Deloitte.

June 2016

EITF Snapshot

by Emily Hache, Stephen McKinney, and Bob Uhl, Deloitte & Touche LLP

In This Issue

This *EITF Snapshot* summarizes the June 10, 2016, meeting of the Emerging Issues Task Force (EITF or "Task Force"). Initial Task Force consensuses ("consensuses-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 FASB plans to consider the EITF's June 2016 consensuses for ratification at its June 29, 2016, meeting. After that date, the official EITF minutes, including the results of the FASB's ratification process, 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). EITF Issue Summaries (released before the meeting and used to frame the discussion) are also available on those sites.

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

Status: Final consensus.

Affects: Entities that prepare a statement of cash flows.

Background: ASC 230[1] provides some guidance on cash payments and receipts that are classified as either financing or investing activities.[2] Cash flows associated with cash payments and receipts that do not qualify as financing or investment 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.

In January 2016, the FASB issued a proposed ASU based on the consensus-for-exposure that the EITF reached on eight cash flow subissues at its November 2015 meeting. For a summary of this consensus-for exposure, see Deloitte's November 2015 *EITF Snapshot*.

Summary: At this meeting, the Task Force discussed stakeholder feedback on the proposed ASU, reaffirming the consensus-for-exposure related to five subissues and making minor revisions when applicable: (1) debt prepayment or extinguishment costs, (2) proceeds from the settlement of insurance claims, (3) proceeds from the settlement of corporate-owned life insurance policies, (4) beneficial interests in securitization transactions, and (5) application of the predominance principle. However, the Task Force changed its previous decisions or engaged in more significant debate on the following three subissues:

- *Settlement of zero-coupon bonds* — The consensus-for-exposure had indicated that cash paid to settle a zero-coupon bond would be bifurcated between operating activities and investment activities on the basis of the amount of accreted interest and principal, respectively. However,

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

[2] The glossary in ASC 230 further defines operating activities as those that "involve producing and delivering goods and providing services" and cash flows that generally affect "transactions and other events that enter into the determination of net income."

feedback on the proposed amendments questioned whether this guidance was relevant only to zero-coupon bonds or whether it should be applied to other instruments with similar economic characteristics (e.g., bonds issued at a discount or bonds with interest payments that are not based on market interest rates). In light of that feedback, the Task Force decided to modify the scope of the subissue to include zero-coupon bonds and bonds with insignificant cash coupons. That is, the guidance would indicate that the presentation requirements only apply to bonds matching this description.

Tune into Deloitte's June 15 *Dbriefs* webcast "EITF Roundup: Highlights From the June Meeting," which will take place at 2 p.m. (EDT). Register for this webcast today.

- *Contingent consideration payments made after a business combination* — The consensus-for-exposure had required that contingent consideration payments that were not made on the acquisition date or soon before or after the business combination would be classified in financing (payments up to amount of initial measurement) and operating (payments in excess of initial measurement) activities. However, feedback on the proposed amendments indicated that it was unclear what time period after a business combination would be considered "soon after" and that differing interpretations of this period could create diversity in practice. The Task Force debated whether to remove the "soon after" language but was concerned that doing so would be inconsistent with the guidance on classifying cash payments made soon after an asset acquisition. Ultimately, the Task Force tentatively decided to retain the language and stated that the final guidance will indicate that contingent consideration payments made soon after a business combination (on the basis of the consummation date) should be classified 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. The consensus-for-exposure had indicated that the cumulative earnings method should be used to determine the cash flow classification for the dividends. Under the cumulative earnings method, when cumulative distributions (excluding amounts previously deemed to be returns of the investment) do not exceed an investor's cumulative equity in earnings, the dividends represent a return *on* investment and should be classified in operating activities. In contrast, when cumulative distributions exceed cumulative equity in earnings, the excess represents a return *of* investment and should be classified in investing activities.

  Some feedback received on the proposed amendments disagreed with the cumulative earnings method because it may not reflect the nature of distributions received from equity method investees and may not provide investors with the most decision-useful information. On the basis of this feedback, the Task Force considered another approach for presenting distributions received from equity method investees. Under this approach, referred to as the "look-through approach," the entity would determine whether distributions were returns *on* investment classified as operating activities or returns of investment classified as investing activities on the basis of specific facts and circumstances. Ultimately, the Task Force decided that, when presenting distributions received from equity method investees, an entity would elect, as an accounting policy, to apply the cumulative earnings method or the look-through approach to its investments as a whole. If the entity, whose chosen policy is the look-through approach, cannot apply the look-through approach because it does not have enough information to determine whether the distribution is a return on or a return of its investment, it must apply the cumulative earnings method.

For a summary of the EITF's tentative decisions related to each subissue, see the appendix.

Effective Date and Transition: For public business entities, the guidance related to the final consensus will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. For all other entities, it will be effective for fiscal years beginning after December 15, 2018, and interim periods thereafter. Early adoption will be permitted for all entities. A reporting entity will apply the guidance retrospectively to all periods presented but may apply it prospectively to the extent that retrospective application would be impracticable.

Next Steps: FASB ratification is expected at the Board's June 29, 2016, meeting, after which a final ASU will be issued.

Issue 16-B, "Employee Benefit Plan Master Trust Reporting"

Status: Consensus-for-exposure.

Affects: Employee benefit plans that hold investments in master trusts.

Background: Many employee benefit plans hold investments in master trusts, in which a regulated financial institution serves as the trustee or custodian of the plan's assets as well as assets of other plans of the same employer or group of employers under common control. Because defined contribution pension plans with interests in master trusts are becoming more common, additional presentation and disclosure guidance on such trusts is needed.

Summary: The Task Force discussed the following subissues related to employee benefit plan master trust reporting:

- *Presentation of master trust balances and activity on the face of the plan's financial statement* — When an employee benefit plan has investments in a master trust, the plan must disclose the balances and activity of its interest in the master trust on the face of the financial statements as well as in the footnotes. However, this presentation guidance is inconsistent within U.S. GAAP and has led to diversity in practice. To eliminate this diversity, the Task Force tentatively decided that a plan must present its interest in master trust balances and activity as one net investment line item in its financial statements.
- *Disclosure for plans with divided interests* — The Task Force considered whether plans with divided interests in master trusts should provide additional disclosures about the plan's interest in the master trust for each general type of investment. The EITF tentatively decided that plans with divided interests in master trusts would be required to disclose both the total master trust investment balances by type of asset and the individual plan's interest in those balances.
- *Disclosure of investment-related accruals* — The Task Force tentatively decided to require a plan to disclose both the investment-related accruals for the master trust and the individual plan's interest in such accruals.
- *Section 401(h) account investment disclosures* — A 401(h) plan is a postretirement benefit plan that may have assets funded through the entity's defined benefit plan assets. The EITF tentatively decided to remove the required disclosures for Section 401(h) account assets in a health and welfare plan and instead require the health and welfare plan to provide the defined benefit plan's name with which the account asset disclosures are associated.
- *Consistency between ASC topics* — Under current U.S. GAAP, benefit plan guidance is located in ASC topics 960, 962, and 965, which contain (with the exception of ASC 965) certain guidance on master trusts. The EITF tentatively decided to align the guidance in ASC 960, 962, and 965 when applicable.

Effective Date and Transition: Entities would be required to adopt the guidance retrospectively. The Task Force will discuss the effective date at a future meeting.

Next Steps: FASB ratification is expected at the Board's June 29, 2016, meeting, after which a proposed ASU will be issued for public comment.

Administrative Matters

The next EITF decision-making meeting is tentatively scheduled for September 22, 2016.

Appendix — Summary of Tentative Decisions for Issue 15-F

Cash Flow Classification Issue and Consensus-For-Exposure	Final Consensus
Debt Prepayment or Extinguishment Costs Cash payments for debt prepayment or extinguishment costs would be classified as cash outflows in financing activities.	Affirmed the consensus-for-exposure with minor wording clarifications.
Settlement of Zero-Coupon Bonds At settlement, the cash outflows of a zero-coupon bond would be classified in operating and financing activities. The cash payment of the accreted interest would be classified in operating activities, while the cash payment attributable to the original proceeds (i.e., the principal) would be classified in financing activities.	Affirmed the consensus-for-exposure for zero-coupon bonds and added to the scope bonds with insignificant cash coupons.
Contingent Consideration Payments Made After a Business Combination Contingent consideration payments that were not made on or before the acquisition date or soon after the business combination would be classified in operating and financing activities. Cash payments up to the fair value amount of the contingent consideration liability, including any measurement-period adjustments, that are recognized as of the acquisition date would be classified in financing activities, while any excess cash payments would be classified in operating activities.	Affirmed the consensus-for-exposure and clarified that “soon after the business combination” refers to payments made soon after the consummation date of a business combination. In addition, clarified that contingent payments that are made soon after a business combination would be classified in investing activities.
Proceeds From the Settlement of Insurance Claims Cash proceeds from the settlement of insurance claims would be based on the nature of the insurance coverage (i.e., nature of the loss), including lump-sum payments for which the nature of the loss can be reasonably estimated.	Affirmed the consensus-for-exposure.
Proceeds From the Settlement of Corporate-Owned Life Insurance (COLI) Policies Cash proceeds from the settlement of COLI polices would be classified in investing activities. However, an entity would be permitted, but not required, to align the classification of premium payments on COLI policies with the classification of COLI proceeds, classify the premium payments as operating activities, or a combination of the two classifications.	Affirmed the consensus-for-exposure.
Distributions Received From Equity Method Investees Distributions received by an equity method investee would be classified in operating and investing activities by applying the cumulative earnings method.	When presenting distributions received from equity method investees, an entity would elect, as an accounting policy, to apply the cumulative earnings method or the look-through approach to its investments as a whole. If the entity, whose chosen policy is the look-through approach, cannot apply the look-through approach because it does not have enough information to determine whether the distribution is a return on or a return of its investment, it must apply the cumulative earnings method.
Beneficial Interests in Securitization Transactions The transferor’s beneficial interests received as proceeds from the securitization of an entity’s assets would be disclosed as a noncash activity. Subsequent cash receipts on beneficial interests from the securitization of an entity’s trade receivables would be classified in investing activities.	Affirmed the consensus-for-exposure.
Application of the Predominance Principle The Task Force decided to retain and clarify the predominance principle in ASC 230 related to when an entity should separate cash payments and receipts and when it should aggregate them.	Affirmed the consensus-for-exposure with minor wording clarifications.

Subscriptions

If you wish to receive *EITF Snapshot* and other Deloitte accounting publications, please register at www.deloitte.com/us/subscriptions.

Dbriefs for Financial Executives

We invite you to participate in *Dbriefs*, Deloitte's webcast series that delivers practical strategies you need to stay on top of important issues. Gain access to valuable ideas and critical information from webcasts in the "Financial Executives" series on the following topics:

- Business strategy and tax.
- Driving enterprise value.
- Financial reporting.
- Financial reporting for taxes.
- Governance, risk, and compliance.
- Technology.
- Transactions and business events.

Dbriefs also provides a convenient and flexible way to earn CPE credit — right at your desk. Subscribe to *Dbriefs* to receive notifications about future webcasts at www.deloitte.com/us/dbriefs.

Technical Library and US GAAP Plus

Deloitte makes available, on a subscription basis, access to its online library of accounting and financial disclosure literature. Called Technical Library: The Deloitte Accounting Research Tool, the library includes material from the FASB, EITF, AICPA, PCAOB, IASB, and SEC, in addition to Deloitte's own accounting and SEC manuals and other interpretive accounting and SEC guidance.

Updated every business day, Technical Library has an intuitive design and navigation system that, together with its powerful search features, enable users to quickly locate information anytime, from any computer. Technical Library subscribers also receive *Technically Speaking*, the weekly publication that highlights recent additions to the library. For more information, including subscription details and an online demonstration, visit www.deloitte.com/us/techlibrary.

In addition, be sure to visit US GAAP Plus, our free Web site that features accounting news, information, and publications with a U.S. GAAP focus. It contains articles on FASB activities and updates to the *FASB Accounting Standards Codification*™ as well as developments of other U.S. and international standard setters and regulators, such as the PCAOB, AICPA, SEC, IASB, and IFRS Interpretations Committee. Check it out today!