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File Reference No. 2020-100
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Proposed Accounting Standards Update, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*

Dear Mr. Kuhaneck:

We appreciate the opportunity to comment on the Proposed Accounting Standards Update (ASU), *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, issued by the Financial Accounting Standards Board (FASB or Board).

We support the FASB's objective to increase the transparency of contributed nonfinancial assets for not-for-profit (NFP) entities by enhancing presentation and disclosure. We agree that the proposed amendments would help address stakeholders' concerns over the lack of transparency about an NFP's valuation and use of contributed nonfinancial assets. However, we have a few observations and recommendations.

The amendments would require NFPs to disclose a description of valuation techniques and inputs used to arrive at the fair value measure for contributed nonfinancial assets recognized in the statement of activities, in addition to explicitly requiring disclosure of the principal market (or most advantageous market), if significant. We understand that the Board decided to require the principal market disclosure based on the underlying assumption that disclosures about valuation techniques and inputs in Accounting Standards Codification (ASC) 820-10-50-2(bbb)(1) are already required upon initial recognition. However, these disclosures are only required for fair value measurements of assets after initial recognition. It is unclear to us whether the Board intended to newly require these fair value disclosures for NFPs upon initial recognition of contributed nonfinancial assets. If it didn't, there does not seem to be an existing premise in ASC 820 for requiring disclosure of the principal market (or most advantageous market). However, we believe the Board may be able to achieve its objective of improving transparency by requiring disclosure of the principal market in certain circumstances, as described below.

The proposed requirement to disclose the principal market used to arrive at a fair value measure would apply to contributions of nonfinancial assets to NFPs. Other entities are not explicitly required to disclose this information under the current guidance in ASC 820-10-50. We believe the proposed requirement was motivated by circumstances in which the initial fair value measurement of contributed nonfinancial assets is based on the exit price in a principal market that differs from the intended or actual market of sale or distribution. If the Board considers the principal market to be a key factor in determining fair value in these situations, we suggest that the Board consider limiting the new disclosure requirement to these circumstances. ASC 820-10-50-2(h) currently requires a reporting entity to disclose whether the highest and best use of a nonfinancial asset differs from its current use and why the nonfinancial asset is being used in a manner that differs from its highest and best use. We suggest that the Board consider requiring a similar disclosure when a reporting entity initially measures the fair value of a contributed nonfinancial asset based on the exit price in a principal market that differs from the intended or actual market of sale or distribution. Disclosing this fact, along with an explanation of why the intended or actual market differs from the principal market, would provide stakeholders with the transparency that the Board is trying to achieve.

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We have included our responses to the questions in the proposal in the Appendix.

We would be pleased to discuss our comments with the Board or the FASB staff at its convenience.

Very truly yours,

Ernst & Young LLP

Appendix — Responses to *Questions for Respondents* included in the FASB's proposal

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

Response:

In addition to the recommendations noted in our cover letter, we suggest other changes to the proposed amendments that would make them more operable.

The proposal would require NFPs to disclose, for each category of contributed nonfinancial assets recognized in the statement of activities, a description of the valuation techniques and inputs used to arrive at the fair value measure, including the principal market (or most advantageous market), if significant. It is unclear whether the term "significant" is intended to have the same meaning that it generally does elsewhere in ASC 820. Instead of establishing this reporting threshold, the Board should consider requiring disclosure of the fact that the initial fair value measurement of a contributed nonfinancial asset is based on the exit price in a principal market that is different than the intended or actual market, as described above. We believe that this disclosure would address the Board's objective of transparency without the need for reporting entities to determine significance. As a result, entities would avoid the cost of having to determine whether a fair value measurement would be significantly different if the measurement was based on the price in the intended exit market.

We believe the example in the proposal would be more helpful to preparers if it were expanded to illustrate the disclosure of contributed services, intangible assets and monetized contributions. Also, if the disclosure of valuation techniques (e.g., market approach, income approach) would be required for contributed nonfinancial assets upon initial recognition, we recommend that the example mention that as well.

The proposal would require NFPs to disclose whether contributed nonfinancial assets were or are intended to be either monetized or used. We recommend that the disclosure focus on objective information rather than management's expectations, and that entities disclose which contributed nonfinancial assets are generally used in their regular programs and their policies for other contributed nonfinancial assets.

In addition to these changes, clarification of certain proposed amendments would be helpful. We note that the existing disclosure requirements in ASC 958-605-50-1B related to contributed services are in addition to those proposed in ASC 958-605-50-1A for all contributed nonfinancial assets, which includes contributed services. We recommend that the headings for these paragraphs be revised to make it clear that the proposed requirements also would be applicable to contributed services.

The proposed requirements would refer to contributed nonfinancial assets recognized within the statement of activities. ASC 958-205-55-10 illustrates an NFP statement of activities using three different formats, one of which is by presenting two separate statements (i.e., a statement of operations for net assets without donor restrictions and a statement of changes in net assets, which includes activity related to net assets with donor restrictions). We recommend that the Board clarify that contributed nonfinancial assets on both statements would be subject to the proposed presentation and disclosure requirements. This could be reinforced by updating the examples in ASC 958-205-55.

It may not be clear that the proposed guidance on disaggregating contributed nonfinancial assets by category requires quantitative disaggregation. Although this is illustrated in the example, the Board may want to further clarify ASC 958-605-50-1A to explicitly require the quantitative information.

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?

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

Response:

In general, we agree that the proposed requirements should apply to all contributed nonfinancial assets recognized in the statement of activities. However, as noted above, we suggest that the Board limit the disclosure requirement in ASC 958-605-50-1A(c) to circumstances in which the initial fair value measurement of contributed nonfinancial assets is based on the exit price in a principal market that differs from the intended or actual market of sale or distribution.

The proposed amendments also would apply to intangible assets, which are included in the definition of nonfinancial assets. If NFPs account for crypto-assets[1] as intangibles, the proposed fair value disclosure requirement in ASC 958-605-50-1A(c) would, therefore, be required and would be incremental to disclosures related to crypto-assets made by business entities that account for these assets as intangibles. In the Background Information and Basis for Conclusions, the Board said that it did not intend to require the proposed disclosures for assets that are typically monetized immediately. However, NFPs would be required to provide these disclosures even though the assets may be monetized immediately. We suggest that the Board consider a broad exclusion for nonfinancial assets that are typically monetized immediately and used similarly to cash in funding programs and other activities.

It appears that the Board intended for the proposed requirements to apply to contributed nonfinancial assets that have been **recognized** in the statement of activities. However, the words "received" and "recognized" are used interchangeably in the proposal. For example, the summary explains that NFPs would be required to "disclose contributed nonfinancial assets received disaggregated by category," while ASC 958-605-50-1A says, "A not-for-profit entity (NFP) shall disclose in the notes to financial statements a disaggregation of contributed nonfinancial assets recognized within the statement of activities by category."

Contributed nonfinancial assets may be received but not recognized in certain circumstances. For example, contributed nonfinancial assets that are accepted solely to be saved for their potential future use in scientific or educational research and that have no alternative use or uncertain value are not recognized (ASC 958-605-25-4). Likewise, contributed services that don't create or enhance nonfinancial assets

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[1] We use the term crypto-assets in this letter to refer to blockchain-based digital assets that serve purely as a medium of exchange (e.g., bitcoin).

or that don't require specialized skills (i.e., they don't meet the criteria in ASC 958-605-25-16) are not recognized, although the existing disclosures in ASC 958-605-50-1B are still required. We suggest that the terms "recognized" and "received" be used consistently throughout the final standard to avoid confusion.

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.

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

Response:

We believe that retrospective application would be operable if NFPs have sufficient time to implement the new standard. While we agree that most of the information may be readily available, NFPs may have to develop new processes and controls if information that was previously only used for internal purposes is presented or disclosed in the financial statements.

We believe that preparers are in a better position to answer how much time would be needed to adopt the proposed amendments. We believe 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?

Response:

We believe that, in general, NFPs and their stakeholders would find it helpful to be further educated on how to apply the fair value guidance in ASC 820 to contributed nonfinancial assets. This additional education could be provided in a FASB staff questions and answers document or through a FASB webcast.