

MINUTES



MEMORANDUM

**To:** Board Members  
**From:** McClaskey (x442)  
**Subject:** Minutes of the October 5, 2016 Board Meeting: EITF Ratification  
**Date:** October 5, 2016  
**cc:** Sutay

*The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue an Accounting Standards Update or a Statement of Financial Accounting Concepts.*

Topic: Board ratification of the consensus reached on EITF Issue No. 16-A, and the consensus-for-exposure reached on EITF Issue No. 16-C.

Basis for Discussion: EITF Ratification Memorandum No. 1

Length of Discussion: 9:00 to 9:15 a.m.

Attendance:

Board members present: Golden, Kroeker (by phone), Botosan, Buck, Schroeder, Siegel, Smith (by phone)  
Board members absent: None  
Staff in charge of topic: Moynihan, Wyss, Faineteau  
Other staff at Board table: Cospers (by phone), Walsh, McClaskey, Akinwale, Baumann  
Outside participants: None

### **Type of Document and Timing Based on the Technical Plan:**

The Board met to discuss the potential issuance of an Accounting Standards Update resulting from EITF Issue No. 16-A, "Restricted Cash." The Board also met to discuss the potential issuance of a proposed Update resulting from EITF Issue No. 16-C, "Determining the Customer of the Operation Services in a Service Concession Arrangement."

### **Tentative Board Decisions:**

Ratification of the EITF consensus. The Board ratified the consensus reached at the September 22, 2016 EITF meeting on the following EITF Issue. The Board directed the staff to draft an Update finalizing the consensus for vote by written ballot.

### **Issue No. 16-A, "Restricted Cash"**

Stakeholders indicated that diversity exists in the classification and presentation of changes in restricted cash on the statement of cash flows under Topic 230, Statement of Cash Flows. Entities presently classify transfers between cash and restricted cash as operating, investing, or financing activities, or a combination thereof, on the statement of cash flows. Also, some entities present direct cash receipts into, and direct cash payments made from, a bank account that holds restricted cash as cash inflows and cash outflows, while others disclose those cash flows as noncash investing or financing activities.

#### *Presentation*

The Task Force reached a consensus that a statement of cash flows should explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. That is, amounts generally described as restricted cash and restricted cash equivalents would be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period amounts shown on the statement of cash flows.

The Task Force noted that it is most meaningful to present the ultimate cash inflows and outflows of an entity, irrespective of whether those cash flows are from restricted cash accounts. The Task Force also believes that including amounts generally described as restricted cash and restricted cash equivalents in the beginning-of-period and end-of-period reconciliation of total cash and cash equivalents on the statement of cash flows would resolve the diversity in practice about how to present cash flows that directly affect restricted cash. That is because those direct cash flows would be presented in the body of the statement of cash flows regardless of whether restricted cash or restricted cash equivalents are in a segregated account or commingled with unrestricted cash and cash equivalents, and regardless of the timing of when the restrictions are established or released.

*Disclosure*

The Task Force reached a consensus that certain disclosures should be required to supplement the statement of cash flows. Specifically, an entity should (1) disclose information about the nature of the restrictions on cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents and (2) when cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents are presented in more than one line item within the statement of financial position, for each period that a statement of financial position is presented, present on the face of the statement of cash flows or disclose in the notes to the financial statements the line items and amounts of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents reported within the statement of financial position. The amounts, disaggregated by the line item in which they appear within the statement of financial position, should sum to the total amount of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents at the end of the corresponding period shown in the statement of cash flows.

The Task Force decided not to require disclosure of the amounts of gross transfers between cash and restricted cash. The Task Force also decided not to require any additional disclosures on the basis that requiring other disclosures would go beyond the primary focus of this Issue, which is to provide narrow guidance about the presentation of changes in restricted cash or restricted cash equivalents on the statement of cash flows, thereby reducing diversity in practice.

*Transition and Effective Date*

The Task Force reached a consensus that the amendments in the Update should be applied retrospectively to all periods presented. The Task Force believes that there is a significant benefit to retrospective transition because it will enhance the interperiod consistency and comparability of financial information.

The Task Force also reached a consensus to require the transition disclosures in paragraphs 250-10-50-1(a) and (b)(1) and 250-10-50-2, as applicable, in the interim and annual periods in which the amendments in the Update are adopted.

The Task Force decided that the amendments in the Update should be effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period.

(Vote: 7-0)

Ratification of the EITF consensus-for-exposure. The Board ratified the consensus-for-exposure reached at the September 22, 2016 EITF meeting on the following EITF Issue. The Board directed the staff to draft a proposed Update reflecting the consensus-for-exposure for vote by written ballot.

**Issue No. 16-C, "Determining the Customer of the Operation Services in a Service Concession Arrangement"**

Accounting Standards Update No. 2014-05, *Service Concession Arrangements (Topic 853)*, was issued in January 2014. For a service concession arrangement (SCA) within the scope of Topic 853, the operating entity should not account for the infrastructure as property, plant and equipment, or as a lease. Topic 853 does not provide further guidance on the accounting for SCAs. Instead, an entity should look to other Topics, as applicable, to account for the various aspects of an SCA. However, the application of other Topics to the unique nature of SCAs has recently led to a number of accounting questions and, in particular, questions related to the application of Topic 605, Revenue Recognition, or Topic 606, Revenue from Contracts with Customers, when accounting for construction, upgrade, and operation services.

The primary accounting question the Task Force decided to address relates to how an operating entity determines the customer of the operation services for transactions in an SCA. Depending on the terms of a particular SCA, some stakeholders have asserted that the third-party users can be the customer of the operation services, while other stakeholders have asserted that the grantor is always the customer of the operation services considering the scope of, and decisions reflected in, Topic 853. This uncertainty on the customer determination has resulted in diversity in practice in how an operating entity presents any payments made by an operating entity to the grantor. It also has added complexity (and in turn has resulted in further diversity in practice) to the application of other aspects of the revenue guidance, such as recognizing revenue for construction services in certain service concession arrangements, determining whether major maintenance is a separate deliverable, and evaluating whether major maintenance can be capitalized when it is not a separate deliverable.

The Task Force reached a consensus-for-exposure that the grantor is the customer of the operation services in all cases for SCAs within the scope of Topic 853. The Task Force also considered whether additional disclosures would be required about the identification of the customer of the operation services. On the basis of the Task Force's consensus-for-exposure that the grantor is the customer of the operation services in all cases and the existing disclosure requirements in GAAP, the Task Force decided not to require any additional disclosures.

Considering the consensus-for-exposure described above, the Task Force noted that it therefore had addressed the diversity in practice observed by some stakeholders about the recognition of revenue from construction services in

certain service concession arrangements in which the third-party users were considered the customer of the operation services. Accordingly, the Task Force determined that no additional guidance is necessary for that particular aspect of the revenue guidance. The Task Force also considered whether it was necessary to clarify other aspects of the revenue guidance, such as determining whether major maintenance performed by the operating entity in an SCA is a separate deliverable under Topic 605 (or a performance obligation under Topic 606) or evaluating whether major maintenance can be capitalized when it is not a separate deliverable (or a separate performance obligation). The Task Force noted that the clarification provided by the consensus-for-exposure described above addresses the added complexity, and resulting diversity in practice, observed in the application of those other aspects of the revenue guidance. Therefore, the Task Force decided that there is currently sufficient accounting guidance in GAAP and that no further standard setting is necessary on those other aspects.

*Transition and Effective Date*

The Task Force reached a consensus-for-exposure that if an entity has not adopted the amendments in Topic 606 by the time the amendments in the proposed Update are finalized, the entity would be required to adopt the amendments in the proposed Update at the same time that it adopts the amendments in Topic 606, and it would apply the same transition method elected for the application of Topic 606. An entity that elects to early adopt Topic 606 before the finalization of the proposed amendments would apply the amendments in the proposed Update using either (1) a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the annual reporting period of adoption or (2) a retrospective approach. The Task Force will determine the effective date for entities that have elected to early adopt Topic 606, including whether to permit early adoption of the proposed amendments, after it considers stakeholder feedback on the proposed amendments.

(Vote: 7-0)

The Board decided to expose the proposed Update for public comment for a period of 60 days.

(Comment Period Vote: 7-0)

**General Announcements:** None.