

August 26, 2009

Mr. Russell G. Golden  
Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

Dear Mr. Golden:

Not-for-profit entities (NFP) are required to measure beneficial interests in perpetual trusts at fair value. The Accounting Standards Executive Committee of the American Institute of Certified Public Accountants (AcSEC) asks the FASB to provide authoritative guidance permitting an NFP, as a practical expedient, to estimate the fair value of a beneficial interest in a perpetual trust using the fair value of the assets held by the trust, without further adjustment. (As noted below, we believe this could be accomplished by expanding the scope of proposed FSP 157g, *Estimating the Fair Value of Investments in Investment Companies that Have Calculated Net Asset Value per Share in Accordance with the AICPA Audit and Accounting Guide, Investment Companies*.)

We believe such a practical expedient would be appropriate for the following reasons:

- Current practice is to estimate the fair value of the beneficial interest in a perpetual trust using the fair value of the assets held by the trust, without further adjustment. Financial statement users, NFP's, and auditors have expressed no concerns about that approach.
- Similar to certain investments within the scope of proposed FSP 157g, NFP's do not buy or sell beneficial interests in perpetual trusts, no market for such interests exists, and those interests do not have readily determinable fair values. It is unclear which features of a beneficial interest in a perpetual trust would require adjustment to the fair value of the underlying assets in the trust in order to determine the fair value of the interest and how those adjustments, if any, would be determined. Further, such adjustments, if any, would be highly subjective (and perhaps arbitrary) and not provide the most decision useful information. Accordingly, permitting NFP's, as a practical expedient, to estimate the fair value of a beneficial interest

in a perpetual trust using the fair value of the assets held by the trust, without further adjustment, would provide the most relevant estimate of the fair value of the interest in the trust without undue cost and effort, and enhance comparability between and among NFP's.

AcSEC observes that this issue extends beyond NFP interests in perpetual trusts. For example, NFP's have interests in other assets held in trust, such as those related to split interest agreements in which the NFP may or may not be trustee. In the interest of time, we ask the Board to immediately consider, at a minimum, retaining current practice for reporting NFP beneficial interests in perpetual trusts. Also, we believe the Board should consider guidance for NFP interests in trusts other than perpetual trusts at some point, because estimating the fair value of those interests in trusts presents many of the same issues encountered in estimating the fair value of beneficial interest in perpetual trusts, because entities do not buy or sell such interests, no market for such interests exists, and those interests do not have readily determinable fair values.

We understand the FASB is involved in many financial crisis projects, many jointly with the IASB (in keeping with ongoing convergence efforts), and that agenda time and resources are limited. However, NFPs are subject to extensive fair value measurement requirements having a significant impact on their reporting and, like other types of entities, such as financial entities, are challenged to apply the provisions of FAS 157. We urge the Board to expeditiously consider this request on behalf of its NFP constituency. Many NFP's have June 30 year ends and, accordingly, are required to initially apply the provisions of FASB Statement No. 157, *Fair Value Measurements* (ASC section 820) for their June 30, 2009 financial statements, many of which will be issued soon. With an aim toward providing timely guidance, we ask the Board to consider including interests in perpetual trusts within the scope of the guidance resulting from proposed FSP 157-g.

We have provided more specific discussion in the attachment to this letter.

We are available to discuss this issue with Board members or staff at their convenience.

Sincerely,

Jay D. Hanson, Chair  
Accounting Standards Executive Committee

Elaine Allen, Chair  
NFP FASB Statement  
No. 157 Issues Task  
Force

## ATTACHMENT A – NFP INTERESTS IN PERPETUAL TRUSTS

### INTRODUCTION

1. An NFP may have a beneficial interest in a perpetual trust that is reported at fair value pursuant to paragraph 15 of FASB Statement No. 136 and chapter 6 of the AICPA Audit and Accounting Guide, *Not-for-Profit Entities* [ASC 958-605-30-14 (initial recognition) and 958-605-35-3 (subsequent measurement)]. Specifically, that beneficial interest typically exists because the NFP has the irrevocable right to receive the income earned on trust assets in perpetuity, but never receives the assets held in trust. In such circumstances, the NFP's asset is the right to the stream of cash flows (the interest in the cash flows). Further, in such circumstances, typically the trustee controls the investment decisions and timing of distributions to the NFP; and the NFP cannot transfer its interest.
2. FASB Accounting Standards Codification™ (ASC) 958-605-30-14 (initial recognition) and 958-605-35-3 (subsequent measurement) codify paragraph 6.29 of the NPO Guide (2008 version of the Guide), and discuss circumstances in which an NFP has the irrevocable right to receive the income earned on trust assets in perpetuity, but never receives the assets held in trust. ASC 958-605-30-14 and 958-605-35-3 provide as follows:

The fair value of a perpetual trust held by a third party generally can be measured using the fair value of the assets contributed to the trust, unless facts and circumstances indicate that the fair value of the beneficial interest differs from the fair value of the assets contributed to the trust.

3. Practice is predominantly to measure the fair value of an interest in a perpetual trust held by a third party using the fair value of the assets held by the trust. Financial statement users, NFP's, and auditors have expressed no concerns about that approach, and AcSEC believes it provides decision useful information.

4. The model in Statement No. 157, *Fair Value Measurements* (ASC section 820) requires inputs based on assumptions about hypothetical market participants in order to measure a beneficial interest in a perpetual trust. No market comparables or market participants exist for an NFP's beneficial interest in a perpetual trust, and thus that model presents significant challenges for NFP's.
5. Some AcSEC members believe that in all circumstances involving a perpetual trust held by a third party, conceptually the fair value of the assets held by to the trust differs from the fair value of the beneficial interest in the trust. Those members believe a hypothetical market participant would demand a discount from the fair value of the underlying trust assets for some or all of the following reasons:
  - The inability to gain access to the underlying trust assets (i.e. a permanent liquidity restriction).
  - The NFP's inability to control the timing of cash flows from the trust to the NFP.
6. Some AcSEC members believe determining the fair value of the income stream in perpetuity that results from a beneficial interest in a perpetual trust requires highly subjective (and perhaps arbitrary) assumptions. Those AcSEC members believe those assumptions are so subjective (and perhaps arbitrary) that incorporating them into estimates of fair value would result in information that is neither comparable nor decision useful. Also, AcSEC members are unaware of other circumstances in which an entity holds an interest in an income stream in perpetuity and what valuation methods might be appropriate to estimate the fair value of those interests.
7. While the fair value of the assets held by the trust may differ from the fair value of the beneficial interest in the trust, AcSEC believes the FASB should provide authoritative guidance permitting an NFP, as a practical expedient, to estimate the fair value of a beneficial interest in a perpetual trust using the fair value of the assets held by the trust, without further adjustment. AcSEC seeks this authoritative guidance because AcSEC is concerned that in applying the guidance in the ASC, practice may be inconsistent in determining which facts and circumstances indicate that the fair value of the beneficial interest differs from the fair value of the assets held by the trust. In addition, in circumstances in which NFP's conclude that the fair value of the beneficial interest differs from the fair value of the assets held by the trust, practice may be inconsistent in determining

the fair value of that beneficial interest. Specifically, determining the adjustment(s), if any, that should be made to the fair value of the assets held by the trust, in determining the fair value of the beneficial interest, may be so subjective (and perhaps arbitrary) that the resulting estimate of fair value is not decision useful. The fair value of the assets held by the trust, therefore, may be the most relevant estimate of the fair value of the NFP's beneficial interest in the trust.