November 1, 2017

Ms. Susan M. Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

File Reference No. 2017-270
Re: Proposed Accounting Standards Update, Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made

Dear Ms. Cosper:

Deloitte & Touche LLP is pleased to comment on the FASB’s proposed Accounting Standards Update (ASU), Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made.

We support the Board’s efforts to reduce diversity in practice by clarifying and improving the accounting guidance on contributions received and contributions made. We generally believe that the proposed ASU’s amendments would help ensure that the guidance is applied consistently because they would clarify the differences between exchange transactions and contributions, including those related to (1) a barrier to entitlement and (2) a right of return of assets or a release from an obligation to transfer assets in the determination of whether a contribution is conditional or unconditional. However, we believe that additional examples of how the principles in the standard should be applied by business entities that receive grants would be helpful. Accordingly, we suggest that the Board add implementation guidance to clarify its intentions for business entities that receive grants regarding the applicability of the proposed ASU’s provisions.

We also believe that the proposed transition timing is not operable for public business entities (PBEs) or not-for-profit entities (NFPs) that have issued, or are conduit bond obligors for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market. Such entities would have to adopt ASC 606 starting with the first quarter of 2018, which we understand is prior to the expected finalization of these proposed amendments in Q2 2018. We suggest that the Board consider delaying the effective date of these proposed amendments, or provide separate transition guidance for entities that are required to adopt ASC 606 before this final ASU is issued. This would give these organizations enough time to appropriately implement the amendments.

Appendix A of this letter includes our responses to the proposed ASU’s questions for respondents, and Appendix B contains additional suggestions related to improving the readability and implementation of the final standard.

We would be happy to share additional perspectives and suggestions with the Board and
FASB staff on the matters discussed in our comment letter.

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We appreciate the opportunity to comment on the proposed ASU. If you have any questions concerning our comments, please contact Rob Moynihan at (212) 436-2992.

Yours truly,

Deloitte & Touche LLP

cc: Robert Uhl
Appendix A
Deloitte & Touche LLP
Responses to Proposed ASU’s 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 agree that the proposed amendments provide clarifying guidance that would be operable in practice. However, we believe that the proposal does not sufficiently clarify how its principles should be applied by business entities that receive grants. Specifically, while the proposed ASU’s summary emphasizes that the guidance would apply to all entities, including business entities, and would add ASC 606-10-15-2A to ASC 606 (with a link to the transition guidance in ASC 958-10-65-2), the applicability of the proposed amendments to business entities is not further discussed elsewhere in the proposal.

While the proposed amendments include examples of health care entities and universities, which might qualify as business entities in some cases, we encourage the Board to clarify when and how business entities should apply the proposed guidance and to add more specific examples to the final standard illustrating how the guidance applies to business entities that receive or provide grants.

We also encourage the Board to consider adding a framework (including a specific example) for the evaluation of a single transaction that is in part an exchange and in part a contribution for both resource providers and recipients. Specifically, the Board should clarify the guidance that each party to a transaction should apply and specify how the guidance in proposed ASC 958-605-55-6 should be considered in conjunction with other existing guidance (e.g., ASC 606-10-15-4). For example, the following arrangement illustrates this suggestion: Business A delivers a total of $10 million dollars, in a single transaction, to University B in exchange for billboard advertisement at University B’s football stadium and a specific designation of $3 million to University B’s scholarship fund. While the transaction includes an exchange and a contribution, the exchange might not be at arm’s length (e.g., billboard advertising market rates might not be $7 million). A framework for determining whether to account for the single transaction as an exchange or as a contribution would be helpful because the current guidance is subject to different interpretations, requires the use of judgment, and can be difficult to apply.

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 agree that the proposed guidance clarifies whether a resource provider is receiving commensurate value in return for assets transferred as well as when a transaction is within the scope of ASC 958-605.

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?

We believe that using these two criteria to define the term “donor-imposed condition” is appropriate. We also agree that the probability assessment as described in paragraph BC19 should be removed, and we believe such removal will make the entity’s determination of whether contributions are conditional or unconditional more straightforward and more operable.

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 table of indicators provides useful guidance, and we agree that no single indicator should be determinative. We also believe that the guidance should clearly state that the table is not an exhaustive list of all possible barriers.
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?

We generally support application of the amendments equally to both the recipient and the resource provider.

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.

We recommend that the FASB consider the following to further conform the guidance to the Board’s stated intent and to enhance the operability of the final standard:

- Adding a definition of “conditional contribution” and “unconditional contribution” to the ASC master glossary. Further, there is an inherent conflict in the definition of “contribution,” which begins with the phrase, “An unconditional transfer of cash or other assets...” The Board could address that conflict by removing the word “unconditional” from the definition of “contribution” and adding the phrase, “A contribution may be either conditional or unconditional” to the end of the definition. We also recommend that the Board align the definitions of “conditional contributions” and “conditional promises to give” as appropriate.

- Defining “qualifying expenses,” which would include rules specified by both government regulations and resource providers that require a recipient to adhere to the grant or contract provisions detailed in an agreement and that require approval for the recipient to significantly deviate from those provisions. Regardless of the type of resource provider, limited discretion or qualifying expenses are concepts that extend beyond the parameters of government.

- Adding a definition of “stipulations” to the ASC master glossary. Given the significance of evaluating stipulations in the classification of contributions as “conditional” or “unconditional,” we believe that adding this definition would promote consistency in such classification among preparers. We believe that the proposed amendments as written may lead some preparers to conclude that any stated stipulation is a barrier that must be overcome before the recipient of a contribution is entitled to the assets transferred or promised, which could lead to diversity in the application of the proposed amendments.

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 do not believe that the current recurring disclosure requirements should be amended for either a recipient or a resource provider or that new disclosure requirements should be added.

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 believe that the modified prospective approach, and allowing the use of retrospective application, are appropriate; however, we believe that the proposed transition guidance is not operable given the short time frame for preparers to read, understand, and implement it, as further described in our response to Question 9.

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?

We understand that many preparers will have difficulty implementing the guidance given the
relatively short time frame they will have to read and understand it. We believe that the proposed effective date is not operable for PBEs or NFPs that have issued, or are conduit bond obligors for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market because the issuance of the final ASU is expected to be after the effective date of ASC 606 (i.e., annual periods beginning after December 15, 2017, including interim periods within that annual period). For example, a PBE may be required to file its first quarter interim financial statements applying ASC 606 before the proposed amendments are finalized and issued. If the effective dates are aligned, we encourage the Board to provide explicit guidance on how entities in this situation would apply the final ASU’s guidance.

In addition, given the limited funds and resource constraints of many NFPs, a requirement to implement the proposed ASU’s guidance by ASC 606’s effective date could be challenging, particularly to those that are already focused on implementing other standards such as ASU 2014-09 and ASU 2016-02.

We would not object if the FASB gave preparers an additional year to implement the guidance in the final ASU if they believe that they need such additional time.

Accordingly, we would recommend that the FASB consider providing PBE preparers an additional year to implement the guidance in the final ASU, while still allowing for the early adoption at the same time as ASU 2014-09 to provide flexibility in case such additional time is not needed.
Appendix B
Deloitte & Touche LLP
Additional Suggestions

Some additional suggestions are provided below (proposed additions are underlined; deletions are struck through).

ASC 958-605-15-5A(a)

We recommend eliminating the introductory sentence as follows:

The resource provider (including a private foundation, a government agency, a corporation, or other organization) is not synonymous with the general public. Indirect benefit received by the public as a result of the assets transferred is not equivalent to commensurate value received by the resource provider. Therefore, if the resource provider receives no direct value in exchange for the assets transferred or if the value received by the resource provider is incidental to the potential public benefit from using the assets transferred, the transaction shall not be considered commensurate value received in return.

We believe that the above revision would simplify the guidance under which any benefits indirectly received by the general public are not considered commensurate value given to the resource provider (given that the language in the rest of this paragraph clearly states this point).

ASC 958-605-55-14C

We recommend that the Board consider adding a cross-reference as follows since ASC 958-605-15-6(e) also appears to apply to this example:

The grant was awarded to Student RC, not to University A. University A has entered into an exchange transaction with Student RC and accounts for the $30,000 of revenue in accordance with the guidance in the appropriate Subtopic. The $2,000 grant does not create additional revenue but, rather, serves as a partial payment against the $30,000 due to University A. Student RC is an identified customer of University A who is receiving the benefit from the grant transaction. See paragraphs 958-605-15-5A(e) and 958-605-15-6(e).

ASC 958-605-55-14E

We recommend that the Board consider adding a cross-reference as follows since ASC 958-605-15-6(e) also appears to apply to this example:

Medicare is a form of insurance. Hospital B has a contract with a customer (Patient LG) and determines that the $10,000 should be accounted for as an exchange transaction in accordance with the guidance in the appropriate Topic. The Medicare payment of $8,000 and the Patient LG payment of $2,000 serve as a payment source for services rendered in the amount of $10,000 owed to Hospital B. The payment to Hospital B relates to an existing exchange transaction between Hospital B and an identified customer (Patient LG). See paragraphs 958-605-15-5A(e) and 958-605-15-6(e).