

June 25, 2016

Susan M. Cospers, CPA
Technical Director
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: April 28, 2016 Exposure Draft of a Proposed Accounting Standards Update (ASU), *Statement of Cash Flows (Topic 230): Restricted Cash* [File Reference No. EITF-16A]

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 is supportive of the Board's proposed approach to the classification of restricted cash in the statement of cash flows and agrees with the proposed disclosures and transition method. However, TIC is requesting additional clarification around the proposed transition disclosure that refers to paragraph 250-10-50-1(a) relating to the accounting principle change. TIC's concerns and recommendations are presented in the response to Question 7 below. TIC is also requesting that the issuance and effective date of this ED coincide with the issuance and effective date of the other planned ASU entitled *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* (EITF Issue No. 15-F).

SPECIFIC COMMENTS

Question 1: *Do you agree that the statement of cash flows should explain the change during the period in the total of cash, cash equivalents, and amounts generally described as*

restricted cash or restricted cash equivalents? If not, please explain what presentation is more appropriate and why.

Yes, this presentation represents the most effective way of communicating cash inflows and outflows for the entity as a whole. It will eliminate the need to address transfers between unrestricted cash and restricted cash and will eliminate existing diversity in practice.

Question 2: *Do you agree that if the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents at the beginning and end of the period shown on the statement of cash flows cannot be reconciled to the amounts of similarly titled line items on the statement of financial position, an entity should disclose on the face of the statement of cash flows or in the notes to the financial statements, the amounts and line items in which such amounts are reported within the statement of financial position? If not, please explain why that information would not be useful.*

Yes, TIC supports the disclosure of the amounts and financial statement line items that include restricted cash. Many not-for-profit organizations have restricted cash but do not label it as such. Captions such as “funded depreciation” or “assets limited as to use” are used, which may obscure the restricted nature of the funds. TIC believes that financial statement users will want to know where restricted cash resides within the balance sheet.

Question 3: *Do you agree that an entity should be required to disclose information about the nature of restrictions on its cash and cash equivalents? If not, please explain why that information would not be useful.*

Yes, TIC agrees that this is an essential disclosure for the benefit of financial statement users and is especially important when restricted cash comprises a high percentage of total cash.

Question 4: *Would disclosures of the amounts of gross transfers between cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents (excluding transfers, constructive or actual, that result in a concurrent cash receipt from or a concurrent cash payment to an outside source) provide meaningful information to financial statement users? Please explain why.*

No, TIC believes such disclosures would add unnecessary complexity to the statement of cash flows and would have little-to-no relevance to financial statement users. The disclosure could also create confusion as to what amounts are new sources of cash for the entity and what amounts are not.

Question 5: *Should any other disclosures be provided? If so, please explain what disclosures should be provided and why that information would be useful.*

TIC did not identify any other necessary disclosures.

Question 6: *Do you agree that the proposed amendments should be applied using a retrospective transition method? If not, please explain what transition method would be more appropriate and why.*

TIC agrees that the retrospective transition method is appropriate.

Question 7: *Do you agree that an entity should be required to provide the transition disclosures specified in the proposed Update? Should any other transition disclosures be required? If so, please explain what transition disclosures should be required and why.*

TIC agrees that transition disclosures should be required but believes that paragraph 230-10-65-3(c) should be modified to clarify that preferability of the accounting change does not need to be established or disclosed. In the ED, paragraph 230-10-65-3(c) includes the following requirement:

c. An entity shall provide the disclosures in paragraphs 250-10-50-1(a) and (b)(1) and 250-10-50-2, as applicable, in the first interim and annual period in which the entity adopts the pending content that links to this paragraph.

Paragraph 250-10-50-1(a), which addresses required disclosures when a change in accounting principle has occurred, indicates that the disclosures shall include "...an explanation of why the newly adopted accounting principle is preferable."

However, the preferability explanation would not be required when an accounting principle change is required by a newly issued Codification update. Paragraph 250-10-45-13 is clear that, "The issuance of such an update constitutes sufficient support for making such a change."

The reference to paragraph 250-10-50-1(a) is therefore very confusing. When an entity makes an accounting principle change as a result of the issuance of a Codification Update, it is unclear whether the requirement in paragraph 250-10-50-1(a) can be ignored since that requirement is part of the paragraph. TIC believes disclosure of the nature of the change and the reason for the change (i.e., issuance of a Codification Update) would suffice.

TIC therefore recommends that paragraph 230-10-65-3(c) be revised to clarify the Board's intent. To say that the disclosures in Topic 250 shall be provided, "as applicable," is not sufficient. TIC believes the Board should clearly state that the disclosures in paragraph 250-10-50-1(a) are required except for the disclosure of the explanation of why the newly adopted accounting principle is preferable.

TIC also believes a long-term solution is necessary so that confusion regarding what has to be disclosed may be avoided. This issue could potentially arise with all ASUs that refer to paragraph 250-10-50-1(a) for disclosure of accounting principle changes. Paragraph 250-10-50-1 should be revised to clearly indicate when a disclosure for an accounting

principle change should include the explanation of why the newly adopted accounting principle is preferable. TIC proposes the following amendment to paragraph 250-10-50-1(a) as one potential way to accomplish this objective:

50-1 An entity shall disclose all of the following in the fiscal period in which a change in accounting principle is made:

- a. The nature of and reason for the change in accounting principle, ~~including an explanation of why the newly adopted accounting principle is preferable.~~*
- b. ~~including a~~ An explanation of why the newly adopted accounting principle is preferable if the entity has changed from one generally accepted accounting principle to an allowable alternative accounting principle. An explanation of preferability is not required if the change was made pursuant to paragraph 250-10-45-13.*

Of course, it would be preferable if the suggested amendments to paragraph 250-10-50-1(a) could be made prior to the issuance of the final ASU on restricted cash. Then, all ASUs that currently refer to paragraph 250-10-50-1(a), including the proposed ASU on restricted cash, would be correct as written.

Question 8: *How much time will be necessary to implement the proposed amendments? Do entities other than public business entities need additional time to apply the proposed amendments? Why or why not?*

TIC believes private entities will not need extra time to implement the proposed amendment as long as all entities are given at least a one-year transition period. However, if the final ASU is issued in late summer/early fall of 2016 and is effective for public business entities for fiscal years beginning after 12/15/16, then TIC suggests an effective date for private entities of fiscal years beginning after 12/15/17. TIC does not anticipate any significant costs as a result of the proposed amendments, but private entities and practitioners will need sufficient time for awareness and training.

TIC would prefer that this ASU be issued simultaneously with the other planned ASU entitled *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* (EITF Issue No. 15-F). Both ASUs affect classifications on the statement of cash flows. In addition, entities that are affected by both standards would have to restate their statements of cash flows for two years in a row if the effective dates of the two standards are not aligned. Therefore, TIC believes these considerations represent important reasons why the issuance and effective dates of both standards should be the same.

Question 9: *Should early adoption be allowed? Why or why not?*

Yes, 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.

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,

A handwritten signature in black ink that reads "Michael A. Westervelt". The signature is written in a cursive, slightly slanted style.

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