



May 18, 2015

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File Reference No. EITF-15B
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**Liabilities—Extinguishments of Liabilities
(Subtopic 405-20)**

Recognition of Breakage for Certain Prepaid Stored-Value Cards

The Accounting Principles and Assurance Services Committee (the “Committee”) of the California Society of Certified Public Accountants (“CalCPA”) respectfully submits its comments on the referenced proposal. The Committee is the senior technical committee of CalCPA. CalCPA has approximately 40,000 members. The Committee consists of 53 members, of whom 47 percent are from local or regional CPA firms, 27 percent are from large multi-office CPA firms, 12 percent are sole practitioners in public practice, 10 percent are in academia and 4 percent are in international CPA firms. Members of the Committee are with CPA firms serving a large number of public and nonpublic business entities, as well as many non-business entities such as not-for-profits, pension plans and governmental organizations.

The committee appreciates the opportunity to respond on Subtopic 405-20 as follows:

Question 1: Should the scope of the proposed amendments be limited to prepaid stored-value card liabilities resulting from the sale of cards with the characteristics specified in this proposed Update? If not, what other liabilities should be included in the scope of this proposed Update?

The Committee believes the proposed scope is too narrow and should be expanded to include all prepaid cards where there is sufficient reliable information to indicate that less than the stated value of the cards will be redeemed for cash, goods or services or when the likelihood of the customer exercising its card redemption rights becomes remote. Further, the Committee believes it is appropriate to consider including customer loyalty programs and other liabilities with characteristics similar to merchant-issued prepaid stored-value cards in Topic 606, either as a part of this project or an additional project.

Prepaid stored-value cards described in Topic 405-20-40-4 (c) of the proposed ASU (financial liabilities) could remain in Section 405 and a specific reference to ASC 606-55-46 through 49 could be inserted with respect to accounting for prepaid cards meeting the definition of a nonfinancial liability.

The Committee believes that the inclusion of the criteria listed in the proposed ASC 405-20-40-4 may be useful in providing an example of a financial liability, it should not be used establishing the scope for the guidance. Accordingly, the Committee would be in favor of removing these limitations from the scope.

Question 2: If an entity expects to be entitled to a breakage amount, should a prepaid stored-value card liability within the scope of the proposed amendments be derecognized in proportion to the pattern of rights expected to be exercised by the card holder only to the extent that it is probable that a significant reversal of the recognized breakage amount will not subsequently occur? If an entity does not expect to be entitled to a breakage amount, should the liability be

derecognized when the likelihood of the customer exercising its remaining rights becomes remote? If not, what breakage model would be appropriate?

The Committee supports the derecognition model described in the proposed ASU.

Question 3: Should an entity be required to provide the disclosures specified in this proposed Update? Should any other disclosures be required? If yes, please explain what disclosures should be provided.

Yes, the Committee agrees with the disclosures required by the proposed ASU if material.

Question 4: Should the proposed amendments be applied using a modified retrospective transition method (requiring a cumulative-effect adjustment as of the beginning of the annual period in which the guidance is effective)? If not, please explain why.

Yes, the Committee agrees with the transition discussed in the proposed ASU.

Question 5: How much time would be needed to implement the proposed amendments? Should early adoption be permitted?

The Committee does not believe the time required to implement the proposed ASU would be significant. However, should the Task Force decide to expand the scope of the proposed ASU the time required could be significant.

Question 6: Do entities other than public business entities (that is, private companies and not-for-profit entities) need additional time to apply the proposed amendments? Why or why not?

The Committee does not believe that additional time would be required for other than public business entities.

We thank you for the opportunity to comment on this matter. We would be glad to discuss our opinions with you further should you have any questions or require additional information.

Sincerely,

A handwritten signature in black ink, appearing to read "A.J. Major III". The signature is written in a cursive style with a large initial "A" and a stylized "J".

A.J. Major III
Chair
Accounting Principles and Assurance Services Committee
California Society of Certified Public Accountants