Technical Director
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The Xerox Corporation ("the company," "we") appreciates the opportunity to comment on the proposed Accounting Standards Update - Statement of Cash Flows (Topic 230) – Classification of Certain Cash receipts and Cash Payments (the "proposed ASU").

Xerox Corporation had revenues of $18.0 billion and 143,600 employees for the year ended December 31, 2015.

We are supportive of the Board’s efforts to provide additional guidance related to Topic 230 Statement of Cash Flows. The Statement of Cash Flows has taken on increased importance over the past several years as many investors and analysts refer to this statement in assessing the performance of a Company. Accordingly, we believe that eliminating the diversity in practice regarding the reporting of cash flows as well as providing additional guidance on cash flow reporting is beneficial to both users and preparers.

However, considering the importance of this statement to investors and analysts, we would have preferred the Board undertake a holistic approach to providing that guidance. We are not entirely convinced that the nine issues identified by the Board are the only or primary issues currently facing cash flow reporting. Although the Board decided to very narrowly focus the scope of this project we were generally in agreement with the conclusions of the task force on most issues. However, with respect to Issue 7 - Beneficial Interests in Securitization Transactions, we believe a different perspective or approach should be further considered.

With respect to Issue 7, the Task Force concluded that the initial exchange of the receivable for the beneficial interest in a sale transaction would be treated as a non-cash transaction and the subsequent cash receipts related to a the beneficial interest created from the sale of receivables should be recorded as an investing activity. While we are in agreement with the initial transaction being treated as a non-cash transaction, we have some concerns related to the Task Force’s conclusion related to the subsequent classification of the cash receipts from the beneficial interest as an investing activity.

In our view, the classification of the subsequent cash receipt from the beneficial interest should be based on the underlying asset (i.e. the account receivable) which was subject to the sale transaction. Accordingly, the inflow from the beneficial interest should be recorded as an operating cash inflow. We believe that in a typical sale of receivables, the company is normally exchanging one operating asset – receivables - for two – cash and an interest in the sold receivables. The interest in sold receivables is typically not a security or certified but rather a claim for additional cash proceeds as a result of the sale transaction (a holdback). As such, we believe looking at the underlying nature of the asset is the more appropriate basis for assessing the classification of the related cash flows. We believe this approach is consistent with the following definition of operating cash flows noted in Topic 230-10-45-
16a – “Cash receipts from sales of goods or services, including receipts from collection or sale of accounts and both short- and long-term notes receivable from customers arising from those sales.” Clearly, the collections of the beneficial interest from a receivable sale are the result of an original sale of goods and services to customers and should be considered operating. This the same reasoning applied for classifying the proceeds from a sale of receivables as an operating cash flow.

We also believe this treatment is consistent with several other scenarios we would like to note. First, within this exposure draft the Task Force proposed that receipts from insurance should be classified consistently with the underlying purpose of the insurance. We agree with the general principle of using the underlying nature for cash flow classification purposes, and we are of the view a similar approach should be applied to beneficial interests received in connection with the sale of receivables. That view would result in the beneficial interests cash receipts being classified in operating cash flows.

Secondly, we would like to note the treatment of structured vendor payable transactions, which the SEC commented on in 2003 and 2004. To our knowledge, the treatment discussed at that time is generally accepted for such programs. Under structured vendor payables programs, companies typically arrange for vendors to have an option to factor their receivables to a bank. This results in the vendor monetizing its receivables, therefore lessening the burden (on the vendor) of accepting extended payment terms. Under such programs, the SEC guidance states that the company which holds the payable would need to consider if the arrangement has changed the nature of the payable from a trade payable to debt. Typically, if the company holding the payable receives extended terms for payment, it would generally result in the reclassification of the trade account payable to debt. It is also our understanding that the SEC has stated that in such arrangements the company’s statement of cash flows should reflect an operating cash outflow and a financing cash inflow related to the affected trade payable balances, and a financing cash outflow upon payment to the bank and settlement of the obligation.

In our view the structured vendor payable scenario has a key similarity to the beneficial interest issue. In both cases, the classification of the balance sheet has been changed. In the case of the structured vendor payable transaction, a trade account payable is changed to debt. And in the case of the beneficial interest a trade account receivable is changed to a financial instrument. In both cases the conversion of the balance sheet classification is done via a non-cash transaction.

While we believe the structured vendor payable guidance from the SEC has applicability that should be considered, we would also note that we are in agreement that the transaction is a non-cash transaction which should not be reflected in the statement of cash flows until cash is actually received. In our view the example noted places emphasis on the conversion (or monetization) of operating assets. Therefore, we support the inflows from the beneficial interest being classified as inflows from operations when received.

We also noted that paragraph 27 of the Background Information and Basis for Conclusions further states that “Some Task Force members noted that financial statement users typically view cash receipts from a transferor’s beneficial interest in securitized trade receivables as an operating activity. As such, when those cash receipts are classified as investing activities, financial statement users may adjust the statement of cash flows to classify them as operating activities...” We were concerned that the Task
Force would reject or disregard a presentation which it acknowledges may be more useful to or expected by financial statement users. That same paragraph also acknowledges that the presentation of the cash flows from a beneficial interest as investing cash flows creates a lack of symmetry between sales and operating cash flows. That is, the sale that created the trade receivable that was sold will never result in a subsequent operating cash inflow for the seller. We believe these two concerns or issues should have been more fully explored and deliberated by the Task Force with all impacted parties including users, auditors and preparers.

As noted earlier, we support the efforts of the task force to address the issues related to Topic 230, however, the very narrowly focused approach does not provide the guidance that a larger project would address. In our view, there are issues such as guidance on the aforementioned structured vendor payable arrangements which should be codified.

Thank you for the opportunity to comment on the proposed ASU. If you have any questions, please contact me at 203.849.2533 or Joseph.Mancini@xerox.com.

Regars,

Joseph H. Mancini, Jr.
Vice President and Chief Accounting Officer