

March 29, 2016

Susan M. Cospers, CPA  
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**Re: January 29, 2016 Exposure Draft of a Proposed Accounting Standards Update (ASU), *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, a consensus of the FASB Emerging Issues Task Force [File Reference No. EITF-15F]***

Dear Ms. Cospers:

The American Institute of CPAs (AICPA) is the world's largest member association representing the accounting profession, with more than 412,000 members in 144 countries, and a history of serving the public interest since 1887. One of the objectives that the Council of the AICPA established for the PCPS Executive Committee is to speak on behalf of local and regional firms and represent those firms' interests on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC has reviewed the ED and is providing the following comments for your consideration.

### **GENERAL COMMENTS**

TIC appreciates the Board's efforts to resolve cash flow statement classification issues that have been troublesome for practitioners and preparers over the years. TIC believes, in general, the proposed amendments will lessen confusion and help to reduce existing diversity in practice. Although some of the proposed split-classification requirements could introduce added complexity, most of the TIC members do not foresee a significant long-term issue with them since many entities follow a split-classification approach today. TIC's specific comments on each issue are presented below.

TIC also recommends the Board consider addressing a common issue concerning related party borrowing transactions, as described in the "Other Comments" section of this letter. The Board's conclusions could then be exposed for comment at the same time as the proposal related to restricted cash.

## SPECIFIC COMMENTS

**Question 1:** *Should cash payments for debt prepayment or extinguishment costs be classified as cash outflows for financing activities? If not, what classification is more appropriate and why?*

TIC agrees that cash outflows for debt prepayment and extinguishment costs should be classified as financing activities.

**Question 2:** *Should the cash payment made at the settlement of a zero-coupon bond be separated and classified as follows: the portion of the cash payment attributable to the accreted interest as cash outflows for operating activities, and the portion of the cash payment attributable to the principal as cash outflows for financing activities? If not, what classification is more appropriate and why?*

Since cash payments related to interest expense have always been classified as cash outflows from operating activities, TIC agrees that separating the classification of the outflows between operating activities and financing activities is appropriate.

**Question 3:** *Should cash payments made by an acquirer that are not paid soon after a business combination for the settlement of a contingent consideration liability be separated and classified as follows: the payments, or portion of the payments, up to the amount of the contingent consideration liability recognized at the acquisition date as cash outflows for financing activities, and the payments, or portion of the payments, that exceed the amount of the contingent consideration liability recognized at the acquisition date as cash outflows for operating activities? If not, what classification is more appropriate and why?*

TIC supports the theory behind the proposed split classification approach when an acquirer's cash payments for the settlement of a contingent consideration liability are not paid shortly after the business combination.

**Question 4:** *Is cash flow classification guidance needed to address situations in which an acquirer makes a cash payment for the settlement of a contingent consideration liability soon after the business combination? If so, what classification is appropriate and why?*

No, TIC believes such guidance would not be necessary.

**Question 5:** *Should the proceeds received from the settlement of insurance claims be classified on the basis of the insurance coverage (that is, the nature of the loss), including those proceeds received in a lump-sum settlement for which an entity would be required to determine the classification on the basis of the nature of each loss included in the settlement? If not, what classification is more appropriate and why?*

TIC supports the Board's proposed classification since classification based on the nature of the loss is consistent with paragraph 230-10-45-16(c), which states, in part, that cash flows from operating activities include proceeds of insurance settlements except for

those that are directly related to investing or financing activities, such as from destruction of a building.

**Question 6:** *Should cash proceeds received from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies, be classified as cash inflows from investing activities? If not, what classification is more appropriate and why?*

Yes, TIC supports classifying cash proceeds received from the settlement of corporate-owned life insurance policies as cash inflows from investing activities. TIC agrees with the rationale presented in paragraph BC18 that such policies are purchased primarily as investment vehicles.

**Question 7:** *Should cash payments made for premiums of corporate-owned life insurance policies, including bank-owned life insurance policies, be permitted to be classified as cash outflows for investing activities, operating activities, or a combination of investing and operating activities? If not, what classification is more appropriate and why?*

TIC did not support an approach that would require the classification of premiums paid to be aligned with the classification of life insurance proceeds received. However, TIC was split on the other options presented in the ED. Some TIC members believe that the entity should classify the cash outflows for premiums paid based on the intended purpose of the outflow (operating or investing). Others support the split classification between investing and operating as presented in AICPA *Technical Practice Aids* (TPA), Q&A 1300.13 (Classification of Increase in Cash Value of Officers' Life Insurance in Statement of Cash Flows). As a result, some supported optionality of classification to accommodate the varying classification perspectives, but others opposed optionality, either on principle or for cost/benefit reasons.

**Question 8:** *Should distributions received from an equity method investee when an investor applies the equity method be presumed to be returns on investment and classified as cash inflows from operating activities unless the investor's cumulative distributions received less distributions received in prior periods that were determined to be returns of investment exceed cumulative equity in earnings recognized by the investor? When such an excess occurs, should the current-period distribution up to this excess be considered a return of investment and classified as cash inflows from investing activities? If not, what approach is more appropriate and why?*

TIC supports the proposed classifications for distributions received from equity method investees.

**Question 9:** *Should a transferor's beneficial interest obtained in a securitization of financial assets be disclosed as a noncash activity? If not, what treatment is more appropriate and why?*

TIC has no comment on this question.

**Question 10:** *Should cash receipts from payments on a transferor's beneficial interests in securitized trade receivables be classified as cash inflows from investing activities? If not, what classification is more appropriate and why?*

TIC has no comment on this question.

**Question 11:** *Is the additional guidance that clarifies when an entity should separate cash receipts and cash payments and classify them into more than one class of cash flows (including when reasonable judgment is required to estimate and allocate cash flows) and when an entity should classify the aggregate of those cash receipts and payments into one class of cash flows on the basis of predominance understandable and operable? If not, please explain why and what additional guidance would be more appropriate.*

Yes, TIC believes the guidance regarding the predominance principle is understandable and operable.

**Question 12:** *Should the proposed amendments for all eight cash flow issues be applied using a retrospective transition method? If not, what transition approach is more appropriate and for which specific cash flow issues and why?*

TIC supports a retrospective transition method in the interest of consistency and comparability, when practicable.

**Question 13:** *Should the proposed amendments include a provision that if it is impracticable for some of the amendments to be applied using a retrospective transition method, then those amendments would be applied prospectively as of the earliest date practicable? Why or why not?*

Yes, this provision will be necessary to ensure that the cost of applying these amendments does not exceed the benefits to be derived.

**Question 14:** *Should an entity be required to provide the transition disclosures specified in the proposed Update? Should any other transition disclosures be required? If yes, please explain what transition disclosures should be required and why.*

In accordance with the proposed amendments, TIC agrees that an entity should be required to disclose the nature of, and the reason for, the change in accounting principle, a description of the prior-period information that has retrospectively been adjusted and the effect of the change on applicable financial statement line items.

**Question 15:** *How much time will be necessary to implement the proposed amendments? Do entities other than public business entities that are required to present a statement of cash flows under Topic 230 (that is, private companies and not-for-profit entities, but not employee benefit plans) need additional time to apply the proposed amendments? Why or why not?*

TIC believes private companies and not-for-profit entities should be given an extra year (i.e., an additional education cycle) to adopt the proposed amendments. If the final ASU is issued in the summer of 2016, for example, CPE providers and conference organizers may not have enough time to include the Update in their materials or to reach most of the preparers and practitioners that need to be aware of the changes. The proposed changes will affect many line items on the statement of cash flows and many entities. Therefore, implementation of the final ASU should not be required prior to periods beginning after December 15, 2017.

**Question 16:** *Should early adoption be allowed?*

TIC believes early adoption should be allowed for those entities that wish to do so, since the proposed amendments would promote consistency in financial reporting and comparability among similar entities and mitigate past diversity in practice.

**OTHER COMMENTS**

TIC believes the Board should also consider offering guidance related to classifications of cash flows involving related party borrowings. In practice, TIC members have noted many entities treating these types of transactions as operating cash flows, particularly if there is no formal agreement between the two related entities. However, in other cases, these arrangements are classified as financing activities on the borrower's financial statements and as investing activities on the lending entity's financial statements.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,



Michael A. Westervelt, Chair  
PCPS Technical Issues Committee  
cc: PCPS Executive and Technical Issues Committees