CATHOLIC DIOCESE OF CHARLOTTE  
1123 SOUTH CHURCH STREET  
CHARLOTTE, NC 28203

September 11, 2012

Financial Accounting Standards Board  
Technical Director, File Reference No. 2012-200  
401 Merritt 7, PO Box 5116  
Norwalk, CT 06856-5116

RE: Exposure Draft: Financial Instruments (Topic 825) - Disclosures about Liquidity Risk and Interest Rate Risk

Ladies and Gentlemen:

The Accounting Practices Committee of the United States Conference of Catholic Bishops (USCCB) is pleased to offer its comments on the above referenced proposed Accounting Standards Update.

Our response is on behalf of 195 (Arch)dioceses and 574 religious institutes of the USCCB, Leadership Conference of Women Religious and Conference of Major Superiors of Men. These organizations operate and sponsor thousands of religious, educational, charitable and other not-for-profit entities throughout the United States, collectively known as the Catholic Church.

The USCCB Accounting Practices Committee consists of eleven members with an (Arch)diocesan affiliation, four members representing religious orders and five advisors from certified public accounting firms.

The Committee has significant reservations about the applicability of this proposal to not-for-profit organizations, especially religious organizations. As such, we have chosen to address these concerns rather than respond to the “Questions for Respondents” contained in the exposure draft.

First, we are concerned about the term, “financial institution.” We assume this refers to organizations that accept demand deposits or insurance premiums from the general public. But, would the term extend to not-for-profit entities that administer endowment funds? The committee does not believe that the existence of an endowment fund at a particular entity, or even entities established as church Foundations, would meet the criteria for being a “financial institution”.

Also, would a Church entity that administers a separate activity which holds deposits and makes loans for the benefit of their member organizations be considered a “financial institution”? Many dioceses sponsor such activities, solely for the benefit of their member churches and other institutions. They are not open to individuals or to organizations that are not related to the sponsor of the fund. The committee believes that being open to do business with the general public is a key ingredient in the definition of a financial
institution. As such, we believe that Church entities conducting deposit and loan activities for the sole benefit of their member churches and other institutions do not constitute “financial organizations” or “financial institutions”.

In considering the tabular and quantitative or narrative disclosures proposed for non-financial institutions, the committee considered the primary users of a not-for-profit’s financial statements: donors, foundations that make grants to not-for-profit organizations, bond holders and banks. We believe that neither donors nor foundations making grants need this information. Often, bonds issued by a not-for-profit organization are backed by a bank letter of credit. And, because of the close relationship between the bank and its client (the not-for-profit organization), the bank would request any information needed beyond that contained in the financial statements directly from its client. Thus, there is no need to impose a requirement for additional information on all not-for-profit organizations when there is such a small audience for this information and that audience can frequently obtain the information in other ways.

For the majority of not-for-profit organizations, the existing disclosures on long-term debt, leases and commitments provide the readers of their financial statements sufficient information about the organization’s expected cash flow obligations.

Another consideration is that the information provided would likely not be current for most not-for-profit organizations. In practice, many auditing firms, in an effort to reduce their fees to these clients, shift the field work to times that do not overlap with clients having SEC reporting deadlines. As a result, many audits of not-for-profit entities are not available for issuance until six months after the close of the fiscal year. Any prospective lender needing current information would have to contact the entity directly. Thus, the proposed disclosure would not benefit the report readers who would presumably be the most interested.

Furthermore, we believe that many not-for-profit entities would find the proposed disclosures extremely burdensome, especially the smaller ones (for instance, a free-standing secondary school). The financial staffs at these entities frequently are not highly trained accountants who can decipher the requirements for the proposed tables, so the institution would either rely on its auditing firm or a third-party firm to prepare the disclosure—at extra expense.

The committee also noted that the Board has two other projects on its schedule that overlap with this proposal, as it relates to not-for-profit organizations. One of the two stated objectives of the FASB’s project: Not-for-Profit Financial Reporting: Financial Statements, is to reexamine information provided in financial statements and notes about liquidity, financial performance and cash flows. Since not-for profit organizations have certain characteristics uniquely their own, some of which are reflected in the concerns expressed above, the committee recommends that FASB exclude not-for-profit organizations from the scope of the present exposure draft and deal separately on these topics—to the extent necessary—in the project on not-for-profit financial reporting.

The Disclosure Framework project has as its objective: to improve the effectiveness of disclosures in notes to financial statements by clearly communicating the information that is most important to users of
each entity’s financial statements. The project document goes on to say “Achieving the objective of improving effectiveness will require development of a framework that promotes consistent decisions about disclosure requirements by the Board and the appropriate exercise of discretion by reporting entities.” If the FASB believes it is necessary to further consider requiring these disclosures by not-for-profit organizations, the committee recommends that these deliberations should be deferred until such time as the disclosure framework has been established.

Thank you very much for the opportunity to respond to this proposal. If you have any questions about our comments, we would be glad to elaborate on them.

Sincerely,

William G. Weldon, CPA
Chief Financial Officer
Catholic Diocese of Charlotte
Chair, Accounting Practices Committee of the USCCB