

March 25, 2016

Technical Director, File Reference No. EITF-15F,

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Proposed Accounting Standards Update

Statement of Cash Flows (Topic 230)

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 proposals. 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.

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?

The Committee agrees that such costs should be classified as cash outflows for financing activities. Although some on the Committee believe that prepayment penalties are in lieu of future interest charges and are, therefore, reducing future operating cash outflows, it was generally agreed that such outflows should not be considered operating cash outflows.

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?

The Committee agrees with the proposed ASU.

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?

The Committee agrees with the proposed ASU. The Committee concludes that to the extent that payments exceed those estimated in establishing acquisition price they most likely relate to subsequent operations or changes in estimates which are also operating in nature.

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?

The Committee concludes that the same principles that guide the classification of payments made as discussed in Question 3 apply whether or not the payments are made soon after the business combination occurs. Accordingly, the Committee believes that no distinction should be made regarding whether the payments are made soon after the business combination or later.

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?

The Committee agrees with the proposed ASU but believes that a few common examples should be provided. For example, the receipt of cash payments for replacement of destroyed property in situations where the insured elected to rebuild or reacquire property and situations where they elected to expend the payments for other purposes. The Committee concludes that that classification based on the "nature of the loss" is not clear without further explanation or examples.

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?

The Committee agrees with the proposed ASU.

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 and why?

The Committee agrees with the proposed ASU.

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?

The Committee agrees with the proposed ASU but also believes the proposed ASU should address the classification of distributions when the investment is accounted for at fair value.

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?

The Committee agrees with the proposed ASU.

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?

The Committee agrees with the proposed ASU.

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.

The Committee agrees that the additional guidance is appropriate but believes that operability as to the determination of prominence could be enhanced with an example.

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?

The Committee agrees with retrospective transition.

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?

The Committee agrees with the proposed ASU.

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.

The Committee agrees with the proposed disclosures.

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?

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.

Question 16: Should early adoption be allowed?

The Committee agrees that early adoption should be allowed.

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 that reads "A.J. Major III". The signature is written in a cursive style, with the first name "A.J." being more prominent and the last name "Major III" following in a similar script.

A.J. Major III

Chair

Accounting Principles and Assurance Services Committee

California Society of Certified Public Accountants