March 28, 2016

Submitted via email: director@fasb.org

Technical Director
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

File Reference No. EITF-15F

Dear Technical Director:

The Technical Issues Group (TIG) of the Missouri Society of CPAs (MSCPA) appreciates the opportunity to respond to certain matters in the Proposed Accounting Standards Update. The views expressed herein are written on behalf of the TIG of the MSCPA. The TIG has been authorized by the MSCPA Board of Directors to submit comments on matters of interest to the society's membership. The views expressed in this letter have not been approved by the MSCPA Board of Directors or Executive Board and, therefore, should not be construed as representing the views or policy of the MSCPA.

We generally agree with the direction taken by the Financial Accounting Standards Board (Board). The proposed Update will reduce ambiguity and the diversity in practice regarding the presentation related to the eight cash flow issues addressed in the Update in the statement of cash flows. However, we also believe that the discussion about how to address certain of these eight items is indicative of the inherent limitations in the current approach within Generally Accepted Accounting Principles (GAAP) to the cash flow statement. We believe that a larger project to reconsider the classification and presentation of cash flows is warranted to consider whether improvements can be made to make the cash flow statement more useful to financial statement users and less costly to prepare.

Thank you for considering our comments. We would be pleased to respond to any questions the Board or its staff may have about them. Please direct any questions to Mark Winiarski, TIG Chairman, MWiniarski@CBIZ.com.

Sincerely,

Mark Winiarski, CPA
TIG Chairman

Robert Singer, Ph.D., CPA
Project Leader

Jeff Antrainer
Project Leader
**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?

**Response:** We believe that cash payments for debt prepayment or extinguishment costs should be classified as cash flows for financing activities. The costs associated with prepayment of debt or extinguishment of debt clearly relate to financing activities of the entity. Regardless of whether the extinguishment is accomplished by repurchasing the debt in the open market or by issuing new debt to pay for old debt (i.e., a refunding or refinancing), along with attendant costs (i.e., debt issuance costs) associated with such transactions should be regarded as cash outflows from financing activities.

**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?

**Response:** Considering the existing classification of interest expense within the cash flow statement and the formats of the cash flow statement under either the indirect or direct method, we concur that cash payments for the portion of a zero-coupon bond that is for accreted interest should be classified as an operating activity. We believe this promotes consistency between different forms of debt financing and with the presentation of interest in the income statement.

We believe that the discussion about the classification of settlement of a zero-coupon bond highlights limitations of the existing cash flow statement. While we believe the treatment of the principal amount of the zero coupon bond as a cash outflow from financing activities is appropriate, we believe that a case can be made for treating the payment of interest as a financing cash outflow. The purpose of an entity’s decision to obtain debt is a financing decision. In this respect, classifying the interest payments on debt as a cash flow from operating activities (zero-coupon or conventional bond) distorts the amount of cash flow generated or used from operations. Although mitigated by disclosures of the cash paid for interest, this distortion reduces the comparability of cash flow generating ability of different entities’ operations, and increases the complexity of using the financial statements.

**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?

**Response:** In existing practice, the changes in fair value of contingent consideration are treated as an operating item within the income statement. We were unable to reach a conclusion on the most appropriate treatment for payments related to contingent consideration within the cash flow statement. As proposed, we believe that the presentation adds complexity to preparing the financial statements, however, at the same time, it creates a consistency between the income statement and the cash flow statement. One advantage of the proposed treatment is that a financial statement user can recombine the operating and the financing portion of the contingent consideration and reclassify the payment to financing in an analysis of
the financial statements, if desired. Although this adds complexity to the use of the financial statements, it does provide more information than the alternative discussed below.

We also considered that the incurrence of a contingent liability in consideration of an acquisition (treated as part of investment cost at acquisition date) provides a source of financing. If the company with 20/20 hindsight could have determined the future outlay, it would have simply calculated the present value of that outlay, and the subsequent payment of that liability based on this update would have been treated as a financing outflow. The fact that the future payment is likely to be different than the amount estimated at acquisition date should not alter the nature of the classification any more than if bonds or stocks would have been issued as part of the consideration. Thus, in this alternative view, the total actual amount paid in a subsequent period should be treated as a cash outflow from financing activities.

We believe the difficulty in concluding on the most appropriate treatment for contingent consideration is indicative of the limitations of the existing structure of the cash flow statement and income statement. We ask the Board to consider whether additional outreach is necessary to the financial statement user community to determine if a preference exists for the classification of payments of contingent consideration prior to implementing guidance that increases the cost and complexity of preparing financial statements.

**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?

**Response:** Under the proposed guidance, additional clarification for the settlement of contingent consideration shortly after a business combination is appropriate. If the alternative approach of treating payments related to contingent consideration as a financing outflow were utilized, no additional guidance would be required.

**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?

**Response:** We believe that the classification of insurance proceeds settlements should be based on the nature of the insurance coverage. For example, if a warehouse is destroyed in a fire, the portion of the insurance proceeds related to inventory stored on the premises should be treated as a cash flow from operating activities. The portion related to the warehouse itself should be treated as a cash from investing activities. Thus, we concur with the Board that the nature of the loss should form the basis of how the entity should classify the recovery proceeds on the statement of cash flows.

**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?

**Response:** We are in agreement with the Board that cash proceeds from settlement of corporate insurance policies including bank-owned life insurance proceeds should be classified as cash flows from investing activities. The purchase of a life insurance policy on key executive employees is clearly a long-term investment aimed at indemnifying the entity for the loss of
potential benefits resulting from strategic decisions that would have been made by that executive had she lived.

**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 appropriate and why?

**Response:** Consistent with our response to question 6, we believe that the cash payments made for premiums of corporate-owned life policies including bank-owned policies should be treated as cash outflows from investing activities. We believe that such treatment is not different than if the entity purchased a building using cash and then subsequently sold the building for cash; the purchase of the building, treated as a cash outflow from investing activities and the sale of the building as a cash inflow from investing activities.

In addition, we do not believe it is necessary to provide optionality within GAAP for the classification of premiums on corporate-owned life insurance because in almost all situations the premiums would be immaterial. In those rare circumstances where the premiums are material, we believe they would be most appropriately classified as an investing activity.

**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?

**Response:** We concur with the proposal in this update that cash dividend distributions, which under the equity method are treated as reductions to the investor’s investment account, be treated as cash inflows from operating activities to the extent of the investor’s share of the investee’s cumulative earnings charged to the investment account. Presuming that the purpose of the acquisition is either to exercise “significant influence” over the operations of the investee firm or to gain control in the case of a greater than 50 percent interest (i.e., requiring consolidation), the primary purpose is to expand and or improve the investor firm’s operations. Investee company earnings are treated as operating income of the investor firm. On this basis, assuming the investor entity is using the direct method for disclosing cash flows from operating activities, the dividend distributions should be grouped with other cash flows from operating activities (e.g., cash payments to suppliers, payment of employee salaries). If the indirect method is used, the equity income in excess of each year’s dividends should be subtracted from net income in arriving at cash flow from operating activities as required under existing GAAP. However, cumulative dividends in excess of the equity based income in essence represent liquidating dividends or returns of investment capital. Accordingly, such excess should be treated as cash inflows from investing activities. In essence, we view such liquidating dividends as conceptually no different than if the investor company sold a portion of its investment, which would under current standards be treated as a cash inflow from investing activities.

**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?
Response: Yes. We agree a transferor’s beneficial interest obtained in a securitization of financial assets should be disclosed as a noncash activity. We believe this is the fairest presentation of these transactions, and this will help eliminate the diversity in how these transactions are presented in the statement of cash flows.

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?

Response: Yes. We agree cash receipts from payments on a transferor’s beneficial interests in securitized trade receivables, should be classified as cash inflows from investing activities. We believe this is the fairest presentation of these transactions, and this will help eliminate the diversity in how these transactions are presented in the statement of cash flows.

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.

Response: Yes. 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 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 is understandable and operable. We believe that although it will still require significant judgment by financial statement preparers, it will assist in eliminating inconsistencies and ambiguity in the application and interpretation of the predominance principle.

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?

Response: Yes. The proposed amendments for all eight cash flow issues should be applied using the retrospective transition method. In general, we do not anticipate the retrospective transition method will require excess amounts of time or cost relative to the benefit of the information provided.

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?

Response: Yes. The proposed amendments should 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. In keeping with the stated objective of financial reporting, the benefit of providing this information should justify the related costs. This provision provides preparers and auditors the flexibility necessary to evaluate the benefit of the retrospective transition method relative to the cost and will help alleviate the cost and complexity of adopting the proposed Update for entities that lack the information to apply the proposed amendments retrospectively.
**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.

**Response:** We believe the entity should be required to provide the transition disclosures discussed in the Update and described in Topic 250 of the Accounting Standard Codification. We believe these transition disclosures are sufficient.

**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?

**Response:** Generally, we do not anticipate the time necessary to implement these proposed amendments will be significant. We expect that the proposed amendments may reduce preparation time due to the elimination of the ambiguity in the standards relating to the eight cash flow issues addressed in the Update. We do not believe private companies and not-for-profits will need additional time to apply the proposed amendments.

**Question 16:** Should early adoption be allowed?

**Response:** Yes. We believe early adoption should be allowed. We do not foresee any issues due to early adoption.