

May 5, 2017

Susan M. Cospers, CPA
Technical Director
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: FASB January 10, 2017 Proposed Accounting Standards Update *Debt (Topic 470) Simplifying the Classification of Debt in a Classified Balance Sheet (Current versus Noncurrent)* [File Reference No. 2017-200]

Dear Ms. Cospers:

The American Institute of CPAs (AICPA) is the world's largest member association representing the accounting profession, with more than 418,000 members in 143 countries, and a history of serving the public interest since 1887. One of the objectives that the Council of the AICPA established for the PCPS Executive Committee is to speak on behalf of local and regional firms and represent those firms' interests on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC has reviewed the Proposed Accounting Standards Update, *Debt (Topic 470) Simplifying the Classification of Debt in a Classified Balance Sheet (Current versus Noncurrent)* (ED) and is providing the following comments for your consideration.

GENERAL COMMENTS

TIC agrees with the overall objectives of this ED, which are to improve the current, fact-specific guidance related to balance sheet classification of debt with an overarching, cohesive principle. However, we do have some concerns related to the proposed treatment of short-term debt that is refinanced on a long-term basis after the balance sheet date. TIC members believe that this change from current GAAP would negatively affect what currently provides decision-useful information.

TIC also has some additional comments related to the current proposed waiver requirements in ASC 470-10-45-23b as well as the probability assessment of covenant waivers contained in ASC 470-10-45-23d that we have noted in the "Additional Comments" section as follows.

SPECIFIC COMMENTS

Question 1: *Paragraph 470-10-45-22 includes a principle for classifying debt as a noncurrent liability in a classified balance sheet. Would the proposed principle simplify the classification guidance in GAAP without diminishing the usefulness of the information provided in the financial statements? Is the proposed principle clear? Why or why not? Please explain and suggest alternatives.*

No. While TIC does believe that this ED results in simplification of debt classification on the balance sheet, it diminishes the usefulness of information by requiring debt to be classified as current in those situations where short-term debt is refinanced on a long-term basis after the balance sheet date, but before the financial statements are issued. We support a similar treatment as is described in Paragraph 470-10-45-23 related to debt covenant waivers where refinancing situations would be separately presented in the balance sheet as noncurrent liabilities. TIC also believes that if the proposed accounting standards update is issued as written, the more decision useful information would then be in the notes rather than on the face of the financial statements. Many times, licensing agencies, banks, and other lenders are mainly concerned with an entity maintaining certain ratios based strictly on the information contained in the balance sheet, income statement, and statement of cash flows and this ED could have unintended consequences to entities that would now be required to present that debt as current.

Question 2: *The scope of the amendments in this proposed Update includes debt arrangements as well as (a) liability-classified mandatorily redeemable financial instruments within the scope of Topic 480, Distinguishing Liabilities from Equity, and (b) debt with conversion and other options that are within the scope of Subtopic 470-20, Debt—Debt with Conversion and Other Options. Is the scope of the proposed amendments clear? Why or why not? Are there any other instruments that should be included within the scope of the proposed amendments? If so, please explain.*

TIC believes that the scope of the proposed amendments is clear and could not think of any additional instruments that should be included in the scope.

Question 3: *Paragraph 470-10-45-23 includes an exception to the classification principle for waivers of debt covenant violations received after the reporting date but before the financial statements are issued (or are available to be issued). Will including this exception reduce the cost of the proposed amendments? Why or why not? Please explain and suggest alternatives.*

Yes. As noted in TIC's response to question 1 above, TIC members do believe that including this exception will reduce the cost of the proposed amendments and also provide more decision-useful information to financial statement users.

Question 4: *Paragraph 470-10-45-24 would require separate presentation in a classified balance sheet for debt that is classified as a noncurrent liability because of a waiver of a debt covenant violation received after the reporting date but before the financial statements*

are issued (or are available to be issued). Does separate presentation of this amount provide decision-useful information for those using the financial statements? Why or why not? Please explain and suggest alternatives.

Yes, TIC agrees that this presentation principle provides decision-useful information.

Question 5: *The proposed amendments would require an entity to classify as a current liability a debt arrangement that is short-term debt (at the balance sheet date) but that is subsequently refinanced as long-term debt (after the balance sheet date but before the financial statements are issued). That would result in more current liabilities and less noncurrent liabilities, as compared with current GAAP. Do you agree that these refinancings are nonrecognized subsequent events? If not, please explain why and suggest alternatives.*

No, TIC believes that these types of debt refinancings are different from the existing examples provided in ASC 855. This is because the emphasis in ASC 855 is on the proper recognition of income and expenses rather than classification on a balance sheet. However, if one considers refinancings as Type 2 subsequent events under ASC 855, we believe the Board's conclusion was correct in paragraph 23 of the Basis for Conclusions of FAS 6 where, "The Board rejected a strict maturity-date approach because the scheduled maturity date of an obligation is not necessarily indicative of the point in time at which that obligation will require the use of the enterprise's funds." Also see TICs recommendation in our response to Question 1.

Question 6: *Paragraph 470-10-50-6 provides new disclosure requirements. Do the proposed disclosure requirements provide decision-useful information? If not, please explain why and suggest alternatives.*

Yes, TIC agrees that these proposed disclosures provide decision-useful information and could not come up with any additional disclosures that would provide decision-useful information.

Question 7: *How much time would be necessary to adopt the proposed amendments? Would the amount of time needed to apply the proposed amendments by entities other than public business entities be different from the amount of time needed by public business entities? Do you agree that early adoption should be permitted?*

TIC believes that if the Board proceeds with this proposed Update as drafted, then a significant amount of additional time should be given to entities to understand the ramifications of the Update, as well as for credit, bonding, and licensing agencies to reconfigure applications, whether written or online forms, to ensure that accurate, meaningful, and useful information is obtained to make those important decisions. The Board might also then consider whether additional time should be given to entities that are not public business entities as well as TIC believes there could be a more significant impact on smaller, nonpublic entities than for public business entities.

ADDITIONAL COMMENTS

TIC members have expressed concern about the current proposed waiver requirements in ASC 470-10-45-23b. This paragraph requires the waiver to be for a period **greater than** one year, rather than just one year from the balance sheet date. For a calendar year-end entity, this is the difference between receiving a waiver up to the next December 31 (which should extend until midnight) versus a waiver until at least the subsequent January 1. While this seems minor, TIC members have noted that in the past there has been a reluctance of banks and other lenders to issue waivers for a year and a day for covenants that are measured periodically and may be subsequently cured or covenants that are only annually measured. TIC would suggest the Board consider adding guidance with respect to annual covenants and revising the language in ASC 470-10-45-23b to be more consistent with how the marketplace currently issues debt waivers as to not introduce any unintended consequences with the issuance of this forthcoming Accounting Standards Update.

TIC also thinks there could be opportunity to further clarify the probability assessment of covenant waivers contained in ASC 470-10-45-23d. The ED refers to “other covenants” and provides an example of “other covenants not included in the waiver”. TIC members believe one could read this as a separate and distinct covenant under the same debt agreement from the covenant actually violated, (e.g., minimum current ratio requirement vs. minimum level of shareholders’ equity requirement). TIC believes this is intended to address the same covenant as the one violated but that has subsequent interim measurement dates. For example, there could be a situation where the minimum current ratio was violated at December 31, 2017 and the specific violation is waived, however, this covenant has quarterly measurement dates. TIC suggests that the Board consider clarifying this issue either in ASC 470-10-45-23d, in the examples in ASC 470-10-55, or in the basis for conclusions to avoid potential diversity in practice as it relates to other covenants included within the waiver.

TIC had some discussions with the FASB staff on this issue, and TIC was asked to provide some detailed suggestions on how to resolve this potential confusion in practice when applying the provisions of this forthcoming ASU. TIC believes that one potential way for the Board to clarify this issue would be to revise the language in the proposed ASC 470-10-45-23(d) to indicate the following:

It is not probable that any of the covenants in the debt arrangement for which the waiver applies will be violated at future measurement dates within 12 months (or operating cycle, if longer) from the balance sheet date.

TIC feels that this language better describes what the Board means by the term “other covenants”, which TIC feels was intended to mean that entities would need to look at those covenants for which the waiver applies, and not be required to relook at all covenants, both financial and nonfinancial, that may be in place related to the debt arrangement in question.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

A handwritten signature in black ink that reads "Michael A. Westervelt". The signature is written in a cursive style with a large initial 'M'.

Michael A. Westervelt, Chair
PCPS Technical Issues Committee
cc: PCPS Executive and Technical Issues Committees