August 9, 2018

Technical Director
File Reference No. 2018-250
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, Connecticut 06856-5116

RE: Exposure Draft: Proposed Accounting Standards Update, Not-for-Profit Entities (Topic 958) – Updating the Definition of Collections

Dear Technical Director,

On behalf of the Smithsonian Institution, we appreciate the opportunity to provide written comments on the Financial Accounting Standards Board’s (FASB) Exposure Draft of Proposed Accounting Standards Update regarding the definition of collections. The Smithsonian is the world’s largest museum, education and research complex, including 19 museums and galleries, 21 libraries, nine research centers, and the National Zoological Park. Currently, our collections total 155 million objects and specimens, 162,000 cubic feet of archival material, and 2.1 million library volumes that include irreplaceable national icons, examples of everyday life, and scientific material vital to the study of the world’s natural and cultural heritage, covering subjects from art to zoology.

We welcome and support the Board’s proposal to update the definition of collections, an issue which is very important to our museums, archives, and libraries as well as the museum profession at large. Our responses to the specific questions posed in the proposed Update are presented below.

1) Should the definition of the term collections include the concept of direct care? If not, why not?

The Smithsonian strongly supports modifying the definition of collections to include direct care. The proposal would eliminate current inconsistency in practice that exists between the accounting standards promulgated by FASB regarding the use of proceeds from the sale of collections (proceeds) and the professional standards and ethics of the American Alliance of Museums (AAM), the accrediting organization of most museums in the United States.
FASB Statement 116, published in 1993 (and now codified as Topic 958 “Not-for-Profit Entities” in the FASB Accounting Standards Codification), was based on the definition of collections in the 1991 AAM Code of Ethics for Museums, which restricted the use of proceeds to only the acquisition of collections. Subsequent revisions to AAM’s Code (in 1994 and 2000), following widespread industry discussion and support, now allow proceeds from the sale of deaccessioned collections to be used for the acquisition or the direct care of collections. As a result, the AAM’s Code of Ethics for Museums and the FASB Accounting Standards have been out of alignment regarding the use of proceeds for the past 25 years.

Since the issuance of FASB Statement 116, the Smithsonian has elected not to capitalize its collections and has adhered to the three requirements for not recognizing contributions of works of art, historical treasures, and other collections, including the requirement that items added to the collections be subject to an organizational policy requiring that proceeds from sales of collection items only be used to acquire other items for the collections. Although the Smithsonian supports AAM’s current standards for the use of proceeds, we have not integrated those standards into the Smithsonian’s Collections Management Policy (Smithsonian Directive 600, Collections Management) because of our need to comply with FASB 116 accounting standards. Following the current AAM standards would have required the Smithsonian to capitalize its collections or risk a qualified opinion from our external auditor.

Realigning the definition of collections will allow the museum community who are accredited AAM members the option to use proceeds for acquisition or direct care of collections consistent with current AAM professional standards. Modifying the definition to include direct care will support FASB’s original intent and goal in promulgating Statement 116 to ensure collections “are protected, kept unencumbered, cared for, and preserved for public exhibition, education or research in furtherance of public service rather than financial gain.” If the amendment is approved, proceeds may support future collections growth and may also be used to improve care, preservation and accessibility of existing collections; a primary reason entities were not required to capitalize contributed collections under FASB Statement 116.

It is worth noting that the amendment, if adopted, would still allow entities to apply a narrower, more restrictive policy to comply with the Association of Art Museum Directors (AAMD) Policy on Deaccessioning (2010, amended 2015), which (like current FASB standards) restricts use of sale proceeds only for the acquisition of collections. Thus, depending on their professional discipline and membership, individual Smithsonian collecting units would be free to establish more restrictive use of proceeds policies within their respective collections management policies and would still be in compliance with the Smithsonian’s Collections Management Policy and amended FASB Statement 116.
2. Should there be a requirement to disclose an entity’s policy for use of proceeds from deaccessioned collections? If not, why not?

The Smithsonian supports the requirement for organizations to disclose their policies regarding the use of sales proceeds from deaccessioned collections in their audited financial statements. As a trust instrumentality of the United States, the Smithsonian – like many museums – makes its stewardship policies available to the public, including Smithsonian Directive 600, which contains the Institution’s collections management and deaccessioning policies and practices.

3. Would the proposed transition requirement of prospective application with retrospective application permitted be operable and would it provide decision-useful information? If not, please explain why and what you would recommend.

The Smithsonian supports prospective application with the option to apply respectively.

4. Should the effective date of the proposed amendment be upon issuance of a final Update? If not, why not?

The Smithsonian supports the proposal that the effective date of the proposed amendment be upon issuance of a final Update.

The Smithsonian greatly appreciates FASB’s undertaking of the review and proposed revision of the definition of collections, including the input of members of FASB’s Not-For-Profit Advisory Committee and professional stakeholders, to ensure that this accounting standard is aligned with the current AAM’s *Code of Ethics for Museums*. We want to thank you for the opportunity to provide our feedback.

Sincerely,

John Davis
Provest and Under Secretary for Museums, Education, and Research

Albert Horvath
Under Secretary for Finance and Administration and Chief Operating Officer

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