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Technical Director
Financial Accounting Standards Board
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Via e-mail – director@fasb.org


Plante & Moran PLLC (Plante Moran) is pleased to offer comments on the FASB’s proposed Update on the statement of cash flows. We support the efforts of the Financial Accounting Standards Board (Board) to reduce diversity in practice as it relates to presentation of items in the statement of cash flows. Following, please find our responses to the specific Questions for Respondents in the above referenced Exposure Draft.

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 1: Yes, we agree cash payments for debt prepayment or extinguishment costs should be classified as cash outflows for 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 2: Yes, we agree the cash payments made to settle a zero-coupon bond should be split between cash outflows for operating and cash outflows for financing activities. We agree the portion of the payment attributable to the accreted interest should be presented as a cash outflow from operating activities as in substance it is the same as the interest paid on bonds with a stated interest rate.

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 3: We do not agree with the proposal to separate the cash payments made for the settlement of contingent consideration between financing and operating activities. As noted by some of the Task Force members in the Basis for Conclusions, we believe all cash payments for the settlement of the contingent consideration should be classified as financing activities. We believe the full amount paid to settle the contingent consideration should be considered part of the purchase price; therefore, it should be considered a financing activity. We believe this will provide more useful information to the users of the financial statements as it will help them to better understand the full amount of cash that was paid to complete the business combination.

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 4: No. As described in Response 3, we believe all cash payments made for the settlement of a contingent consideration liability should be considered financing activities. We believe this will provide users of the financial statements with better information about the total cash payments made to complete a business combination.

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 5: We agree the proceeds from the settlement of insurance claims should be classified in accordance with the basis of the insurance coverage. We do not believe the settlement proceeds should be classified based on the anticipated use of the insurance proceeds. As the receipt of settlement proceeds and the use of those proceeds are two separate transactions, each transaction should be individually evaluated to determine the proper cash flow classification.

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 6: We agree the cash proceeds received from the settlement of corporate-owned life insurance policies should be classified as cash inflows from investing activities. Corporate-owned life insurance policies are generally purchased as investment vehicles; therefore, cash flows from investing activities is the most appropriate classification.

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 7: We agree with the proposal that entities be permitted to classify cash payments made for premiums on corporate-owned life insurance policies as investing activities, operating activities, or a combination of the two. As the cash payments made for premiums on corporate-
owned life insurance policies are typically not significant, requiring a specific classification would not increase the usefulness of the information provided to users of the financial 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?

**Response 8:** Yes, we agree with the proposed classification for distributions received from an equity method investee.

**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 9:** Yes, we agree that the transferor in a securitization transaction should classify the beneficial interest obtained in the securitization as a noncash activity.

**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 10:** Yes, we agree with the proposed amendments that cash receipts from payments on a transferor’s beneficial interests should be classified as investing activities.

**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 11:** Yes, we believe the guidance that clarifies the treatment of cash receipts and cash payments when they have aspects of more than one class of cash flow is understandable and operable.

**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 12:** Yes, we agree the proposed amendments for all eight cash flow issues should be applied using 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?
Response 13: Yes, we believe the proposed amendments should include a provision that if it is impractical for some of the amendments to be applied using a retrospective transition method, then those amendments should be applied prospectively. We believe in certain circumstances it may be costly to apply retrospective application, and in those instances, prospective application should be allowed. However, we do believe that if an entity is applying certain amendments prospectively, disclosure of which provisions are being applied prospectively should be required.

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 14: Yes, we agree an entity should be required to provide the transition disclosures specified in the proposed update. We believe these disclosures will help users of the financial statements understand the changes to the financial statements as a result of applying the new amendments.

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 15: We do not believe it will take a significant amount of time to implement the proposed amendments. The proposed amendments do not require entities to accumulate any new information, rather the amendments would clarify the presentation of items that are already required to be disclosed. As entities would not be required to accumulate any new information, we do not believe significant time will be required to implement the amendments. We also do not believe private companies and not-for-profit entities would need additional time to implement the proposed amendments given that there are no new disclosure requirements in the proposed ASU.

Question 16: Should early adoption be allowed?

Response 16: Yes, we believe early adoption should be allowed. The proposed amendments are clarifications of existing guidance and are consistent with current practices for many companies. Therefore, we believe early adoption should be permitted for the proposed amendments.

Thank you again for the opportunity to comment on this exposure draft. We would be pleased to respond to any questions the Board or its staff may have about these comments. Please direct any questions to David Grubb at david.grubb@plantemoran.com or at 248.223.3745.

Very truly yours,

PLANTE & MORAN, PLLC