



1800 Gateway Drive, Ste 200
San Mateo CA 94404-4072
(800) 922-5272
www.calcpa.org

June 27, 2016

Ms. Susan M. Cospers
Technical Director
Financial Accounting Standards Board
401 Merritt 7, PO Box 5116,
Norwalk, CT 06856-5116
File Reference No. EITF-16A: Proposed Accounting Standards Update - Statement of Cash
Flows (Topic 230): Restricted Cash

Dear Ms. Cospers,

The Accounting Principles and Assurance Services Committee (the "Committee") of the California Society of Certified Public Accountants ("CalCPA") has deliberated the Proposed Accounting Standards Update – Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force Issue 16-A). The Committee has prepared the attached comments.

The Committee is the senior technical committee of CalCPA. CalCPA has approximately 43,000 members. The Committee consists of 57 members, of whom 43 percent are from local or regional CPA firms, 30 percent are from large multi-office CPA firms, 13 percent are sole practitioners in public practice, 9 percent are in academia and 5 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.

We thank you for the opportunity to comment on this matter. Please see our responses following this cover letter. 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 that reads "A.J. Major III". The signature is written in a cursive style with a horizontal line underlining the name.

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

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.

The majority of Committee members believe that changes in restricted cash and cash equivalents should be reported separately from cash and cash equivalents. Consistent with ASC230 -10-45-22, reporting such changes should be based upon the activity (i.e., operating, investing or financing) that is likely to be the predominant source of cash flows for the item.

*The Committee believes that restricted cash and cash equivalents are fundamentally different than cash and cash equivalents as currently defined within the Master Glossary of the FASB Codification. Specifically, cash is described as including “demand deposits in that the customer may deposit additional funds at any time and also effectively **may withdraw funds at any time without prior notice or penalty.**” [Bold emphasis added.] Conversely, restricted cash and restricted cash equivalents are not available at any time. Accordingly, the Committee believes that changes in restricted cash and restricted cash equivalents should be presented separately as amounts used or provided in connection with activities based on the activity that is likely to be the predominant source of cash flows.*

The Committee further recognizes certain views that restricted cash and restricted cash equivalents do not meet the current ASC Master Glossary definitions of cash and cash equivalents, respectively. Accordingly, to the extent restricted cash and restricted cash equivalents are combined with cash and cash equivalents, the Committee believes that revising the existing definitions of cash and cash equivalents within the Master Glossary may be useful in eliminating differences in interpretations. This is particularly true in the absence of separate definitions of restricted cash and restricted cash equivalents. For example, the existing definition of cash could be changed to include the following bolded text:

Consistent with common usage, cash includes not only currency on hand but demand deposits with banks or other financial institutions. Cash also includes other kinds of accounts that have the general characteristics of demand deposits in that the customer may deposit additional funds at any time and also effectively may withdraw funds at any time without prior notice or penalty. **Generally, cash may be unrestricted or restricted with respect to an entity’s use or withdrawal.** All charges and credits to those accounts are cash receipts or payments to both the entity owning the account and the bank holding it. For example, a bank's granting of a loan by crediting the proceeds to a customer's demand deposit account is a cash payment by the bank and a cash receipt of the customer when the entry is made.

Similar language could be added to the existing definition of cash equivalents.

It should be further noted that certain members of the Committee in the minority, including several of those whom serve non-for-profit entities, believed the proposal as written would

simplify the statement of cash flows and eliminate diversity in practice with respect to reporting changes in restricted cash and restricted cash equivalent balances.

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.

The Committee generally agrees that in those circumstances, 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.

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.

The Committee believes an entity should be required to disclose information about the nature and amount of restrictions on its cash and cash equivalents. However, to provide greater context to an entity's determination of whether restrictions exist and should be disclosed, the Committee believes entities should be required to disclose its accounting policy for determining whether to classify cash or cash equivalents as "restricted". This disclosure requirement would provide needed context in the event that two entities reach different reporting conclusions about whether conditions of restriction exist.

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 concurrent cash receipt from or a concurrent cash payment to an outside source) provide meaningful information to financial users? Please explain why.

The Committee cannot identify specific examples where such information would provide meaningful information.

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

Please see the Committee's response to Question 3 above.

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.

The Committee agrees that the proposed amendments should be applied using a retrospective transition method.

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.

The Committee agrees that the proposed amendments should be applied using a retrospective transition method. The Committee did not identify any other transition disclosures that should be required beyond those proposed disclosures.

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?

The Committee cannot estimate the time necessary to implement the proposed ASU, but agrees that entities other than public business entities will need additional time due to more limited resources and education cycles.

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

Given the lack of GAAP disclosure guidance with respect to restricted cash, the Committee believes early adoption should be permitted.