March 29, 2016

Ms. Susan Cosper  
Technical Director  
Financial Accounting Standards Board  
401 Merriott 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

Dear Ms. Cosper,

We appreciate the opportunity to provide comment on the FASB’s Proposed Accounting Standards Update, *Statement of Cash Flows (Topic 230)—Classification of Certain Cash Receipts and Cash Payments*. Our response represents collaboration from our team members at CFGI, a unique and highly specialized financial consulting firm that has strategically worked with companies, both public and private, through a range of routine and complex business matters over the past 15 years. CFGI supports companies working alongside a client’s internal staff to serve a variety of roles from technical accounting advisor and M&A support, to interim Controller and CFO, in addition to delivering valuation and other support services. CFGI provides these services to a wide array of companies from minimally staffed early-stage entities to Fortune 500 companies.

We are providing our views on whether the proposal improves the effectiveness of disclosures related cash flow presentation. We support the Board’s overall objective to provide guidance on cash flow presentation making financial statements more comparable across companies, balancing the information needs of financial statement users with the costs and complexity of producing that information. However, as discussed below in the Appendix, we believe the Board should make certain improvements in the guidance before finalizing it.

The Appendix below includes our responses to the Proposed Accounting Standards Update’s questions for respondents.

We appreciate the opportunity to provide comment on this Exposure Draft. If you have any questions, please contact James Quinlan, Partner, at 617-531-8270.

Sincerely,

CFGI, LLC

CFGI, LLC
Appendix

CFGI’s Responses to Proposed ASU’s Questions for Respondents

**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 Board’s proposal on the classification of debt principal prepayment as a cash outflow for financing activities. This proposal is in alignment with existing guidance in ASC 230, Statement of Cash Flows, which states that it is appropriate to include repayments of amounts borrowed and payments for debt issue costs within the financing activities section of the Statement of Cash Flows. We believe, however, that extinguishment costs or prepayment penalties should be classified as an operating cash outflow, as opposed to a financing cash outflow as proposed above. The Board previously provided in ASC 230-10-45-17 that cash payments to lenders and other creditors for interest should be included as cash outflows for operating activities. The prepayment penalty is typically an approximation of the interest that will not be paid due to the early extinguishment of the debt, which represents an adjustment to the effective interest rate, and does not represent a repayment of amounts borrowed.

**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 Board’s proposal on the classification of the settlement of a zero-coupon bond. Cash flows from operating activities on the statement of cash flows includes reconciling items including noncash interest, which is in accordance with the guidance in ASC 230-10-45-28, which notes that “net cash flow from operating activities shall reflect accruals for interest earned but not received and interest incurred but not paid.” When a zero coupon bond is settled, the payment attributable to the accreted interest should be considered an operating activity as it represents interest on the debt. Cash outflows for cash payments to lenders and other creditors for interest should be included within the operating section. Alternatively, the portion of the cash payment attributable to the principal amount of the debt should be considered a cash outflow for a financing activity, as this portion of the payment would represent a repayment of amounts borrowed, which is consistent with the guidance in according to ASC 230-10-45-15.

**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?

We agree with the Board’s proposal on the classification of the settlement of a zero-coupon bond. Cash flows from operating activities on the statement of cash flows includes reconciling items including noncash interest, which is in accordance with the guidance in ASC 230-10-45-28, which notes that “net cash flow from operating activities shall reflect accruals for interest earned but not received and interest incurred but not paid.” When a zero coupon bond is settled, the payment attributable to the accreted interest should be considered an operating activity as it represents interest on the debt. Cash outflows for cash payments to lenders and other creditors for interest should be included within the operating section. Alternatively, the portion of the cash payment attributable to the principal amount of the debt should be considered a cash outflow for a financing activity, as this portion of the payment would represent a repayment of amounts borrowed, which is consistent with the guidance in according to ASC 230-10-45-15.
We agree with the Board’s proposal on the classification of cash payments for the settlement of a contingent consideration liability after a business combination. As the settlement value of a contingent consideration typically differs from the original value assigned in purchase accounting, it is important to evaluate both the original recorded liability and the subsequent fluctuation in fair value as it relates to cash flow presentation. We believe that the original recorded contingent consideration liability should be viewed as a financing activity of the business combination and, therefore, cash payments for the settlement of the original liability recorded should be recorded as financing cash outflows. This proposed change aligns this practice with the current approach at many organizations, and also is consistent with guidance in ASC 230-10-45-15, which states that repayments of amounts borrowed should be classified as financing activities. In current practice, subsequent fluctuations in the fair value of a contingent consideration liability presented within operating activities in the statement of operations, and therefore the charges represent components of current operating income as opposed to financing charges presented within other income/expense. As such, when a contingent consideration is settled at a fair value above that of the original recorded liability, it is consistent to classify any excess amount as cash flows from operating activities within the statement of cash flows.

**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?**

Assuming that the changes in fair value of the contingent consideration are not measurement period adjustments, the fair value changes will be recognized in earnings. Given that, the above guidance should be applied to the cash settlement of a contingent consideration liability regardless of the timing of the settlement. If the changes in the fair value of a contingent consideration recorded is considered a measurement period adjustment based on additional information subsequently obtained about facts and circumstances that existed at the acquisition date, the new value of the contingent consideration will be recorded as an adjustment to the opening balance sheet. This would not be recorded in current period earnings, and ultimately would be classified as a financing cash outflow upon settlement, assuming no subsequent changes in fair market value.

**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 Board’s proposal on the classification of proceeds received from the settlement of insurance claims. The guidance in ASC 230-10-45-16(c) states that proceeds from insurance settlements are classified as cash inflows from operating activities, except for those directly relating to investing or financing activities. The above guidance to reflect the proceeds from insurance claims on the basis of the insurance coverage or nature of the loss is consistent with that approach as it attempts to align the activities within the statement of cash flows. We believe this approach should also extend to an insurance
settlement that involves a lump-sum payment, where the proceeds should be allocated appropriately between operating, investing, and financing as necessary based on the underlying claims.

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 agree with the Board’s proposal to classify the settlement of corporate owned life insurance (COLI) and bank owned life insurance (BOLI) policies as cash inflows from investing activities. Policies are typically purchased as investment vehicles, and generally provide a hedge against losing key employees, which is attractive given the tax-free nature of the benefit payout. This is supported by guidance in ASC 325-30-35-1, Investments—Other, stating that an investment in life insurance contract shall be reported as an asset, which is be “measured subsequently at the amount that could be realized under the insurance contract as of the date of the statement of financial position. The change in the cash surrender value or contract value during the period is an adjustment of premiums paid in determining the expense or income to be recognized under the contract for the period.” As the asset recognized in a COLI policy is an investment, it is reasonable and appropriate to classify the related cash inflows related to the settlement of the policies within the investing activities section on the statement of cash flows. This application is also in accordance with the intent in ASC 230-10-45-12, which states that receipts from sales of investments shall be classified as cash flows from investing activities. Although it can be argued that there is a separate component of the settlement representing the excess of insurance premiums that are akin to earnings on the asset and, therefore, should be classified as operating, we believe that the benefits to users of the financial statements of separating the proceeds into separate cash flow categories does not justify the effort required to maintain the level of detail needed over the life of the policy.

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 believe organizations should have the authority to choose whether cash payments made for premiums of COLI are classified as cash outflows for investing or operating activities, or a combination of both, regardless of the classification of any policy settlements. The cash flow classification of premiums and proceeds are not required to be aligned for other types of insurance policies, where the guidance suggests that the classification of premiums paid on the statement of cash flows should not influence the classification of settlement proceeds received. As the nature of premiums on all insurance policies are generally similar, it does not seem appropriate to require same cash flow classification for COLI and BOLI policy premiums and settlements. According to current guidance in AICPA Technical Practice Aid Section 1300.13, the portion of premiums paid that increase the cash surrender value of the policy should be classified as cash outflows from investing activities, while the premiums paid in excess of the increase in the cash surrender value should be classified as cash outflows from operating activities. This is a
reasonable approach, however, in practice, the distinction between the two pieces of the premiums paid could add additional cost and complexity if entities are required to maintain and track this information. Additionally, we do not believe that the classification of the premiums, whether within operating or investing activities, would mislead financial statement users given that they are typically insignificant to the entity taken as a whole, versus a policy settlement, which is often a significant event to the company and users of the statements.

**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 agree with the Board’s proposal on the classification of distributions from an equity method investee. Per ASC 323, Investments – Equity Method and Joint Ventures, distributions from an equity method investee are recognized as a reduction in the carrying amount of the investment. Additionally, ASC 230-10-45-16(b) states that cash flows from operating activities include cash receipts from returns on loans, other debt instruments of other entities and equity securities interest and dividends. As such, all cash receipts that represent a return on the investment should be classified as operating activities on the statement of cash flows, which is consistent with the approach for income from interest and dividends on investments. If the cumulative distributions less distributions received in prior periods that were determined to be returns of investment exceed the cumulative equity in earnings recognized, it is appropriate to classify the distribution as an investing cash inflow in accordance with ASC 230-10-45-12(b), which states that cash flows from investing activities include receipts from returns of investment in equity instruments of other entities.

**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 agree with the Board’s proposal on the classification of a transferor’s beneficial interest obtained in a securitization of financial assets as a noncash activity. This is appropriate because it is representative of the actual securitization transaction given the fact that there is no cash exchanged when the beneficial interest is obtained by the transferor. This is consistent with the guidance in ASC 230, which states that noncash investing and financing activity shall be disclosed within the statement. We believe that regardless of the classification of the ultimate cash receipt, this noncash disclosure should still be required to provide relevant information to financial statement users regarding organizations’ securitization transactions.
**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 agree with the Board’s proposal on the classification of the cash receipts from payments on a transferor’s beneficial interest in securitized trade receivables. According to ASC 320-10-45-11, cash flows from purchases, sales, and maturities of available for sale securities and held to maturity securities shall be classified as cash flows from investing activities, and cash flows from purchases, sales, and maturities of trading securities shall be classified based on the nature and purposes for which the securities were acquired. We believe that the ownership in the beneficial interest is similar to an investment in the securitization entity as the securitization of trade receivables reduces the risk associated with the receivable, leaving the transferor only the risk related to the beneficial interest. Additionally, we believe an investing classification is appropriate for this cash inflow as trade receivables are not typically held for sale and securitized as part of normal operations, and therefore, an operating activity classification would not be appropriate.

**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.

We believe that the additional guidance and clarity around when to separate cash receipts and payments for the purposes of determining the appropriate cash flow presentation, as well as when those separate cash flows should be combined within one class of cash flows on the basis of predominance is understandable and operable. The additions proposed do not change the existing guidance, but rather expand and clarify what is already in practice, and reinforces the application of guidance within ASC 230, as well as other relevant topics, prior to additional analysis around separating the cash flows and/or applying 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?

To ensure comparability within the financial statements, we believe that a retrospective transition method should be taken when applying any new cash flow guidance. Given that many of the proposed changes involve providing more clarity and specific guidance around areas in which there was previously little to no direction, we believe that in many cases, these amendments will only reinforce methods that organizations are already following. To the extent that organizations are required to change an approach on any of the above areas, we believe that it would not be costly to implement any of the changes given that it should not be a significant change in current practice, but rather a change in classification.
**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?

In the event that an entity deems it impracticable or unrealistic to apply any of the proposed amendments, we believe that it is reasonable to include a provision for prospective application. However, an entity should be required to disclose any material items affecting year over year comparability if a prospective application is applied.

**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 agree with the Board’s proposed transition disclosure during the period in which the amendments are adopted, as well as the disclosure surrounding whether the amendments have been applied retrospectively or prospectively.

**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?

Given the nature of the proposed amendments, we believe companies will not require a substantial amount of time to implement any changes required as the purpose appears to provide more clarity and specific guidance, rather than a change in fundamental accepted practice. Accordingly, we do not believe additional time is needed by private companies or not-for-profit entities to implement any changes required. We believe it is reasonable to require adoption for fiscal years beginning after December 15th of the year the final guidance is issued, provided the guidance is issued at least 6 months prior to such date.

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

Many of the proposed amendments reinforce consistent application of certain cash flow classifications that are most likely already in place at many entities. We believe that early adoption should be allowed given the nature of the amendments proposed, as well as the fact that there appear to be little to no significant barriers to adopt the amendments or changes to the current practice required prior to implementing the new guidance.