December 11, 2013

Peter Martin, CPA, CA
Director, Accounting Standards
Accounting Standards Board
277 Wellington Street West
Toronto, Ontario M5V 3H2

RE: Statement of Principles: Improvements to Not-for-Profit Standards

Dear Mr. Martin:

The Committee on Corporate Reporting (CCR) of Financial Executives International Canada (FEI Canada) is responding to your request for comments on the April 2013 Statement of Principles: Improvements to Not-for-Profit Standards.

FEI Canada is the all-industry professional membership association for senior financial executives. With eleven chapters across Canada and 1,700 members, FEI Canada provides professional development, thought leadership and advocacy services to its members. The association membership, which consists of Chief Financial Officers, Audit Committee Directors and senior executives in the Finance, Controller, Treasury and Taxation functions, represents a significant number of Canada's leading and most influential corporations.

The Committee on Corporate Reporting ("CCR") is one of seven thought leadership committees of FEI Canada. CCR is devoted to improving the awareness of issues and educating FEI Canada members on the implications of the issues it addresses, and is focused on continually improving the standards and regulations impacting corporate reporting.

We again commend your efforts to respond to the needs of users of financial statements of Not-for-Profit Organizations (NFPOs) and to direct NFPOs to the same financial reporting standards followed by other entities. We believe that this will make for more consistent accounting and presentation across NFPOs, some of which have already chosen to present their financial statements in accordance with Part 1 of the Handbook (IFRS). We wrote to you in June 2009, and again in June 2010 to voice our support for this approach.

We believe, however, that many NFPOs will disagree with a number of the proposals because their stakeholders' objectives are different from those of ASPE stakeholders, with different financial reporting needs. We believe that the main areas of disagreement will be in the following areas:

- The accounting for contributions, and in particular, the accounting for restricted contributions related to capital items and endowments; and
- The requirements to consolidate controlled NFPOs.

While we agree with the proposal by the Accounting Standards Board (the "Board") to reduce the accounting policy choices for contributions for all NFPOs to create more consistency, we do not believe the proposals will meet the needs of all the stakeholders in the NFPO sector. NFPOs have a wide variety of users of their financial statements (e.g., current and potential donors, members, government agencies, lenders, other NFPOs) while the main users of private enterprise financial statements are lenders. The two types of stakeholders for these two types of entities can have very different objectives in analyzing NFPO financial statements (assessing stewardship, cost management, and meeting NFPO objectives versus making a profit).

The proposed model will cause significant volatility in earnings for NFPOs, especially for those with contributions designated for capital assets. Even for NFPOs who continue with fund accounting and present their operations in columnar format, with focus on the totals column, this volatility will mislead users (e.g., potential and current donors) into believing a NFPO is more profitable than it really is due to significant surpluses in years of large contributions for capital assets. The opposite effect will be true in subsequent years when the NFPO depreciates the assets. The guidance in Section 3800, Government Assistance, might be more appropriate for such contributions as opposed to Section 3400, Revenues. Section 3800 already allows entities to deduct contributions from the related cost of the capital assets, or to defer and amortize contributions for capital assets over the life of the related capital assets. This approach would eliminate the misleading fluctuations in net income that would result from recording such contributions as revenue. We would suggest that the Board propose these methods for accounting for these contributions as they are well understood by financial statement preparers and would prevent the confusion and constant re-education that would be necessary to explain fluctuations in net income to financial statement users.

We also disagree with the principle that endowment contributions, (which are externally restricted and must be maintained permanently), should be recorded as revenue. We do not agree with the statement that endowments most often result from the "ordinary activities" of a NFPO. NFPO's normally solicit contributions that they can use in order to achieve their operational mandate. Endowments are different from these other contributions in that the principal cannot be used for regular operations and are therefore similar in nature to contributions of capital which might be made by shareholders in private enterprises as contemplated by Section 3610. It is important for users of NFPO statements that the intent of these donations is not lost. We believe that these contributions should be treated as credits to net assets, as in Section 3610, and not as revenue to demonstrate that the funds are not available to be used in operations but must instead be maintained permanently.

We believe that the Board should allow NFPO's the choice of whether they consolidate controlled NFPOs or not consolidate but provide required disclosures. This choice best serves NFPO financial statement users and the NFPO community because consolidating would result in significant aggregation and loss of granularity in financial statement items. The proposed principle would come with a significant loss of financial detail as a result of aggregating financial statement items with information from controlled entities. For example, a handful of churches may be material to a diocese. A requirement to consolidate these churches in the audited financial statements of the diocese would obscure the results of the diocese, and might impose new audit requirements on the churches to enable audited consolidated results of the diocese. These financial statements would be of limited benefit to the financial statement users and would muddy the waters for the users as some controlled entities become consolidated and some do not. This also begs new questions as to the definition of control in the NFPO environment; in the NFPO environment, this question may be rife with politics. An accounting policy choice will allow NFPOs that control other NFPOs with very different purposes or objectives to present the financial information relevant to their own not-for-profit purposes rather than potentially confusing financial statement users by combining resources. The current disclosure requirements that accompany the accounting policy choice to not consolidate would provide users with additional information about the resources and use of resources in controlled entities.

In addition to these concerns, CCR believes that the definition of "NFPOs" should be addressed to provide greater clarity to determine which organizations should apply these standards. We ask the Board to consider providing additional guidance on the definition of not-for-profit organizations. This also has bearing on the definition of a publicly-accountable enterprise (PAE), which excludes not-for-profit organizations, and accordingly, which organizations should follow IFRS. The current definition for a not-for-profit organization, "an entity... operated for… any other not-for-profit purpose," renders the definition incomplete because "not-for-profit purpose" is not itself defined. "Not-for-profit purpose" should therefore be defined, and this could include charitable or philanthropic purposes, and primarily government-funded entities such as universities and hospitals.

The definition of an NFPO is sometimes applied to organizations that are incorporated without share capital and accordingly do not have stakeholders who would benefit from distributions of the profits of the entity. They provide a public service, but expect and are motivated to earn profits that they re-invest in operations. These entities are not NFPOs to which the s.4400 sections should apply solely because of the statute under which they are incorporated. (Canadian airport authorities, which can and do issue publicly-traded debt, are an example of such entities). The statute under which an entity is incorporated should not in and of itself determine whether or not an organization is an NFPO. We would clarify the definition of not-for-profit organization by simply stating that the legal form of incorporating an organization does not determine whether or not an organization is not-for-profit.

CCR appreciates the opportunity to comment on the Statement of Principles and we trust that our comments will be of use to you as you continue in your deliberations. Please do not hesitate to contact us if you would like to discuss our views further.

Regards,

Gordon Heard
Chair
Committee on Corporate Reporting
FEI Canada

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