sincerely,

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

PricewaterhouseCoopers LLP



## Appendix

### Responses to selected “Questions for Respondents”

*Note that we have addressed only those questions applicable to our role as independent accountants.*

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

Generally, yes; however, we believe that certain refinements may be necessary in order to achieve the desired level of consistency.

##### *Defining conditions*

Grants awarded by many governments and foundations have a similar purpose: to obtain services in furtherance of that entity’s mission. Although the services performed benefit the resource provider’s constituents (rather than the resource provider itself), many of those grant arrangements contain performance obligations similar to those in contracts accounted for under ASC 606.

We believe that the optimal approach would be to view grants as a separate category of nonexchange transactions subject to their own revenue recognition guidance. However, the Board’s decision to apply the contribution accounting model to these transactions results in a need to associate “conditions” under the contribution accounting model with “performance obligations” under an exchange recognition model. This association means that guidance related to defining “conditions” must be approached carefully. As re-defined, “conditions” could be broadly interpreted to include a wide array of situations that might result in deferral of grant revenue beyond the point when it might otherwise reasonably be recognized under a performance obligation model. Three aspects of the proposal that might result in conditions being defined overly-broadly are discussed below, along with our suggestions.

**Barrier vs measurement.** Some requirements in grants represent true performance barriers, while others relate more to measuring the amount of revenue to be received under the grant. We believe that the final guidance should clearly distinguish requirements that create substantive barriers from requirements that might simply relate to measurement of the grant award amount (and, thus, would not defer recognition). As an example, some government grants involve a cost-sharing requirement (for example, a government might agree to fund \$1.5 million of a \$2 million project if the recipient will fund the other \$500,000). If the recipient fails to meet its cost-sharing obligation, remedies might include a requirement to repay any unexpended funds; a reduction of a future grant; or, in rare situations, it might trigger repayment of all governmental funds. Alternatively, the government might decide not to impose any remedy or penalty. Under the existing revenue model in Topic 605, these uncertainties were addressed when measuring the amount of grant revenue to be recognized (for example, by reducing revenue for the amount of any estimated potential repayments or “clawbacks”). In our example, the \$500,000 is a measurable amount identified in the agreement. Thus, in evaluating the table of indicators of potential barriers, some might view this as a measurable performance barrier. This would potentially result in deferral of \$1.5 million of grant revenue under the ASC 958-605 model, whereas under the Topic 605 model it would have been handled as a measurement issue.

We believe that under the nonexchange model, the cost-sharing requirement should similarly relate to estimating the amount of the grant award. Ensuring that the guidance surrounding what constitutes a “barrier” (as described in the definition, the indicators, and the examples) would help to narrow the field of potential conditions.



Differences among ROR provisions. Another important aspect is determining how the “right of return” or “right of release” (ROR) is defined in each agreement. An ROR that would require the return of all funds advanced (or a release of any obligation to make payments to the recipient) would likely have significantly different implications for recognition and measurement than does an ROR that would only require the return of payments for any disallowed funds or a return of any unexpended funds. The final standard should be clear that not all RORs are created equal.

Substantive performance evaluation. In some grant arrangements, reporting to the resource provider occurs only at the end of the grant term. For example, the resource provider might require the recipient to provide a report at the end of the grant period explaining how the assets were spent. If the grant also contains a condition, the evaluation of whether the condition is met would be determined at that time.

If the determination of whether the condition is met occurs only after the recipient has fully performed, it calls into question whether the specified condition is substantive (and thus, should result in deferral of revenue and expense recognition). By the time the recipient has provided all of the services associated with the grant and renders a final accounting, it seems unlikely that a right of return or release from obligation would be available to the resource provider (apart from a potential return of any unexpended funds). This appears consistent with paragraph 77 of FAS 116’s Basis for Conclusions, which states:

*...Makers of conditional promises generally can avoid a future sacrifice of assets if they provide promises with timely notification of the cancellation of their conditional promise. However, as time passes that ability diminishes. Case law and public policy suggest that once a promisee has begun efforts in reliance on a conditional promise, both parties should be held to their promises...*

If the ability to reclaim funds is limited for this reason, the resource provider’s expectations appear to be no different than the expectations associated with donor-restricted gifts. That is, that the recipient will use the donated assets in accordance with the limitations specified and that the donor’s directives will be carried out (FAS 116, Basis for Conclusions paragraph 65). In those situations, we do not believe that a substantive barrier exists. Unless this is clarified in the final standard, we believe that revenue will be deferred as “conditional” that should more appropriately be recognized up front as a donor-restricted contribution.

#### *Communication of the Board’s intent for business entities that receive government grants*

The proposal emphasizes the applicability of the guidance in ASC 958-605 to business entities. We encourage the Board to clarify its intent regarding how business entities would be affected by the Board’s views on what constitutes an “exchange of commensurate value” in a government grant. We believe that companies could draw different conclusions on how that proposed clarification should interact with the exclusion from ASC 958-605 of government grants to businesses. For example, if the benefits provided under a grant will be received by the public, some businesses might conclude that the grant is nonreciprocal and is therefore outside the scope of both Topic 606 accounting and ASC 958-605. Those entities might look to other accounting literature (for example, International Accounting Standard (IAS) 20, *Accounting for Government Grants and Disclosures of Government Assistance*) for guidance on recognition and measurement. Other businesses might conclude that they should disregard this guidance entirely in light of the scope exclusion; those entities would apply the recognition and measurement guidance in Topic 606.



**Question 3: Should the definition of a donor-imposed condition include a right of return for the assets transferred or a release of the promisor from its obligation to transfer assets and barrier that must be overcome before a recipient is entitled to the assets transferred or promised? If not, why?**

No. We believe that the definition should focus solely on the recipient's entitlement to the resources and the resource provider's corresponding obligation to transfer the resources. A right of return or a right of release (ROR) is inherent in a contribution that contains a substantive condition -- unless the barrier or hurdle is overcome, the NFP is not entitled to the funds. Thus, the ROR is not a separate condition. Including a separate condition related to RORs creates unnecessary complexity.

We also have concerns about Example 16, which indicates that if no right of return is stated in an agreement, an entity does not need to evaluate whether a condition exists. We suggest that this example be removed.

**Question 4: Should a barrier be described using a table of indicators that would allow judgment and that would specify that no single indicator would be determinative? What changes would you make, if any, to the proposed indicators?**

Yes, we agree with the Board's approach of using indicators coupled with judgment.

We believe that the Board's intention with respect to the application of judgment could be communicated more clearly. In our discussions of the proposal with NFPs, we found that perceptions of the table of indicators varies widely. Some view the table as providing broad flexibility. Others believe that any barrier that is not trivial or administrative is a barrier to recognition, and the inability to consider probabilities removes the ability to exercise judgment. We have two suggestions for how the Board might make its intentions clearer.

First, the proposal removes the "future and uncertain" language historically used in defining a condition, and replaces it with the more objective notion of a "barrier" in order to move away from assessing the probability of whether an uncertain event will occur, and focus instead on whether a barrier exists. This is a fundamental change to the application of the rules regarding accounting for conditions. Including an explicit statement in the body of the standard that highlights the change (for example, "This evaluation does not focus on the likelihood of whether a 'future and uncertain' event specified in the agreement will occur, but instead focuses on whether a barrier exists") would help to reinforce the intent that judgment be exercised.

Second, it might also be helpful to provide a meaningful example of an evaluation in which facts and circumstances indicate that a measurable performance requirement is not a barrier (for example, because the perceived condition is actually a requirement related to measurement of the gift, or is unrelated to the purpose of the grant), or that the measurable performance barrier isn't substantive (for example, the entity's performance related to the condition isn't evaluated until after the grant is ended).

We also suggest refinements to several of the indicators.

- First, we suggest that the Board add "qualifying expenses" to the "measurable performance barriers" indicator, and eliminate the "limited discretion" indicator. We believe this would simplify application of the guidance and eliminate confusion associated with interpretive matters, such as substantive versus material approval for budget changes. The "limited discretion" indicator appears to have been included in order to compare and contrast situations involving cost reimbursement in government grants with situations in other grant arrangements that simply involve adherence to a general budget. Because cost reimbursement is a form of "matching" as described in the indicators for "measurable performance barriers" –



in order to be entitled to a dollar of grant revenue, the entity must first incur a dollar of qualifying expenses – a separate indicator is not needed that is specific to these situations. We also are concerned that the “limited discretion” indicator potentially blurs (rather than clarifies) the distinction between a donor restriction and a donor condition. By definition, a donor-restriction is a limitation on the use of assets. As described, “limited discretion” appears to describe an extremely precise or narrow donor restriction, rather than a substantive condition.

- We also note that some NFPs find the “additional actions” barrier confusing. We suggest simplifying the writeup in the table to focus on a resource provider offering a gift or grant to induce an entity to undertake an action it might not otherwise have undertaken. Also, the examples in the implementation guidance note that an “additional action” condition might be associated with a gift that was not solicited, or for solicited gifts, might be present when a donor offers an amount of assets that significantly exceed the amount requested by the recipient. These factors would be helpful to include in the table.

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

Yes. Symmetry is inherent in a nonexchange transaction. When one party unilaterally transfers control of a benefit, the other simultaneously receives that benefit. If the definition of a condition focuses on overcoming substantive barriers and timely reporting to donors so that it is clear when control (and entitlement) has transferred, symmetry should be achievable.

The need for symmetry would require that the recipient keep the resource provider apprised of the extent to which the recipient has in fact met (or made progress towards meeting) the condition(s) so that the resource provider can recognize an expense at the same time the recipient recognizes revenue. To underscore the need for communication between the parties, we suggest that the illustrations concerning satisfaction of conditions indicate that the NFP notified the resource provider and at what point that occurred (e.g., when the specified event occurred, as performance progressed, or only at the end).

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

Generally yes, with one clarification. Some NFPs have engaged in nonexchange government grant transactions to which they have applied IAS 20. Often, this was done when government grants were available to business entities and NFPs alike, under the rationale that the accounting model should be the same irrespective of the entity’s organizational structure (and that if business entities could not apply ASC 958-605, then NFPs should follow suit). Under IAS 20, grant revenue is recognized when an entity is reasonably assured that it will comply with a grant’s conditions. Although it is not explicitly discussed, it appears that the proposed model would require NFPs to discontinue use of IAS 20 when transitioning to the new guidance and instead apply ASC 958-605 to such arrangements. As a result, the remaining revenue from such grants in place at the time of transition would no longer be recognized using the “reasonably assured” threshold, but instead would be deferred until conditions have been “substantially met.” To avoid any inconsistency in practice, we suggest that the transition guidance address the discontinuation of IAS 20 by NFPs, if that is the Board’s intent.



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

Yes. The direct linkage between the proposed standard and Topic 606 requires that the effective dates be aligned. Because this standard is expected to be issued close to the effective date of Topic 606 for NFP conduit bond obligors, the FASB might wish to consider whether the effective date of both this proposal and Topic 606 be deferred one year for those entities.

**Other presentation matters**

*Restricted contributions received by business entities*

The proposal emphasizes the applicability of ASC 958-605 to contributions received by business entities. If the Board has views on how financial statements of for-profit businesses should present restricted contributions (e.g., as restricted equity or as deferred revenue) it may wish to include those in the final standard. ASC 958-605-15-4 indicates that all entities (including business entities) must recognize contributions received using the recognition requirements in ASC 958-605-25; however, the presentation requirements in ASC 958-605-45 are not applicable to business entities.

*Conditions and restrictions that are satisfied simultaneously*

Entities may receive grants and contributions in which conditions and restrictions are satisfied simultaneously. We encourage the Board to clarify whether these contributions should be recorded as restricted support with a simultaneous release of restriction into unrestricted support; or alternatively, whether an entity could apply the provisions of ASC 958-605-45-4 to adopt a policy to record these contributions as unrestricted support if the conditions and restrictions are met in the same reporting period. Example 20 would indicate such situations always result in restricted support. We suggest that the Board clarify its intention.