



Defining Issues[®]

FASB updates the definition of collections

March 22, 2019

KPMG reports on ASU 2019-03¹, which expands the US GAAP definition of collections to realign it with the American Alliance of Museums' definition.

Applicability

All entities, including business entities, that maintain collections.

Key facts and impacts

The FASB updated its definition of 'collections' to realign it with the definition used by the American Alliance of Museums (AAM). Under the expanded definition, using the proceeds from sales of collections for direct care of existing collections will no longer preclude the US GAAP guidance that applies to collections from being applied.

The ASU reduces the confusion caused by the difference between the definition of collections in US GAAP that an entity applies to its financial statements and the definition that some entities may prefer to use for operability and accreditation purposes.

An entity with collections also must disclose its:

- policy for using the proceeds from deaccessioned (removed) collections; and
- definition of direct care, if it uses the proceeds from deaccessioned collections for direct care.

Background

ASC 958, originally issued in June 1993 as FASB Statement 116², contains the definition of

collections and the criteria required to designate items as collections. This definition is important because entities are not required to recognize items in their financial statements that are deemed collections if certain criteria are met. Collections include works of art, historical treasures and similar assets that are preserved and protected. The FASB concluded that while these items were assets, the information needed for capitalization was likely too costly or difficult to obtain, and the benefits did not justify the cost.

ASC 958 permits an entity to select one of three policies for reporting its collections:

- capitalization;
- capitalization of all collections on a prospective basis (i.e. all items acquired after a stated date); or
- no capitalization.

The FASB derived its definition of collections from the AAM's *Code of Ethics for Museums*, which is widely used by museums for operability and accreditation purposes. Under this definition, proceeds from sales of collections were to be used solely to acquire other collection items.

However, the AAM subsequently expanded its definition to allow the proceeds to be used to support the direct care of existing collections.

¹ ASU 2019-03, [Updating the Definition of Collections](#), March 21, 2019

² ASC 958, Not-for-Profit Entities, and FASB Statement No. 116, Accounting for Contributions Received and Contributions Made

There was widespread support for this change because many believed that the care and preservation of collections was just as important as building collections.

This AAM change misaligned the definition of collections used for the financial statements with the definition that could be used for operability

and accreditation. To reduce confusion, the FASB updated its definition to include the concept of direct care.

Definition of collections

Collections are works of art, historical treasures or similar assets that meet all the following criteria.

Current ASC 958 definition of collections	ASU 2019-03 definition
Held for public exhibition, education or research to further public service rather than financial gain.	No change.
Protected, kept unencumbered, cared for and preserved.	No change.
Subject to an organizational policy that requires the proceeds of items that are sold to be used to acquire other items for collections.	Subject to an organizational policy that requires the proceeds from items that are sold to be used for the acquisition of new collection items, the direct care of existing collections, or both.

An entity may establish an organizational policy that allows proceeds to be used for the acquisition of new collection items, the direct care of existing collections, or both. This update aligns the US GAAP definition with the mission of many entities to maintain their collections. It is also consistent with the FASB’s objective in ASC 958 to exempt entities from capitalizing works of art, historical treasures and similar assets that are preserved and protected.

What is direct care?

The ASU provides no definition or other guidance about direct care. Several respondents to the proposed ASU suggested that the FASB clarify direct care by providing a definition, list of indicators or examples to limit diversity in practice.

The FASB formed a working group to conduct additional research that included developing a description of direct care based on an AAM white paper.³ The FASB ultimately decided not to include this description in the ASU, but instead permit each entity to self-define direct care.

The FASB decided that each industry should be able to determine what it considers direct care and provide guidance to its constituents. The FASB was concerned that adding a description of direct care may result in new misalignment between the FASB’s definition and the AAM’s definition and create interpretive questions. The FASB also had concerns about how it could develop a description of direct care that would apply to all collections held by many different entities.

KPMG observation

The AAM white paper states that direct care “enhances the life, usefulness or quality of a museum’s collection.” The paper also includes tools, including a matrix and guiding questions, to help an entity determine if a particular use of funds does or does not constitute direct care. For example, regular maintenance, routine operating costs and costs that benefit areas or operations of the entire entity, not just those associated with collections, likely do not constitute direct care. While the paper focuses on collections held by museums, it includes considerations for various types of collection items, including living collections⁴, and may be helpful for any entity that updates its organizational policies to include the concept of direct care.

³ Direct Care of Collections – Ethics, Guidelines and Recommendations, April 2016

⁴ Examples of entities with living collections include botanical gardens, parks and other types of museums such as zoos and nature centers.

New disclosure requirements

The FASB added new requirements for an entity to disclose its policy for using proceeds from deaccessioned collection items. This disclosure must include whether those proceeds could be used to acquire new collections, pay for the direct care of existing collections, or both. If the entity permits proceeds to be used for direct care, the entity is also required to disclose how it defines direct care.

The FASB's basis for conclusions states that these disclosures will help financial statement users understand how the entity spends the proceeds from deaccessioned collection items.

The disclosures will also provide additional transparency, especially as the FASB did not define direct care.

The FASB considered, but rejected, requiring an entity to include quantitative disclosures about what it spends on direct care, either in total or the amount from the sales proceeds.

The FASB concluded that the expected benefits of providing this information did not justify the tracking costs. Current US GAAP already requires an entity to report proceeds from the sale of collection items separately in the statement of activities.

Effective dates and transition

	All entities
Annual periods – Fiscal years beginning after	December 15, 2019
Interim periods – In fiscal years beginning after	December 15, 2020
Early adoption allowed?	Yes
Transition method	Prospective basis required.

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