March 29, 2016

Financial Accounting Standards Board
Technical Director
File Reference No. EITF-15F, FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116
USA

Dear Sir/Madam:


Hydro-Québec is a major North American producer, transmission provider and distributor of electricity, operating mainly in the province of Québec, Canada. Its sole shareholder is the Québec government. In Québec, the transmission and distribution of electricity are regulated by the Régie de l’énergie, which sets rates on the basis of cost of service plus a reasonable return on the rate base.

On behalf of Hydro-Québec, I thank you for giving us the opportunity to comment on the Board’s Exposure Draft entitled Proposed Accounting Standards Update, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments.

We support the Financial Accounting Standards Board’s objective of reducing the existing diversity in practice regarding the eight specific cash flow issues. Overall, we agree with the recommendations of the Exposure Draft, but we believe some additional guidance is required. Attached are our detailed responses to the questions in the Exposure Draft.

Should you wish to discuss any aspects of this comment letter in more detail, please do not hesitate to contact me.

Yours sincerely,

Lise Croteau, FCPA, FCA
Executive Vice President and Chief Financial Officer

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Proposed Accounting Standards Update

Statement of Cash Flows (Topic 230)
Classification of Certain Cash Receipts and Cash Payments

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?

We agree with the proposed amendment. Given the analogy with payments for debt issue costs, cash payments for debt prepayment or extinguishment costs should be presented in the same way, namely, as cash outflows for financing activities.

In addition to debt prepayment or extinguishment costs, the following costs are included in your question: third-party costs, premiums paid and other fees paid to lenders. However, it is not clear if the other fees are “specific” or “general.”

By “specific,” we mean an incremental direct cost which has the following characteristics (FAS 091, paragraph 80):
   a. Results directly from and is essential to the lending transaction;
   b. Would not have been incurred by the lender had that lending transaction not occurred.

By “general,” we refer to administrative costs that are not specifically related to the transaction. These costs would be paid even if the entity did not perform a single transaction, which justifies their classification in operating activities.

We recommend that the Board clarify the definition, ensuring that a reference is made to “specific” costs that are incremental to the transaction.

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?

We agree with the proposed amendment. For a zero-coupon bond, we agree that the Board should consider that a portion of the cash payment is attributable to the accreted interest and should be classified as cash outflows for operating activities.

As mentioned by the Board, the goal of this exposure draft is to reduce diversity in practice. Based on that, we noticed diversity remains for other types of bonds (other than a zero-coupon bond) issued at a discount or a premium. We think that these other types of bonds should be addressed by the Board. For debt securities issued at a discount, we can make a clear analogy with the guidance used for a zero-coupon bond. For debt securities issued at a premium, we consider that the entire cash inflow received at issuance reflects the amount used to finance an activity (e.g., acquisition of a new asset). Therefore, the premium received at issuance needs to be classified in financing activities. Subsequently, during the term of the debt, the portion of the interest coupon that represents the amortization of the premium should be reclassified to the financing activities. It represents a partial repayment of the original proceeds, like the notional amount reimbursed at maturity.

We recommend a uniform guidance which could be:
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Debt issued at a discount (including a zero-coupon bond):

<table>
<thead>
<tr>
<th></th>
<th>Operating activities</th>
<th>Financing activities</th>
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<tbody>
<tr>
<td>At issuance</td>
<td>-</td>
<td>The original proceeds</td>
</tr>
<tr>
<td>During the term</td>
<td>Interest coupon,* if any</td>
<td>-</td>
</tr>
<tr>
<td>At maturity</td>
<td>Portion of the payment that represents the accreted interest*</td>
<td>Portion of the payment that represents the original proceeds</td>
</tr>
</tbody>
</table>

* Amounts disclosed under interest paid (net of amounts capitalized)

Debt issued at a premium:

<table>
<thead>
<tr>
<th></th>
<th>Operating activities</th>
<th>Financing activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>At issuance</td>
<td>-</td>
<td>The original proceeds</td>
</tr>
<tr>
<td>During the term</td>
<td>Portion of the interest coupon less the amortization of the premium*</td>
<td>Portion of the interest coupon which represents the amortization of the premium</td>
</tr>
<tr>
<td>At maturity</td>
<td>-</td>
<td>The payment of the notional amount</td>
</tr>
</tbody>
</table>

* Amounts disclosed under interest paid (net of amounts capitalized)

Moreover, we recommend that the Board clarify the interpretation of “interest paid,” in paragraph 230-10-50-2, when the indirect method is used. More specifically, should the discount or premium be considered and added or subtracted from the coupon so that the “interest paid” disclosed is in line with the interest considered as an operating activity? For example, we understand that for a zero-coupon bond at maturity, the amount disclosed as “interest paid” would be the total amortization of the discount which represents the accreted interest.

Otherwise, ASC 470-10-50-1 requires the disclosure of the combined aggregate amount of maturities for all long-term borrowings for each of the five years. Based on the proposed guidance above, we would like to bring to your attention that the term “maturities” may give rise to various interpretations and questioning. For example, if we consider the discount on a zero-coupon bond with the amortization of the discount as accreted interest, there are three possible interpretations of the term “maturities.” First, the amount to be disclosed could be viewed as the amortized cost of the bond and then would be in line with the amount presented on the balance sheet. A second interpretation would be to disclose as “maturities” the repayment of the capital borrowed and then, the amount disclosed would be in line with the amount presented in the statement of cash flows as a financing activity. Finally, the third possible interpretation would be to disclose the nominal amount, representing the notional amount based on which the interest coupon is calculated, being the sum of the amount presented at maturity both under financing and operating activities in the statement of cash flows.

**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?
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We agree with the proposed classification. In fact, we consider that the portion paid that exceeds the amount of the contingent liability recognized at the acquisition date is similar to a loss on an investment in a subsidiary. Consequently, the portion of the payment corresponding to the loss should be presented under operating activities. However, a contingent liability that is not settled soon after a business combination should be classified as cash outflows for financing activities given that payment terms are extended by the vendor.

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?

In our opinion, it would be preferable to obtain additional information in the event that the payment of the contingent consideration was made soon after a business combination in order to eliminate any ambiguity about the matter.

In this situation, we think that the contingent consideration to be paid soon after the business combination should be classified as a cash outflow for investing activities. The nature of this transaction concerns the acquisition price of a business combination. Accordingly, payment of the contingent consideration should be presented under the same heading as the acquisition itself, namely, as a cash outflow for investing activities. Given that the vendor did not extend financing to the acquirer, it would be inappropriate to present this cash outflow under financing activities.

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?

We agree with the proposed classification. It is logical that the proceeds received from the settlement of an insurance claim be classified according to the nature of the loss incurred. This presentation provides useful information for financial statement users.

However, it would be advisable to have the standard emphasize the concept of relative importance in the case of a lump-sum settlement. Only significant losses should be presented in the various categories of activities. Otherwise, the workload involved in segregating the individual losses could be onerous, and in our opinion, this level of detail is not relevant for financial statement users.

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?

We choose not to reply to this question, given that Hydro-Québec does not have any corporate-owned life insurance policies.

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?

We choose not to reply to this question, given that Hydro-Québec does not have any corporate-owned life
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insurance policies.

**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?

We are in favor of the proposed classification. In general, the distributions received are similar to a return on investment and are rightly classified as cash inflows from operating activities. This presentation is similar to the treatment for interest received. Moreover, we are of the opinion that if an entity receives an amount that exceeds its share of cumulative earnings, it is essentially a return of its investment and should be classified as a cash inflow from investing activities.

We agree that the **cumulative earnings approach** is the method that should be used to determine if the payment is a return on or of investment. This method allows a consistent and comparative application across entities, compared to the method based on the nature of each individual distribution (look-through approach).

**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?

We choose not to reply to this question, given that Hydro-Québec does not have any securitization of financial assets.

**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?

We choose not to reply to this question, given that Hydro-Québec does not have any securitization trade receivables.

**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.

No, the additional guidance is not, in our opinion, very understandable and operable.

This additional guidance is aimed at clarifying the existing guidance. However, if we understand correctly, the Board tends to prioritize the “nature” of separately identifiable cash flows. Nonetheless, when it is impossible to separate cash flows, they need to be “linked” and the predominance principle must be applied to classify the cash flows. The concepts of “nature” versus “linkage” are not clear and they are
Further complicated by the concept of “predominance.” Therefore, in our view, the objective of this additional guidance is unclear.

By separating cash receipts and payments between source and use, this guidance seems to preclude the “linkage” between commercially linked transactions. For example, if we economically hedge spot price sales with a fixed price swap, does the proposed guidance preclude “linking” those cash flows and classifying them together? If so, we would not be in favor of this because we consider that commercially linked cash flows are more representative than cash flows classified separately by nature. Also, in practice, most preparers use the “linkage theory” to classify commercially linked transactions together. Moreover, one of the objectives of the statement of cash flows is to inform the financial statement users of the entity’s ability to generate positive future net cash flows. Hence, we consider that commercially linked transactions classified together in the statement of cash flows are more representative than cash flows separated by their “nature.”

We definitely recommend that the Board add examples or a decision tree to clarify the guidance in question. For example:

- The predominance principle is still not sufficiently defined. We would be in favor of adding guidance or specifications to help preparers apply this principle. For instance, we think it would be useful to include factors such as historical cash flows or projected cash flows to analyze predominance.
- It is not clear how to classify cash flows between separately identifiable sources and uses. We do not understand when it is separately identifiable and when it is not. Moreover, the FASB would need to emphasize the concept of relative importance so that only significant identifiable items are presented in the various categories of activities. Again, additional guidance or illustrations would be useful.

Given the vagueness of the standard, we cannot make a decision on whether we agree with the proposal.

**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?

Yes, since the aim of the proposed guidance is to reduce the diversity in practice, it would be appropriate to use a retrospective transition method.

**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?

We agree with this proposal.

**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.

We disagree with this proposal.
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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?

Implementing the proposed amendments (especially Issue 2) would require modifications to systems but should not be very complex. Therefore, three to six months would be needed.

Question 16: Should early adoption be allowed?

We believe companies should be allowed early adoption of the guidance.