



April 2, 2020

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

File Reference No. 2020-100

Dear Mr. Kuhaneck:

World Vision, Inc. appreciates the opportunity to comment on the Financial Accounting Standards Board's February 10, 2020 Exposure Draft of Proposed Accounting Standards Update— *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*.

World Vision supports the Board's objective of improving financial reporting and disclosures for not-for-profit entities (NFPs) with the goal of making financial statements more consistent, more informative and better able to meet the needs of various financial statement users. We believe that enhanced presentation and disclosure requirements for contributed nonfinancial assets will improve comparability between organizations and promote better understanding by financial statement users.

World Vision believes the proposed amendments are operable and that the scope of the presentation and disclosure requirements should be applicable to all contributed nonfinancial assets, including the 958-605-50-1A(c) requirements for each category of contributed nonfinancial assets. Our Organization is able to implement all proposed amendments of this proposed ASU within 6-12 months of the ASU release on a retrospective or prospective basis, and we believe other organizations are likewise able to comply on a similar basis.

Our primary recommendation for the Board's consideration revolves around making available educational or implementation guidance to improve operability and address diversity in practice in applying existing guidance particularly as it relates to contributed pharmaceuticals. We have identified two areas which we believe have the most diversity in practice and would benefit from education and implementation guidance, including: 1) Principal Market and 2) Fair value Measurement Approach. A detailed discussion for each area is included in the appendix to this letter under Question 6.

In summary, World Vision recommends that the Board move ahead with the proposed ASU as we believe it will contribute to better comparability and usefulness for financial statement users.

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Appendix A to this letter includes our responses to certain questions raised in the Exposure Draft.

Representatives of World Vision are available individually or collectively to discuss our comments with Board members or staff at their convenience.

Sincerely,

World Vision, Inc.



Douglas J. Treff, Chief Financial Officer



Jennifer A. Brenner, Vice President Controller



Eric J. Wetterling, Senior Director, Accounting and Reporting

Appendix A

Responses to Questions

Question 1: *Are the proposed amendments operable? If not, which proposed amendment or amendments pose operability issues and why?*

Yes, World Vision believes that the proposed amendments are operable. Valuation information to determine the fair value of contributed nonfinancial assets would have been used when NFPs recorded revenue initially, thus assembling and disclosing this information should not be overly burdensome for NFPs. We have also observed that some NFPs already report portions of the proposed amendments.

Question 2: *Should the scope of the presentation and disclosure requirements apply to all contributed nonfinancial assets? If not, what types of nonfinancial contributions should be excluded from the scope and why? Should the scope of the presentation and disclosure requirements be extended to business entities? If yes, why?*

World Vision believes that the scope of the presentation and disclosure requirements should be applicable to all contributed nonfinancial assets.

World Vision does not believe that the scope of the presentation and disclosure requirements should be extended to business entities. While such a scope expansion would not directly impact our organization, we are unaware of a compelling need to extend the scope to business entities.

Question 3: *Should the disclosure requirements in paragraph 958-605-50-1A(c) be required for each category of contributed nonfinancial assets? If not, please explain why.*

World Vision believes that the disclosure requirements in paragraph 958-605-50-1A(c) should be applied to each category of contributed nonfinancial assets. These disclosure requirements will provide financial statement users valuable insight and transparency into principal market, one of the key drivers impacting the determination of a contributed nonfinancial assets fair value.

Question 4: *Would retrospective application of the proposed amendments be operable and would that application provide decision-useful information? If not, please explain why and what you would recommend?*

Yes, World Vision believes that retrospective application of the proposed amendments is operable and would provide decision-useful information. As noted in our response to question 1, we believe that the required information is readily available for affected NFPs. However, World Vision does not believe retrospective application is necessary and would support prospective application of the proposed amendments as well.

Question 5: *How much time would be necessary to adopt the proposed amendments? Should early adoption be permitted?*

NFPs are already required to disclose fair value (958-605-30-2) and distinguish between contributions with donor-imposed restrictions (958-605-45-3) in financial reporting. As such, most of the information necessary to comply with the proposed amendments is readily available. Thus, World Vision believes that 6-12 months is enough time for NFPs to adopt the proposed amendments. In addition, World Vision believes early adoption should be permitted.

Question 6: *Is education or implementation guidance needed on the valuation of contributed nonfinancial assets? If yes, what type of guidance or additional education should be developed?*

Yes, we believe educational and implementation guidance is needed to improve consistency in practice in valuing contributed nonfinancial assets. World Vision believes the GAAP concepts of Fair Value are inconsistently applied when NFPs select a principal market for valuation (e.g. US or International markets) and when they determine a fair value measurement approach, selecting between various inputs. Specifically, NFPs would benefit from implementation guidance for pharmaceuticals because of the materiality of these contributed assets relative to other contributed nonfinancial assets and because these assets have uniquely complex markets.

We recommend the following two areas for additional education or implementation guidance:

1. Principal Market – Principal Market is defined in the FASB glossary as “the market with the greatest volume and level of activity for the asset or liability,” and only in the absence of a principal market would the most advantageous market be used (ASC 820-10-35-5b). We believe some NFPs may inadvertently use the most advantageous market rather than the principal market and additional guidance would be useful to remedy this.

Some contributed nonfinancial assets, frequently pharmaceuticals, are provided to address a need which exists primarily in the developing world, not the US.¹ For example, river blindness is uncommon in the US, but is widespread in Africa and some South American countries. When a product serves to address a need which primarily exists in the developing world, Principal Market concepts (market with the greatest volume) indicates the developing world would be the market for Fair Value purposes because it would have the greatest volume of activity for the asset. However, an NFP may inadvertently start its valuation process considering the asset’s attributes rather than the principal market. In the example of river blindness, if the NFP receives a donation of a pharmaceutical product which is approved for sale in the US, it may incorrectly value it according to US market values when the market with the greatest volume is outside the US. The industry would benefit from an example illustrating this concept and concluding that it is best practice for an NFP to have a rebuttable presumption that the principal market (market with the greatest volume and level of activity) is the developing world, not the US, when a pharmaceutical product serves a need which exists primarily in the developing world.

2. Fair Value Measurement Approach – The Fair Value Measurement Approach requires a reporting entity to determine “the valuation techniques appropriate for measurement, considering the availability of data with which to develop inputs that represent the assumptions that market

¹ Mectizan, a pharma product primarily used to treat river blindness (onchocerciasis), is one example of a product whose primary market is outside the US.

participants would use when pricing the asset or liability...' (ASC 820-10-55-1d). We believe NFPs may inadvertently select inputs which do not consider assumptions market participants would use when pricing an asset and additional guidance would be useful to remedy this.

US Pharmaceutical pricing is complex and related data indexes represent a spectrum of pricing assumptions. We believe one key assumption market participants would use when selecting an input is that it reflects real values transacted in the market, not list prices. Pharmaceutical pricing indexes include 1) Wholesale Acquisition Cost (WAC), 2) Average Wholesale Price (AWP), 3) National Average Drug Acquisition Cost (NADAC), 4) AMP (Average Manufacturer Price), and 5) state Maximum Allowable Cost, to name a few. Due to the complexity of understanding the many data sources, there is a high likelihood NFPs may select data which does not represent values from orderly market transactions, thus misstating an asset's fair value. For example, many NFPs are using Wholesale Acquisition Cost (WAC) to value pharmaceuticals. WAC is a list price and does not represent actual, orderly transactions. WAC excludes prompt pay and other discounts, rebates and reductions in price which market participants would assume. By comparison, the Average Manufacturing Price, reflects actual reimbursement rates used by the Federal Government, and is estimated to be 25-40% lower, at the median, than the published WAC prices².

When a pharmaceutical's principal market is the US, the industry would benefit from an example illustrating that pricing indexes for actual, orderly transactions, such as AMP or Medicare, reflect assumptions market participants would use when selecting an input and are more reflective of Fair Value Measurement Approach concepts. Conversely, examples could illustrate that indices which represent list prices or exclude discounts customary in orderly transactions between market participants should be adjusted because market participants would assume these adjustments when determining fair value.

² Levinson, Daniel R. (2005). *Medicaid Drug Price Comparisons: Average Manufacturer Price to Published Prices* (OEI-05-05-00240). Retrieved from <https://oig.hhs.gov/oei/reports/oei-05-05-00240.pdf>. Page ii, iii.