KPMG LLP
345 Park Avenue
New York, N.Y. 10154-0102

Telephone +1 212 758 9700
Fax +1 212 758 9819
Internet www.us.kpmg.com

April 8, 2020

Mr. Shayne Kuhaneck
Acting Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

RE: Proposed Accounting Standards Update, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* (File Reference No. 2020-100)

Dear Mr. Kuhaneck:

We appreciate the opportunity to comment on the proposed ASU, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets.*

We support the Board's objective to increase the transparency of contributed nonfinancial assets received by not-for-profit entities (NFPs) through enhancements to presentation and disclosure. The proposed amendments would reduce diversity in practice and would assist financial statement users in assessing an NFP's activities, particularly activities that use contributed pharmaceutical and medical equipment assets that are especially challenging or subjective to value.

However, we believe the intent of the proposals is unclear in certain respects, which could perpetuate today's diversity in practice. Our responses to the Questions for Respondents in the appendix to this letter identify our concerns about the operability of certain aspects of the proposals.

* * * * *

If you have questions about our comments or wish to discuss the matters addressed in this comment letter, please contact Kimber Bascom at (212) 909-5664 or kbascom@kpmg.com, or Lisa Hinkson at (212) 954-6399 or lhinkson@kpmg.com.

Sincerely,

KPMG LLP

KPMG LLP

Appendix – Responses to Questions for Respondents

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

We believe that the proposed amendments generally would be operable in practice. However, some areas are unclear and, thus, could perpetuate diversity in practice.

- Proposed paragraph 958-605-50-1A(a) would require an NFP to disclose whether it 'monetized or utilized' its contributed nonfinancial assets in the reporting period and whether it intends to monetize or utilize them in future periods. We are concerned that the guidance might not be applied consistently across NFPs due to the judgments and uncertainties about future use. We also are concerned that this aspect of the proposals does not meet the criteria in the new disclosure framework for disclosing future-oriented information, i.e. expectations and assumptions, related only to inputs to current measures in the financial statements or notes. We recommend that the entity be required to disclose its policy for monetizing or utilizing nonfinancial assets by category as of the end of the reporting period, not its intent for future years.
- Proposed paragraph 958-605-50-1A(c) would require disclosure of a "description of the valuation techniques and inputs used to arrive at a fair value measure, including the principal market (or most advantageous market) if significant." Although Item (c) in paragraph BC16 specifically applies the notion of significant to the market, the proposed amendment is not clear as to whether "significant" applies to the entire disclosure or only the market. In addition, neither the BC nor the proposed amendments address what qualifies as significant. Furthermore, paragraph 958-605-50-1A(c) would refer to paragraph 820-10-50-2(bbb)(1), which does not limit qualitative disclosure to only 'significant' inputs. If the Board intends to indicate that this disclosure is required only if material, we do not believe the qualification is necessary and recommend removal. If the Board's intent is more specific, we recommend clarifying this in the final ASU.
- We are concerned about the understandability of proposed paragraph 958-605-55-70U, which states that in applying paragraph 958-605-50-1A "an NFP shall consider whether valuation techniques and inputs (in addition to the principal market), including assumptions and judgments that an NFP makes are necessary for disclosing its measures of fair value in accordance with Topic 820." Paragraph 958-605-50-1A would add a disclosure requirement that goes beyond what is required by ASC 820, which requires disclosures for assets and liabilities on the balance sheet (not revenues in the statement of activities) and does not include a requirement to disclose the principal (or most advantageous) market. Therefore, this statement appears contradictory.
- We believe that examples in an ASU are critical to advancing consistent implementation, as many preparers rely heavily on the examples to enhance their understanding of the requirements. The example disclosures in the proposals relate to contributions that were utilized in program or other activities. Adding an example of disclosures about nonfinancial assets that are monetized would enhance the usefulness of the illustrations. In addition, we believe that operability of the proposals would be improved by illustrating a broader range of nonfinancial assets, including assets that involve more complex valuation techniques, for

example, donated advertising, contributed use of long-lived assets, contributed services and intangible assets.

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?

Except for the limitation recommended in Question 3, we agree with the Board's proposal to apply the amendments to all contributed nonfinancial assets.

We observe that the additional presentation and disclosure requirements in the proposals apply only to NFPs while other disclosure requirements in Subtopic 958-605 related to contributed nonfinancial assets (e.g. those applying to contributed services) apply to all entities, including business entities. The requirements in Subtopic 958-605 for the recognition and measurement of contributed nonfinancial assets also apply to all entities. We believe that the proposed additional disclosures about contributed nonfinancial assets would be equally beneficial to the users of a business entity's financial statements if the business entity receives contributions of nonfinancial assets.

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.

The proposal to require disclosure of the principal (or most advantageous) market used in determining fair value may provide relevant information to users of financial statements prepared by entities that have received material amounts of contributed pharmaceuticals and medical equipment. However, ASC 820 does not require this disclosure, and we do not believe there is a compelling reason to specifically require the disclosure for other financial statement items. Therefore, if the Board retains the proposed disclosure in the final ASU, we recommend that it limit the requirement to pharmaceuticals and medical equipment.

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?

We believe that retrospective application would be operable and would provide decision-useful information.

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

We believe the Board should set an effective date that is at least two annual reporting periods after it issues the final ASU to allow entities adequate time to implement any changes needed to accumulate disaggregated data and to prepare comparative financial statements. We also believe that 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?

We believe that additional implementation guidance within Section 958-605-55 that compares and contrasts donor restrictions on the use of an asset to other restrictions that are characteristics of the asset and explains why the restrictions do or do not affect valuation of the asset would help address the concerns expressed by some stakeholders about the clarity of certain aspects of the valuation guidance in Topic 820 concerning certain contributed nonfinancial assets (BC3). We recommend that this guidance include NFP-specific examples, including contributed pharmaceuticals. This guidance would help explain the conclusions disclosed in the illustration in paragraph 958-605-55-70V.