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May 15, 2013

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

Re: File Reference No. 2013-220

Dear Technical Director:

On behalf of the National Association of College and University Business Officers (NACUBO), we submit the following comments on the Proposed Accounting Standards Update, "Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10)" (the ASU). NACUBO's comments on the proposal were developed with input from our member institutions and our Accounting Principles Council (APC). The APC consists of experienced business officers from various types of institutions who, collectively, possess a thorough knowledge of higher education accounting and reporting issues and practices.

NACUBO is a nonprofit professional organization representing chief financial and administrative officers at more than 2,100 nonprofit colleges and universities. In its capacity as a professional association, NACUBO issues accounting and reporting guidance for the higher education industry and educates over 2,000 higher education professionals annually on accounting and reporting issues and practices.

Overall Comments on the ASU

We appreciate the time and consideration that the Board has given this area since its original proposal in 2010. In general, we are pleased with the changes that have been made to the proposal. The proposed model for measuring and reporting assets by assessing the cash flow characteristics of the assets and the entity's business model for managing the asset seems reasonable. The proposed model for measuring liabilities based on how the entity expects to settle them is a significant improvement over the previously proposed measurement criteria. We believe that both of these measurement models should work for higher education institutions.

There are, however, certain areas of concern which we have detailed below.

Presentation of changes in fair value through Other Comprehensive Income or Net Income

In general, the ASU addresses how a Not-for-Profit entity (NFP) that does not report either Net Income or Other Comprehensive Income would apply the proposed guidance. There is one area, however, where we are unclear as to the Board's intent. That being the presentation of realized gains and losses. Proposed ASU 825-10-35-12 would require an entity to include in net income, realized gains and losses on sales and settlements. While paragraph 825-10-35-15 attempts to clarify how an NFP would apply the guidance in ASU 825-10-35 paragraphs 8 through 11, it does not address paragraph 12. It is unclear whether NFPs within the scope of Topic 958 that present a measure of operations would be required to present realized gains and losses within operations. If an NFP reports a measure of operations, we do not believe that it should be subject to the proposed requirement. NFPs hold endowments and other restricted resources that are invested. Because of donor restrictions, realized gains and losses on such investments are not always available for current period use. For NFPs, it is the nature and timing of the restriction and its release, respectively, that should drive the inclusion of realized gains or losses in operations, rather than the use of an operating metric.

Disclosure of Fair Value Amounts for Instruments Carried at Other than Fair Value

The requirement to provide fair value information for assets and liabilities carried at amounts other than fair value is concerning for a number of reasons. First and foremost, the effort involved in determining two sets of values would be labor intensive and cost prohibitive – especially for small NFPs that do not have sophisticated models for valuing financial instruments.

In addition, as we pointed out in our comment letter of January 22, 2013 regarding the proposed ASU "Clarifying the Scope and Applicability of a Particular Disclosure to Nonpublic Entities (Topic 825)" (subsequently ASU 2013-03), users of NFP financial statements, including rating agencies, governing boards, bond holders and management, do not utilize the fair values disclosed for items measured at other than fair value. The one exception to this is for investments that are not carried at fair value. As such, we request that the Board consider extending the scope exception provided in ASU 2013-03 to all NFPs.

The proposed requirement to provide fair value amounts parenthetically on the face of the statement of position for amounts carried at other than fair value is another area we believe the Board should reconsider. There are already a number of items that are presented parenthetically on the face of the statements such as reference to corresponding footnotes, allowance amounts, depreciation amounts, and so on. The more information that is included on the face of the statements, the more it detracts from the fundamental information that the statements are meant to provide.

As we have discussed with the Board on a number of occasions, the majority of higher education institutions meet the definition of a public entity for financial reporting purposes as they have publicly traded debt and/or are conduit debt obligors. For these institutions, there is little benefit to carrying financial instruments at amortized cost as they would still be required to determine fair value and provide the same disclosures (as identified in proposed paragraph 825-10-50-34) as they would if the instrument was carried at fair value.

Practicability Exception

We have a number of issues with the proposed Practicability Exception discussed in 825-10-35 paragraphs 17 through 19. The first issue is one of nomenclature. The term "Practicability Exception" is too similar to the term "Practical Expedient" and has been a source of confusion to many NACUBO members who have provided us with feedback on the ASU. If this exception is retained in the final guidance, we encourage the Board to use different terminology to label it.

We do not see any relief in the proposed exception. In fact, we believe it would result in more effort and less benefit to the institution if they chose to adopt it. To begin with, there is little desire on the part of higher education institutions to carry investments at amortized cost – particularly when the "other than temporary" impairment model would no longer be available. The institution would likely have to invest more effort in assessing these investments for impairment and scanning the market for transactions that might further impact the carrying value.

Secondly, the institution would still be required to determine the fair value of the investment and provide extensive disclosures related to that fair value. We believe that if an institution is going to have to expend the effort necessary to meet the fair value measurement and disclosure requirements, they will prefer to carry these investments at fair value rather than adopt the practicability exception.

Finally, it is not clear whether the practicability exception would be applied only to new investments or whether investments carried at fair value that do not qualify for the practical expedient at the effective date could be revalued using the practicability exception. This issue should be specifically addressed in the final standard.

Elimination of the Fair Value Option for Promises to Give

It is our understanding that financial instruments outside the scope of the ASU would no longer be eligible for the fair value options currently included in ASU 825-20-25-4. For NFPs, this would include promises to give. While there are not many higher education institutions that elected the fair value option for valuing promises to give, there are a few. It was not clear in our reading of the ASU as to how these institutions would treat promises to give that are currently valued under the fair value option once the ASU becomes effective.

We wish to express our appreciation for the opportunity to comment. We look forward to answering any questions the Board or the staff may have about our response. Please direct your questions to Sue Menditto at 202-861-2542 or sue.menditto@nacubo.org.

Sincerely,

Susan M. Menditto
Director, Accounting Policy