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November 13, 2020

Technical Director, File Reference no. 2020-500
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, Connecticut 06856-5116

Re: Project No. 2020-500

Dear Technical Director,

On behalf of the National Association of College and University Business Officers (NACUBO), we submit the following comments on the Exposure Draft (ED) of the proposed Statement of Financial Accounting Concepts (CS), *Chapter 4: Elements of Financial Statements.* NACUBO's comments on the ASU were developed with input from our member institutions and our Accounting Principles Council (APC). The APC consists of experienced business officers from various types of institutions who, collectively, possess a thorough knowledge of higher education accounting and reporting issues and practices.

NACUBO is a nonprofit professional organization representing chief administrative and financial officers at more than 1,600 colleges and universities across the country. NACUBO's mission is to advance the economic vitality, business practices, and support of higher education institutions in pursuit of their missions. NACUBO issues preferred accounting and reporting practice for higher education and educates thousands of professionals annually.

Overall Observations

We appreciate the time and effort that the board and staff have devoted to this project. We believe that the clarification in the basis for conclusions concerning the implication of control regarding assets should be including directly in the chapter. To facilitate reader comprehension throughout, we encourage FASB to lead with a summary paragraph for each element that contains its most salient characteristics. We also think that distinctions between revenue and gains and expenses and losses ought to be conceptually based so that presentation decisions can be adequately informed.

Question 1: The Board expects that most assets that met the definition of an asset in FASB Concepts Statement No. 6, Elements of Financial Statements, will continue to qualify as assets under the definition of an asset in this proposed chapter. Do you agree that the definition of an asset in this proposed chapter is consistent with the Board's assertion? If not, please provide examples.

We agree that the proposed definition will not eliminate any assets that are currently considered assets under the existing definition.

Question 2: In particular, respondents are asked to focus on internally generated intangible assets. Is the definition of an asset in this proposed chapter helpful in resolving issues of identifying intangible assets?

The proposed definition does not affect the ability to identify intangible assets.

Question 3: The Board's definition of an asset in this proposed chapter does not include the term control. However, this proposed chapter explains why and how control is interrelated to the definition of an asset. Is this discussion sufficient or is the term control necessary to include in the definition of an asset? If the term control is necessary to include, please explain how its inclusion would change the population of items that would meet the definition of an asset in this proposed chapter.

The proposed definition of an asset – "a present right of an entity to an economic benefit" – does not, in and of itself, lead a reader to grasp the necessary aspects of present right and economic benefit that must interrelate in order to deduce control. For example, one must understand the ability to restrict other's access, as described in E20. One must also be familiar with present, exclusive, and legal rights and be able to apply those constructs to what is meant by the right to an economic benefit in order to infer control. We agree with the Alternate View expressed in BC4.41 and BC4.42, "that control is sufficiently important that it should be elevated from the explanatory paragraphs to the definition itself."

Question 4: The Board decided that an obligation to transfer either assets or, in certain limited circumstances, an entity's own shares would meet the definition of a liability. Is the discussion in this proposed chapter of the limited circumstances in which the entity's own shares would meet the definition of a liability sufficiently clear?

Yes.

Question 5: Other than as described in Question 4, to allow certain share-settled instruments to be liabilities, the Board expects the liabilities that met the definition of a liability in Concepts Statement 6 will continue to qualify as liabilities under the definition of a liability in this proposed chapter. Do you agree that the definition of a liability in this proposed chapter is consistent with the Board's assertion? If not, please provide examples.

We agree that the proposed definition will not eliminate any liabilities that are currently considered liabilities under the existing definition.

Question 6: In practice, the more challenging applications of the definition of a liability in Concepts Statement 6 were related to business risks, constructive obligations, and stand-ready obligations. Is the discussion of those three areas in this proposed chapter adequate to understand and apply the definition of a liability?

Yes.

Question 7: The Board suggested that integration with presentation principles would be helpful in distinguishing between the components of comprehensive income. To facilitate this distinction, paragraph E92 of this proposed chapter references presentation principles. Is distinguishing revenues from gains and expenses from losses essential as a matter of elements, or should those distinctions be exclusively a matter for presentation concepts? Please explain.

NACUBO believes that distinguishing revenues from gains and expenses from losses is conceptual in nature and that presentation must be informed by the concept, rather than be the driver that distinguishes these elements. The explanation in paragraph E90 that "Distinctions between revenues and gains and expenses and losses from exchange transactions of an entity depend to a significant extent on the nature of the entity and the activity with which an item is associated. An identical item can be used by entities differently" is very helpful but ought to be expanded in order to develop sufficient and useful concepts. A strong conceptual foundation would assist not-for-profit entities when evaluating the appropriate presentation of revenues, expenses, gains, and losses within the change in net assets.

Question 8: As described in Question 7, this proposed chapter seeks to distinguish between revenues, expenses, gains, and losses. Do the definitions of and other explanatory language related to revenues, expenses, gains, and losses make the distinction between these elements sufficiently clear?

Again, the explanation in E90 is helpful (Distinctions between revenues and gains and expenses and losses from exchange transactions of an entity depend to a significant extent on the nature of the entity and the activity with which an item is associated. An identical item can be used by entities differently). However, the explanation would be more effective if it incorporated and elaborated on the notion of "ongoing major or central operations" (from Concepts Statement 6). Expounding the construct of "ongoing major or central operations" will ultimately assist with the presentation of revenues, expenses, gains, and losses in financial statements.

Also, to paraphrase the definitions for gains and losses, they are "anything that enhances an entity's equity/net assets <u>other than</u> revenues or investment by owners", and "anything that decreases an entity's equity /net assets <u>other than</u> expenses and distributions to owners", respectively, is not especially informative. Defining a concept as "everything that doesn't fall into the other concepts" is not entirely conceptual. As discussed in previous paragraphs, we urge the board to develop concepts for these elements.

Question 9: The Board has concluded that, other than when exceptions are specifically noted in this proposed chapter, the elements described in this proposed chapter would apply to not-for-profit organizations. Do you agree with this conclusion?

Yes.

Question 10: This proposed chapter was developed on the basis of Concepts Statement 6,

though several paragraphs have been removed or adapted. Are any of the paragraphs from Concepts Statement 6 that have been removed in drafting this proposed chapter necessary to keep? If so, why?

Except as noted in the responses to previous questions regarding the omission of “control” and “ongoing major or central operations” from the definitions, none of the paragraphs from Concepts Statement 6 that were omitted are necessary to carry forward to the new chapter. We especially appreciate eliminating the notion of “probable” within the definition of assets and liabilities.

Question 11: “Appendix A: Accrual Accounting and Related Concepts,” includes discussion of several concepts that are used in this proposed chapter and in other chapters of the Conceptual Framework. Is this material helpful in a chapter discussing the elements of financial statements?

Yes.

In closing, we wish to express our appreciation for the opportunity to comment. We welcome the opportunity to participate at any one of your public hearings and look forward to answering any questions the Board or the staff may have about our response. Please direct your questions to me at 202-861-2542 or smenditto@nacubo.org.

Sincerely,

Susan Menditto
Senior Director, Accounting Policy