

EITF Snapshot

by Chris Cryderman, Stephen McKinney, and Bob Uhl, Deloitte & Touche LLP

In This Issue

- [Issue 15-B, “Recognition of Breakage for Prepaid Stored-Value Cards”](#)
- [Issue 15-F, “Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments”](#)
- [Administrative Matters](#)

This *EITF Snapshot* summarizes the September 17, 2015, meeting of the Emerging Issues Task Force (EITF or “Task Force”). Initial Task Force consensuses (“consensus-for-exposure”) are exposed for public comment upon ratification by the Financial Accounting Standards Board (FASB). After the comment period, the Task Force considers comments received and redeliberates the issues at a scheduled meeting to reach a final consensus. Those final consensuses are then provided to the FASB for final ratification and, ultimately, issuance as an Accounting Standards Update (ASU).

The official EITF minutes will be posted to Deloitte’s [Technical Library](#) and to the [FASB’s Web site](#) (note that the official EITF minutes may contain details that differ from those in this publication) as they become available. EITF Issue summaries (released before the meeting and used to frame the discussion) are also available on those sites.

Issue 15-B, “Recognition of Breakage for Prepaid Stored-Value Cards”

Status: Tentative decisions.

Affects: Entities that offer prepaid stored-value cards within the scope of the final consensus (see below).

Background: Entities may offer prepaid stored-value cards that can be redeemed for goods or services provided only by a third party. The prepaid cards may be redeemed at a specified company, a group of unaffiliated companies, or any company operating in a specific card network. The entity issuing the prepaid stored-value card records a liability to the card holder when the card is issued. When the consumer uses the card to purchase goods or services from a third party, the issuer reduces its liability to the card holder and creates a liability to the third party. The card issuer will settle the obligation in cash directly with the third party. For various reasons, card holders may not use all or a portion of the card’s prepaid value; this is commonly referred to as “breakage.”

Views differ on when an entity can derecognize the liability to the cardholder as a result of breakage. Some entities view prepaid stored-value cards as a financial liability that should be derecognized in accordance with ASC 405-20-40-1.¹ These requirements generally do not allow an entity to account for breakage. Other entities have derecognized the liability when there is a remote possibility that the customer will exercise its rights. The issue raised to the Task Force is whether an entity can recognize breakage under ASC 606, resulting in derecognition of the liability, if a prepaid stored-value card is not used in full.

At its March 19, 2015, meeting, the Task Force reached a consensus-for-exposure that a prepaid stored-value card is a financial liability since the card issuer is required to settle its obligation to the card holder by a cash payment to either the card holder or a third party. The Task Force decided that the scope should include cards that (1) are redeemable for goods and services provided by a third party or contain a cash redemption option, (2) do not have an expiration date, (3) are not attached to a segregated bank account (e.g., a customer deposit account), and (4) are not subject to unclaimed property laws. Further,

¹ For titles of *FASB Accounting Standards Codification* (ASC) references, see Deloitte’s [“Titles of Topics and Subtopics in the FASB Accounting Standards Codification.”](#)

the Task Force decided to amend ASC 405-20 to indicate that if an entity has a prepaid stored-value card within the scope of the proposed amendments, the entity would apply the breakage guidance in ASC 606. The breakage disclosure requirements would also be consistent with the requirements in ASC 606. On the basis of the EITF's consensus-for-exposure, the FASB issued a [proposed ASU](#)² on the recognition of breakage for certain stored-value cards.

Summary: At this meeting, the Task Force discussed stakeholder feedback on the proposed ASU. The Task Force agreed to amend the scope to eliminate the condition that the card contain an expiration date and to allow the card issuer to provide the goods or services to the card holder. Several Task Force members expressed a preference to expand the scope to include similar instruments such as traveler's checks. Although the Task Force did not make decisions about the concerns raised regarding the proposed ASU's scope, it directed the FASB staff to develop a principle that would enable an entity to determine to which financial liabilities it could apply the proposed breakage guidance.

Further, the Task Force reaffirmed its consensus-for-exposure to amend ASC 405-20 to indicate that if an entity has a financial liability within the scope of the proposed amendments, the entity would apply the breakage guidance in ASC 606. That is, if the issuer expects to be entitled to a breakage amount (an amount not redeemed) of the financial liability, the issuer would recognize the effects of the expected breakage "in proportion to the pattern of rights exercised" by the holder to the extent that a significant revenue reversal of the breakage will not occur. Otherwise, the expected breakage of the financial liability would be recognized when the likelihood that the holder will exercise its remaining rights becomes remote.

The Task Force also decided that an entity would be required to provide breakage disclosures that are consistent with the breakage disclosures required by ASC 606. In addition, the Task Force decided to provide a scope exception related to ASC 825's disclosure requirements for financial liabilities within the scope of the proposed amendments.

Effective Date and Transition: The Task Force decided that the effective date of the guidance should be aligned with the effective date of ASC 606. For public business entities, the guidance would be effective for annual periods (including interim periods therein) beginning after December 15, 2017. For all other entities, the guidance would be effective for annual periods beginning after December 15, 2018, and interim periods thereafter. Early adoption would be permitted for all entities. (Note that unlike ASC 606, this guidance would not limit early adoption.)

Entities would be required to adopt the guidance by using one of the following transition methods in ASC 606: (1) a modified retrospective transition approach, with a cumulative catch-up adjustment to opening retained earnings in the period of adoption, or (2) a full retrospective method.

Next Steps: The EITF is expected to redeliberate the scope of the guidance at its November 12, 2015, meeting.

Issue 15-F, "Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments"

Status: Tentative decisions.

Affects: Entities that prepare a statement of cash flows.

Background: ASC 230 provides some guidance on cash payments and receipts that are classified as either financing or investing activities. Cash flows associated with cash payments and receipts that do

² FASB Proposed Accounting Standards Update, *Recognition of Breakage for Certain Prepaid Stored-Value Cards* — a consensus of the FASB Emerging Issues Task Force.

not qualify as financing or investing activities are classified in operating activities. However, ASC 230 does not have consistent principles for evaluating the classification of cash payments and receipts in the statement of cash flows, which has led to diversity in practice and, in certain circumstances, financial statement restatements. The Task Force deliberated six issues at its June 2015 meeting, reaching tentative decisions on four of them. (For more information, see Deloitte's June 2015 *EITF Snapshot*.) At this meeting, the Task Force redeliberated one issue from the June meeting and discussed three new issues, as summarized below:

- *Proceeds from the settlement of corporate-owned life insurance (COLI) policies (redeliberated)* — Under a COLI policy, an employer purchases a life insurance policy to, among other things, compensate the employer in the event of a loss of key company personnel. There is currently diversity in practice related to how an employer classifies the premiums paid and proceeds received under a COLI policy. Some stakeholders believe that COLI policies are used to provide employee benefits or are similar to other insurance policies (i.e., term life insurance) and that the cash flows associated with the COLI policy should be classified in operating activities. Others believe that COLI policies are investment mechanisms with certain tax advantages and that entities use them for investing purposes and should therefore classify cash flows associated with the policies as investing activities.
- *Distributions received from equity method investees* — An entity that accounts for an investment under the equity method may receive cash dividends representing a return *on* or return *of* its investment. Generally, cash dividends representing a return on investment are classified in operating activities while cash dividends representing a return of investment are classified in investing activities. Stakeholders have indicated that there are several methods for determining whether cash dividends received are a return *on* or return *of* investment, resulting in diversity in the classification of such proceeds in the statement of cash flows.
- *Beneficial interests in securitization transactions* — Entities may sell assets, such as trade receivables, to an unconsolidated securitization entity to generate additional liquidity. Generally, the entity selling assets to the securitization entity receives consideration in the form of cash and securities issued by the securitization entity (referred to as beneficial interests). ASC 230 does not address the cash flow presentation of the receipt of the beneficial interest from a securitization entity at inception. As a result, some believe that the initial receipt of the beneficial interest should be disclosed as a noncash activity while others believe it should be presented as a cash outflow (i.e., an assumed purchase). In addition, stakeholders have indicated that there is diversity in practice related to the classification of subsequent cash proceeds resulting from the ownership of beneficial interests in the securitization of trade receivables. Stakeholders have further noted that these cash proceeds should be classified as either (1) operating cash inflows (i.e., as the collection of the entity's trade receivables) or (2) investing activities (i.e., as the receipt of cash inflows on investment securities).
- *Application of the predominance principle* — ASC 230 acknowledges that certain cash inflows and outflows may have characteristics of more than one class of cash flows (e.g., financing, investing, or operating cash flows) and states that the "appropriate classification shall depend on the activity that is likely to be the predominant source of cash flows for the item." Although ASC 230 gives examples illustrating the application of the predominance principle,³ stakeholders have indicated that there is diversity in practice related to the interpretation and application of this principle. Specifically, views differ on when to (1) separate cash flows of a single item into more than one class of cash flows or (2) aggregate multiple cash flows of a single item into one class of cash flows.

Summary: At this meeting, the Task Force reached the following tentative decisions:

- *Proceeds from the settlement of COLI policies* — The EITF tentatively decided that cash proceeds from the settlement of COLI policies should be classified in investing activities. Further, the Task Force decided that an entity would be permitted, but not required, to align the classification of premium payments on COLI policies with the classification of COLI proceeds.

³ See ASC 230-10-45-22 and 45-23.

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- *Distributions received from equity method investees* — The EITF tentatively decided that an entity should apply the cumulative earnings approach in classifying cash dividends received as a return on or a return of investment (i.e., operating or investing cash inflows, respectively). Under this approach, cash dividends received are returns on investment (i.e., operating cash inflows) unless the amount of cumulative dividends received less dividends received in prior years that represent returns of investment (as determined through this calculation) exceeds the entity's cumulative earnings. The amount of the cash dividend received that represents a return of investment is calculated as the amount of cumulative dividends received less dividends received in prior years that represent returns of investment that is above the entity's cumulative earnings.
- *Beneficial interests in securitization transactions* — The EITF tentatively decided that beneficial interests received as proceeds from the securitization of an entity's assets should be disclosed as a noncash activity. Further, the Task Force decided that subsequent cash receipts on beneficial interests from the securitization of an entity's trade receivables should be classified in investing activities.
- *Application of the predominance principle* — The EITF tentatively decided to provide additional guidance on when cash flows of a single cash receipt or payment should be (1) separated into more than one class of cash flows for separately identifiable cash flows on the basis of their nature or (2) aggregated and classified on the basis of the predominant activity of the cash receipt or payment.

Next Steps: At its November 12, 2015, meeting, the Task Force is expected to redeliberate the cash flow classification of restricted cash and deliberate (1) transition alternatives for all nine issues and (2) illustrative examples and implementation guidance. The Task Force will discuss the effective date at a future meeting.

Administrative Matters

The next EITF decision-making meeting is tentatively scheduled for November 12, 2015.

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The purpose of this publication is to briefly describe matters discussed at the most recent meeting of the Emerging Issues Task Force. This summary was prepared by Deloitte's National Office. Although this summary of the discussions and conclusions reached is believed to be accurate, no representation can be made that it is complete or without error. Official meeting minutes are prepared by the Financial Accounting Standards Board staff and are available approximately three weeks after each meeting. The official meeting minutes sometimes contain additional information and comments; therefore, this meeting summary is not a substitute for reading the official minutes. In addition, tentative conclusions may be changed or modified at future meetings.

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