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October 30, 2017

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

RE: Proposed Accounting Standards Update: *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (File Reference No. 2017-270)

Dear Technical Director:

We appreciate the opportunity to comment on the proposed ASU, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. We support the Board's efforts to improve financial reporting by not-for-profit entities (NFPs) and other entities that receive or make grants and similar contracts. There has been long-standing diversity in practice in this area. ASU 2014-09, *Revenue from Contracts with Customers*, eliminated the industry guidance used by NFPs for exchange transactions and raised additional questions about the accounting for grants and similar contracts. We believe that the proposed amendments will greatly improve understandability of the guidance and drive consistency in application.

We understand that the FASB has many projects on its agenda. We appreciate the efforts by the Board to add this project to its agenda, consider the concerns of constituents, and issue the proposed standard in the limited time before the effective date of ASU 2014-09.

We support the proposed amendments that would clarify how entities evaluate whether a grant (or similar contract) is a contribution or an exchange transaction. Clarifying what constitutes 'commensurate value' and the statement that indirect benefit to the general public by itself does not indicate commensurate value received by the resource provider are particularly useful in this evaluation.

We also appreciate the FASB's efforts to clarify how entities evaluate whether a contribution is conditional or unconditional. This area is complex due to the need to analyze and interpret the language used in grant agreements, which varies greatly across resource providers. While we expect that judgment will still be needed in this area, we believe that the proposed clarifications would improve the consistency of the judgments made by preparers. We support removing the 'remote' notion and

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introducing the two thresholds ('right of return or release' and 'barrier that must be overcome') that must exist for a contribution to be considered conditional. However, we believe that some of the proposed indicators of a barrier (and the associated examples) may result in confusion and diversity in application. In addition, we believe that some of the terminology used in the proposal is inconsistent and should be changed. We have outlined our concerns and recommendations in Appendix I – Responses to the Board's Questions and Appendix II – Other Observations.

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If you have questions about our comments or wish to discuss the matters addressed herein, please contact Kimber Bascom at (212) 909-5664, Amanda Nelson at (202) 533-5560 or Lisa Hinkson at (212) 954-6399.

Sincerely,

KPMG LLP

KPMG LLP

Appendix I – Responses to the Board’s Questions

Question 1: Would the amendments in this proposed Update provide clarifying guidance that would be operable in practice? If not, why not?

We believe that the proposal generally would provide clarifying guidance that would be operable in practice. However, our replies to specific questions address a few areas in which the Board could improve understandability, thereby potentially reducing diversity in application.

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 believe that the proposed amendments would clarify whether a resource provider is receiving commensurate value in return for assets transferred. These clarifications should result in more consistent application of this concept.

The flowchart in paragraph 958-605-55-1A is intended to illustrate the decision process an entity would take to distinguish between a contribution and an exchange transaction, and subsequently, between a conditional and unconditional contribution. The flowchart includes a decision path related to consideration received from a third-party payer in an existing reciprocal transfer but does not include consideration received in other types of transactions that are similarly scoped out of Subtopic 958-605 in paragraph 958-605-15-6 (e.g. tax exemptions and transfers from governmental entities to business entities). Because the flowchart is incomplete, it may be confusing to some readers.

We recommend that the FASB remove from the flowchart the decision path related to third-party payers. This would align the decision points within the flowchart with paragraph 958-605-55-1A, which introduces the flowchart. For further clarity, we recommend that paragraph 958-605-55-1A state that the transactions and activities discussed in paragraph 958-605-15-6 (b-e) are not within the scope of the transactions addressed in the flowchart. If the Board keeps the decision path for third-party payers in the flowchart, we recommend that the FASB expand the flowchart to include the other types of transactions discussed in paragraph 958-605-15-6 (b-d).

We understand that the language in paragraph 958-605-15-5A(e), which discusses considerations, including commensurate value, in determining whether a transaction is an exchange transaction or a contribution, originated with the table of indicators in current GAAP (paragraph 958-605-55-8). However, it is not apparent what the ‘delivery of assets’ in the first sentence refers to in this context. While we believe the proposal intends to refer to the delivery of assets ‘already produced’ by the recipient in the current table of indicators, the reference in the amended language causes confusion when juxtaposed with the transferred assets (by the resource provider) discussed elsewhere in paragraph 958-605-15-5A. While some grants do involve a delivery of assets by the recipient, this is not universal and may not be the central point when

discussing penalties assessed for nonperformance. The return of the unspent amount alone versus additional economic penalties is the distinguishing factor between a contribution and an exchange transaction. We recommend that the FASB review and clarify the language in paragraph 958-605-15-5A(e).

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 agree with the Board that the proposed amendments to the definition of donor-imposed condition should include a barrier that must be overcome, and a right of return or release from obligation.

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 proposed table of indicators generally would provide useful guidance that would allow for the application of appropriate judgment. However, we believe that several aspects of the proposed indicators may result in inconsistent application. Our recommendations address three indicators.

Stipulations that are related to the purpose of the agreement

We support the proposal to remove the notion of ‘remote’ from the considerations of whether a promise to give is conditional or unconditional. We agree with the Board that doing so would clarify that the remote notion was not intended to require a probability assessment of the likelihood of a condition not being met. Rather, the remote notion was intended to apply to trivial or administrative conditions.

However, we believe that clarifying the remote notion through this indicator, particularly without an example in the proposed table of indicators of what type of stipulation would be related to the purpose of the agreement, would be confusing. We recommend that the Board remove this indicator and add a statement to paragraph 958-605-25-5D that stipulations that are trivial or relate to administrative tasks do not indicate a barrier to entitlement. This would be consistent with other proposed amendments to paragraph 958-605-55-16. Alternatively, if the Board keeps the indicator, we recommend adding to the table of indicators an example of a stipulation related to the purpose of the agreement.

Limited discretion by the recipient

The table of indicators contains more discussion of what limited discretion **excludes** than what it **includes**. To improve clarity and consistent application, we recommend that the Board add an example of limited discretion to the table of indicators. Example 14 in Subtopic 958-605-55 illustrates the limited discretion indicator through the imposition of qualifying expenses that must be incurred for the NFP to be entitled to the grant funds. We recommend that the Board add the concept of qualifying expenses to the table as we believe it is an important concept that should be more visible. In addition, paragraph 958-605-55-70B, which also discusses qualifying expenses, appears to be misplaced in the Illustrations section. We recommend that this paragraph be moved to the Implementation Guidance section in a new paragraph 958-605-55-17G.

In addition, the fact pattern and conclusion in Example 15 in paragraph 958-605-55-70G and 70H, respectively, appear to be in conflict with each other. In this example, the resource provider appears to limit the discretion of the recipient by requiring a grant budget and approval for significant deviations from that budget. The resource provider also requires the recipient to report at the end of the grant period about how it spent the assets. This would appear to be the resource provider's way of verifying that the recipient complied with the limitations imposed by the budget. However, in this example, the recipient determines that the "general budget included in the grant proposal is not a barrier to entitlement because adherence to a general budget allows for broad discretion and there are no additional requirements in the agreement such as incurring qualifying expenses". We recommend that the FASB clarify in this example why the limitations imposed by the resource provider are not deemed to be limiting the discretion by the recipient.

Finally, paragraph 958-605-55-70B states that a standard budget is "generally considered a guideline" and is different from qualifying expenses. While this paragraph also indicates that an entity must review individual facts and circumstances, the conclusive nature of this statement about a standard budget may lead stakeholders to infer that all budgets are only guidelines and not indicative of a barrier. We recommend that the Board clarify which budgets are only guidelines in this paragraph and elsewhere in the document where grant budgets are discussed.

Additional action(s)

Paragraph BC32 states, "if additional activity is required by the recipient, the agreement also is often coupled with measurable barriers". We concur with the Board that an "indicator about additional actions is not an indicator that would exist in many arrangements (and not likely to exist without other indicators being present)". In view of these statements and the issues discussed later in this section, we recommend that the Board remove this indicator from the table of indicators (and state in paragraph 958-605-25-5C that the indicators in the table are not all-inclusive – see discussion of Other Considerations in the next section).

If the Board retains the indicator, we believe that certain clarifications are needed. It is not clear whether the FASB intends for this indicator to relate only to additional actions that are outlined in the agreement between the resource provider and the recipient, or whether the indicator also includes additional actions that are determined by the recipient to be necessary, but not specified in the agreement. In example 17 in Subtopic 958-605-55, the resource provider specifies the additional action in the agreement. However, the language in the table of indicators is silent about who determines that the additional action is necessary.

We believe that only additional actions required by the resource provider and stated in the agreement should indicate a barrier, and recommend that the Board modify the language in the table of indicators accordingly. While a recipient may recognize certain additional actions that may be required operationally to accomplish the purpose of the grant, those actions are an operational (internal) hurdle to using the funds for their intended purpose, not a barrier to entitlement specified by the resource provider.

We also recommend that the Board clarify Example 17 (paragraphs 958-605-55-70K and 70L), which discusses a grant that has a measurable barrier of expanding the recipient's facilities by 5,000 square feet. This barrier is also described as an additional action because the grant was unsolicited and would require the NFP to take actions (expand facilities) it otherwise would not have undertaken. This fact pattern creates some confusion. First, readers may interpret the unsolicited nature of the grant to be a determinative factor in assessing barriers. While it is arguable that it may be a determinative factor in this example, the basis for this conclusion would need to be clarified and it may not be the conclusion in other instances of unsolicited grants.

Example 17 also seems to be at odds with paragraph 958-605-25-5C, in which the barrier appears to be related to an additional action that is required beyond the scope of the original purpose of the grant, i.e. an action required to accomplish the purpose of the grant. However, in Example 17, the purpose of the grant and the additional action are so closely connected that they are confusing. If the Board retains the additional actions barrier in the final ASU, we recommend that the Board clarify Example 17 or replace it with an example in which an additional action is the only barrier (or is not integral to the purpose of the grant).

Other considerations

List of indicators not intended to be all-inclusive

We agree with the proposed requirement in paragraph 958-605-25-5C that no single indicator should determine whether a barrier exists. We recommend that the final ASU also state that the list of indicators is not intended to be all-inclusive and that an agreement may contain other indicators of barriers that must be overcome before the recipient is entitled to the resources transferred or promised. We believe this statement is necessary in view of the variety and complexity of grant agreements in practice and the variation in language used. There may be

instances in which an agreement includes a barrier that does not neatly fit into the table of indicators.

Contributions with multiple barriers

We recommend that the FASB add language to paragraph 958-605-25-5C to clarify that an agreement may have multiple barriers. In addition, we recommend that the language in paragraph 958-605-55-21 be amended. The current language states that while certain promises with a series of conditions or milestones become unconditional in stages, ‘other promises’ conditioned on incurring certain qualifying expenses become unconditional and are recognized to the extent that the expenses are incurred. However, certain grants with qualifying expense requirements may have additional milestones or other barriers that must be overcome before the recipient is entitled to the resources transferred or promised.

For example, an NFP may receive a federal grant under which the grantor imposes qualifying expense requirements and a matching or cost share requirement that must be met for the NFP to be entitled to the grant funds. Under the matching requirement, the recipient is required to contribute a specified amount or percentage to match the amount that the grantor provides for the funded project. The conditions in the grant would not be considered met until the barriers related to the qualifying expenses and the matching requirement are overcome. We recommend that the Board clarify the language in paragraph 958-605-55-21 and add an example to the implementation guidance in Subtopic 958-605-55 to illustrate how the recipient would recognize revenue from a grant with multiple barriers (specifically, qualifying expenses and a matching requirement).

We also recommend that the example illustrate the interaction between a grant matching requirement and the guidance in current US GAAP (paragraph 958-225-45-13(d)) which states that a donor may impose restrictions on otherwise unrestricted net assets. If a donor requires the recipient to use a stated amount of its own funds for the same restricted purpose that the donor is funding (i.e. to match the donor funds), the amount of the match would be considered restricted net assets. Although this requirement exists in current US GAAP, the interaction of that requirement with federal and other similar matching grants will be new for many NFPs that previously treated these grants as exchange transactions.

Right of return or release without a stated barrier

Paragraph 958-605-55-17D acknowledges that there may be instances in which a grant agreement contains a right of return or release but no barrier. However, some resource providers (for example, foundations) also include a right of return or release from obligation that is triggered not by a barrier placed on the recipient but by the resource provider’s actions (e.g. future payments are subject to budget availability of the resource provider). It is not clear whether a grant with this type of limitation would be considered conditional under the proposal.

Paragraph 958-605-55-17B(d) refers to an ‘outside event’ as a type of measurable barrier but it is not clear whether this term is meant to include an outside event under the resource provider’s control. The example in the proposal refers to the resource provider’s promise to contribute a certain amount of assets if “a company’s net worth reaches a specified level”. It is not clear whether the ‘company’ in this example is related to the resource provider or the recipient, i.e. whether this is a barrier within the control of the recipient or the within the control of the resource provider. It is also possible that if the barrier is within the control of only the resource provider, it may not be considered ‘measurable’ from the perspective of the recipient.

In addition, the current guidance for resource providers states in paragraph 958-720-25-2 that “if a donor explicitly reserves the right to rescind an intention to contribute, or if a solicitation explicitly allows a donor to rescind the intention, a promise to give shall not be recognized by the donor.” This language does not explicitly refer to conditions but simply refers to a donor’s right to rescind the grant for any reason within the donor’s control. This guidance is not clear, as it appears to discuss ‘intentions to give’ and ‘promises to give’, which are not the same. However, this guidance, which was stricken in the proposed amendments, is currently used by resource providers, and analogized to by some recipients, as the rationale for not recording promises to give with a right of return or release where the condition is not clearly stated. Paragraph 958-605-25-10, which includes similar language but appears to be intended to distinguish between an intention and a promise to give, was not stricken in the proposed amendments. Although keeping that language is inconsistent with striking paragraph 958-720-25-2, we believe that keeping that language is appropriate. Paragraph 958-605-25-10 states, “solicitations for donations that clearly include wording such as information to be used for budget purposes only or that clearly and explicitly allow resource providers to rescind their indications that they will give are intentions to give rather than promises to give and shall not be reported as contributions”.

The proposed amendments would add language to paragraph 958-605-55-17D indicating that agreements that include a right of return but no barrier are unconditional. This paragraph does not specifically indicate whether the agreement includes a promise or intention to give but based on its placement, it is implied that there is a promise to give. We believe it would be inappropriate to require a recipient (or a resource provider) to record revenue (or expense) associated with a promise to give when the resource provider has explicitly reserved the right to reverse the promise to give (i.e. a right of release from obligation) for any arbitrary (but unstated) reason. We suggest that the FASB add guidance to indicate that resource providers and recipients should not record promises to give in which the resource provider has explicitly reserved the right to rescind the promise but has not specified a barrier to be overcome that is within the control of the recipient.

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 agree with the Board’s decision to align the guidance for recipients and resource providers for the reason described in BC38. However, we have a few suggestions for enhancing the understandability of the proposed guidance.

We note that the guidance for resource providers in Topic 720 and Subtopic 958-720, which refer to Subtopic 958-605, includes no examples that focus on donor-imposed conditions from the resource provider’s perspective. We suggest that the FASB consider adding to Topic 720 specific examples from the resource provider’s perspective of distinguishing between conditional and unconditional contributions. Alternatively, the Board could expand some of the examples in Subtopic 958-605 to address how a resource provider would record expense. This would help clarify for resource providers that they may need to institute new procedures to track when the recipient overcomes the stated barriers to determine when to begin to record grant expense and how much expense to record in each reporting period. For example, in Example 13 (paragraph 958-605-55-70C and 70D), the foundation would need to monitor the NFP’s progress in providing services to the 8,000 veterans to record the appropriate amount of grant expense each reporting period.

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.

Yes, we believe the Board should clarify certain terms and definitions.

Definition of ‘contribution’

The proposed amendments to Subtopic 958-605 discuss how to determine whether a contribution is unconditional or conditional (e.g. 958-605-25-5D). We believe that those amendments would require a conforming amendment to the term ‘contribution’, which is defined in the Master Glossary as “an **unconditional** [emphasis added] transfer of cash or other assets...in a voluntary nonreciprocal transfer by another entity...” If the Board implements our recommendation, it would need to ensure that the Codification clearly specifies whether each use of the term contribution refers to a conditional or an unconditional contribution. For example, the Board would need to change the references to ‘contributions’ in paragraphs 958-605-25-2 and 720-25-25-1 to ‘unconditional contributions’.

The definition of contribution includes only transactions in which the resources have already been transferred to the recipient, i.e. the definition does not include promises to transfer

resources. However, the proposed amendments and the current Codification sometimes use language that implies or states that contributions include promises to give. For example, paragraph 720-25-15-2 states “the guidance in this Subtopic applies to contributions of cash and other assets, including promises to give”. While stakeholders use the terms ‘contributions’ and ‘promises to give’ interchangeably, that interpretation is not technically correct under the standard. As defined by the FASB currently, a promise to give is not a contribution. The Codification primarily focuses on how to determine whether a ‘promise’ is conditional or unconditional. While we agree with the Board that the guidance on how to determine whether there are conditions applies equally to contributions and promises, the proposed amendments only partially address this issue. Some of the proposed amendments for determining whether a contribution is conditional or unconditional (e.g. paragraphs 958-605-55-17A through 17F) apply equally to determining whether a promise is conditional or unconditional, but those paragraphs are silent on that point.

There are instances in the proposal in which the Board appears to use the terms conditional promise and conditional contribution interchangeably. We believe it would be appropriate to use wording that includes both concepts. For example, paragraph 958-605-55-16 is in the section *Contributions Received*. While that paragraph would appear to apply equally to conditional contributions, it explicitly discusses only conditional promises to give. Paragraph 958-605-55-21, which discusses promises with conditions related to milestones or qualifying expenses, would apply equally to conditional contributions. We recommend that the FASB clarify this language throughout Topics 958 and 720. It may be appropriate to change references in the guidance from ‘conditional contributions’ or ‘conditional promises to give’ to ‘donor-imposed conditions’, which encompasses both terms. Alternatively, the definition of contribution could be amended to include promises to give and the wording throughout the Codification amended accordingly.

Furthermore, the definition of contribution encompasses not only a ‘transfer of assets’ but a ‘settlement’ or ‘cancellation’ of liabilities. The proposed amendments discuss only a transfer of assets when referring to contributions. We recommend that the FASB consider clarifying throughout the Codification that when the term ‘transfers of assets’ is used to refer to contributions, it is meant to apply to all types of contributions, including those received in the form of settlement or cancellation of liabilities. Alternatively, instead of transfer of assets, the Board could use a generic term that encompasses the concepts of transfer of assets and settlement/cancellation of liabilities.

The Board’s proposal to add to the end of paragraph 958-605-25-2 the words, “The definition of contribution encompasses both a transfer of cash or other assets to an entity or a settlement or cancellation of liabilities,” appears to be unnecessary. And, it does not address our concern about the use throughout the Codification of the phrase ‘transfer of assets’ only.

Definition of ‘conditional promise to give’

‘Conditional promise to give’ is defined in the Master Glossary as “a promise to give that depends on the occurrence of a specified future and uncertain event to bind the promisor”. This definition should be amended to align with the proposed amendments to the definition of donor-imposed condition. This would remove the reference to a “future and uncertain event” and instead incorporate discussion of a barrier and right of return or release.

Definition of ‘donor’

The definition of ‘donor-imposed condition’ in the Master Glossary states that “donors include other types of contributors”. The use of the word ‘other’ here is unclear and it is unusual to define a term within the definition of another term. The word donor appears within several other phrases in the Codification – some with a similar parenthetical sub-definition and some without. We recommend that the FASB delete the parenthetical references in the definition of donor-imposed condition (and elsewhere in the Master Glossary) and create a separate definition of donor in the Master Glossary that includes ‘all’ rather than ‘other’ contributors. The definition should clarify that a donor includes all resource providers, including grantors, that provide resources that meet the definition of contribution in the Master Glossary.

Use of the term ‘contributions’ in the financial statements

The FASB should clarify that all transfers of resources that meet the definition of a contribution and that are therefore subject to Subtopic 958-605 are not required to be classified in a contributions line item in the financial statements. For example, paragraph 958-605-55-4 discusses grants, awards and sponsorships, and distinguishes when these transactions are contributions from when they are not. Some may infer that this classification is required in the statement of activities. We recommend that language be added to the proposed amendments stating that entities may continue to refer to these transfers as grants or by using other relevant terminology in the financial statements.

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 Board should expand the current recurring disclosure requirements for recipients and resource providers. Paragraph 958-310-50-4 requires recipients of ‘conditional promises to give’ to disclose the total of the amounts promised to them and a description and amount for each group of promises having similar characteristics. Under the proposal, many grants that currently are treated as exchange transactions would be accounted for as conditional promises to give. Therefore, we expect that the current disclosure requirements would apply to

many more transactions than they apply to today. That outcome is likely to be very costly for large NFPs, with hundreds or thousands of multi-year grants that would be treated as conditional promises to give under the proposal. Even though the proposed disclosure would be summarized, the effort to accumulate the information may be substantial for some NFPs. We recommend that the FASB solicit the feedback of users of not-for-profit financial statements to better assess whether the benefits would outweigh the costs of including the information in the financial statements.

The current disclosure requirement relates to only conditional promises to give, not conditional contributions (i.e. those in which the resources have been transferred to the recipient). If the Board retains that disclosure requirement, we do not believe that it should be expanded. If the resources have been transferred to the recipient but the conditions are not met, these amounts would be included in liabilities on the balance sheet.

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?

The proposal would permit either the retrospective or modified prospective basis of transition. We agree with the Board's decision to allow entities to select either option based on their individual facts and circumstances. A retrospective approach whereby the amendments are applied to each period in the financial statements would provide the most comparability across multiple reporting periods. However, the cost of full retrospective application could outweigh the benefits. This would be especially true for large NFPs with hundreds or thousands of grants. For these NFPs, the modified prospective basis, where the amendments would be applied to only grants that are not yet completed as of the effective date (or entered into after the effective date), would provide a compromise that would be less costly but provide some benefits that the full prospective approach would not. The modified prospective basis would not provide fully comparable financial statements in the year of adoption but would provide greater comparability in later years. We understand that the ability to leave unchanged the accounting for agreements where all the revenue (of the recipient) or expense (of a resource provider) has been recognized before the effective date will perpetuate some historical inconsistencies among entities. For example, there is diversity in practice in the accounting for certain HUD grants that have a 40-year grant period. However, in view of cost/benefit considerations, we agree with the Board that entities should be permitted to use the modified prospective basis of transition.

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 believe that the effective date of the proposed amendments for **recipients of contributions** should be the same as the effective date of Topic 606. While the proposed amendments will help address long-standing diversity in practice in the accounting for grants, this project was largely prompted by the issuance of Topic 606 and related implementation concerns. The proposed amendments would clarify which grants and similar contracts should be accounted for under Topic 606. Therefore, it is appropriate for the effective date of the proposed amendments to align with the effective date of Topic 606.

If the proposed amendments are adopted as proposed and applied equally to recipients and resource providers, we recommend that the FASB consider delaying the effective date for **resource providers** by at least one year. The accounting for grant expense by the resource providers is not affected by Topic 606. Therefore, there is no need to align the effective date for resource providers with the effective date of Topic 606. In addition, some resource providers may need to change internal systems to obtain more timely reports from recipients to track when specified barriers are overcome. These resource providers may track these barriers for purposes of assessing program accomplishments but not for purposes of financial reporting under current US GAAP. Delaying the effective date for resource providers would allow these entities adequate time to understand the amendments and adjust internal policies and procedures and, where appropriate, grant agreements, to comply with the amendments.

We also agree with the Board that the final ASU should permit early adoption of the proposed amendments regardless of whether an entity early adopted Topic 606. This would allow those entities that may desire to adopt the standard immediately upon issuance the opportunity to do so. Given the long-standing diversity in practice the proposed amendments are also addressing, some entities may desire to adopt this standard before adopting Topic 606. Therefore, we agree that early adoption should not be limited to align with Topic 606 implementation.

Appendix II - Other Observations

Presenting contributions for which the condition and restriction are met simultaneously

We expect that many of the federal and other grants that currently are treated as exchange transactions would be accounted for as conditional, restricted contributions under the proposal. Many of these grants require the grantee to spend the funds for a restricted purpose (e.g. research) and on specific qualifying expenses (thereby indicating a barrier). Spending the funds on qualifying expenses related to the restricted purpose simultaneously triggers recognizing the restricted revenue (because the barrier is met) and the release from the restriction.

Current US GAAP (paragraph 958-605-45-4) permits NFPs to establish a policy under which restricted contributions are reported as unrestricted if the NFP meets the donor-imposed restrictions on all or a portion of the amount contributed in the same reporting period in which the contribution is received. Instead of reporting the revenue as restricted, with a related release from the restrictions, an NFP that follows this policy reports the contribution revenue from these grants as unrestricted.

An NFP that establishes this policy must apply it consistently to all restricted contributions and investment return. Some NFPs, however, may not find it favorable to follow that policy for all contributions (including private contributions) and investment return. We recommend that the FASB consider amending US GAAP to permit NFPs to report as unrestricted revenue, revenue from restricted contributions with donor-imposed conditions, for which the condition and the restriction are met simultaneously, regardless of the NFP's policy on other restricted contributions and investment return.

Paragraph 958-605-25-2A

The reference to the “**current** definition of a donor-imposed restriction” (emphasis added) in the first sentence is unclear. We suggest that the Board change the language in this sentence to: “After a contribution has been deemed unconditional, an entity shall consider whether the contribution includes ~~is restricted on the basis of the current definition of~~ a donor-imposed restriction....”

Paragraph 958-605-55-70E and F (Example 14)

Paragraph 958-605-55-70E states that the federal grant is paid on a reimbursement basis. Paragraph 958-605-55-70F however discusses assets advanced. In federal terminology, reimbursement and advance are distinct methods of payment; the terms are not interchangeable. More importantly, whether the grant is funded on a reimbursement basis or on an advance basis does not affect whether there is a donor-imposed condition nor does it affect revenue recognition under current US GAAP. It does not appear to be the FASB's intent that the funding basis would affect revenue recognition under the proposal. Apart from the inconsistency created by discussing both methods of payment for the same grant, introducing these concepts in the

example is unnecessary and will create confusion. We recommend that the Board remove the basis of payment from the example.

Paragraph 958-605-55-70O and 70P (Example 19)

The gift agreement in this example includes certain square footage and environmental requirements. Paragraph 958-605-55-70O states that the first installment of the gift will not be paid until architectural designs are submitted that meet the specified building requirements. However, the paragraph also states that additional installments will be paid on meeting “specific requirements of the grant agreement” and paragraph 958-605-55-70P states that the barriers are overcome on meeting the specific requirements as NFP I builds the new wing.

It is not clear what the specific requirements of the grant agreement are beyond the square footage and environmental requirements that were stated as being met on submitting the architectural designs. If additional requirements exist, these should be stated and paragraph 958-605-55-70P should be clarified to indicate that the revenue related to the first installment is recognized on approval of the architectural designs. Identifying the remaining requirements should clarify why the remaining revenue would be recognized as the new wing is built.