



August 9, 2018

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

File Reference No. 2018-250

Dear Ms. Cospers:

The Financial Reporting Executive Committee (FinREC) of the American Institute of Certified Public Accountants (AICPA) appreciates the opportunity to comment on the Financial Accounting Standards Board's June 26, 2018, Exposure Draft of a Proposed Accounting Standards Update—*Not-for-Profit Entities (Topic 958): Updating the Definition of Collections*.

FinREC supports the Board's efforts to improve the definition of *collections* by including the concept of direct care in that definition. While we understand the Board's intent to align U.S. GAAP with the American Alliance of Museums (AAM) requirements, whose guidelines provide a useful framework for museums to meet their mission and duty to the public with regard to the collections they maintain, we have some concerns regarding operability and auditability of the proposed definition changes permitting proceeds from the sale of collection items to be used for "direct care" of existing collections. Specifically, one concern is the lack of any guidance in U.S. GAAP on the meaning of direct care. Without some parameters or a definition of the term "direct care," we believe that this phrase will be open to wide interpretation, leading to an undesirable amount of diversity in practice. We understand that organizations who are accredited by AAM are bound by the requirements they promulgate. However, collections are held by a variety of organizations that are not AAM members. Further, those organizations who hold collections, but are not museums, may determine that the concepts provided by AAM are not appropriate for other organizations, leaving them without guidance. To quote from the AAM whitepaper, *Direct Care of Collections – Ethics, Guidelines, and Recommendations*,

"The practices surrounding deaccessioning and disposition of objects from collections are routine for the museum field, yet the phrase 'direct care of collections' regarding the use of proceeds from deaccessioning has been problematic since it was introduced in 1993."

Given that a premier membership organization for entities who encounter these issues on a regular basis finds the area to be a challenge and does not provide a clear definition of "direct care," we request that guidance be provided to assist all organizations holding collections in implementing the concept of direct care.

We recommend that the FASB engage representatives of the AICPA (FinREC, Auditing Standards Board, and the Not-for-Profit Expert Panel) and appropriate industry representatives to address our concerns related to the application and implementation of the proposed changes before finalizing this project.

\* \* \* \* \*

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

As mentioned above, representatives of FinREC, ASB, and the AICPA Not-for-Profit Expert Panel are available to discuss our comments with Board members or staff at their convenience.

Sincerely,

James Dolinar  
Chairman  
FinREC

Jennifer Hoffman  
Chairman  
AICPA Not-for-Profit Entities Expert Panel

## Appendix

**Question 1:** *Should the definition of the term collections include the concept of direct care? If not, why not?*

### Comment

As stated in our letter, we support the board's effort to improve the definition of collections by including the concept of direct care. However, we feel that more guidance should be provided to operationalize the concept of direct care. That guidance could take the form of indicators and examples, in addition to providing a general definition of the term, *direct care*.

**Question 2:** *Should there be a requirement to disclose an entity's policy for use of proceeds from deaccessioned collections? If not, why not?*

### Comment

Yes, we believe that it would be appropriate to disclose the organization's policy for proceeds from sales of collection items. We believe that this information would be decision- useful to financial statement users, including donors, lenders and regulators.

**Question 3:** *Would the proposed transition requirement of prospective application with retrospective application permitted be operable and would it provide decision-useful information? If not, please explain why and what you would recommend.*

### Comment

We have concerns about the circumstances under which an organization would be permitted to retrospectively reclassify and utilize funds which would not have been available for that purpose at the time the expenses were approved and incurred. If the Board is aware of circumstances in which this option is necessary to facilitate adoption of the standard, providing context in the form of examples would be desirable, as would additional guidance to address transition from the different reporting options that Not-For-Profit entities employ under the current definitions and requirements of U.S. GAAP.

**Question 4:** *Should the effective date of the proposed amendment be upon issuance of a final Update? If not, why not?*

### Comment

Given that this change would provide a significant amount of additional flexibility in the management of collections, we would encourage organizations to take additional time to develop, review and implement applicable policies related to the sales of collection items and the use of proceeds, including developing a working definition of "direct care." We recommend that this change become effective for periods beginning after December 15, 2018. At that point, prospective application would be appropriate.