



October 28, 2019

Shayne Kuhaneck
Acting Technical Director
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: FASB September 12, 2019 Proposed Accounting Standards Update, Debt (Topic 470): Simplifying the Classification of Debt in a Classified Balance Sheet (Current versus Noncurrent), Revision of Exposure Draft Issued January 10, 2017 [File Reference No. 2019-780]

Dear Mr. Kuhaneck:

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 appreciates the Board's efforts to address complexities in determining whether debt should be classified as current or noncurrent in a classified balance sheet. TIC agrees with the overall objectives of this revised ED, combined with the original related ED issued on January 10, 2017, which are to improve the current, fact-specific guidance related to balance sheet classification of debt with an overarching, cohesive principle. TIC believes this will eliminate diversity in practice and assist preparers and auditors in making judgments related to debt classification.

However, TIC still does 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 and believes that if the ED proceeds as proposed, private companies should be given additional time to adopt this standard as TIC foresees some operational issues as noted in the "Additional Comments" section.

TIC also has some additional comments related to the current proposed waiver requirements in ASC 470-10-45-22b and the probability assessment of covenant waivers contained in ASC 470-10-45-25d that we have noted in the "Additional Comments" section.

Question 1: *Proposed paragraph 470-10-45-23 would preclude an entity from considering an unused long-term financing arrangement (for example, a letter of credit) in determining the classification of a debt arrangement. Would that proposed requirement simplify the guidance without diminishing the usefulness of the financial statements? Why or why not?*

In general, TIC believes this would simplify the guidance without diminishing decision useful information. As indicated in Basis of Conclusion (BC) 19 and 20 of the ED, a principle based on the terms and conditions of the contract would be more operable and would lead to better comparability. The proposed guidance requires use of evidence that is more objective rather than current practice which relies on more subjective management expectations of when debt is going to be settled. More specifically, however, TIC believes the usefulness of the financial statements for certain contractually linked arrangements, such as variable rate demand bonds backed by a letter of credit or standby bond purchase agreement, would be diminished as discussed in our response to question 2.

Question 2: *The Board considered and rejected both of the following approaches in determining the classification of debt when an entity has unused long-term financing arrangements that require an entity to:*

- a. Combine the debt with all unused long-term financing arrangements*
- b. Evaluate the contractual linkage between debt and other financing arrangements.*

In both approaches, the debt classification might change from a current liability to a noncurrent liability. (See paragraphs BC29–BC35 in this proposed Update for further information.) Is there any additional information about the expected costs and benefits, simplification of classification guidance, or operability of applying those approaches that the Board should be aware of?

Variable Rate Debt Obligations (VRDOs) were developed by the financial markets as a viable alternative for long-term financing arrangements. VRDOs require a form of liquidity in the event of a failed remarketing. The liquidity facility used could be a letter of credit (LOC) or standby bond purchase agreement (SBPA). An LOC or SBPA provides an unconditional commitment by a credit facility to pay investors the principal and interest on the VRDOs in the event of default. The liquidity facility is entered into simultaneously with the issuance of the VRDOs, is an integral part of the financing arrangement, and is clearly described to potential investors in preliminary offering documents. Draws on the liquidity facility can only be initiated by the bond trustee upon notification of a failed remarketing. To report the bonds solely on the demand repayment terms of the bonds results in a form over substance presentation, provides the users of the financial statements a misleading picture of the financing arrangement on the face of the financial statements, and it is not representative of the economics of the debt instrument.

Many organizations that enter into these arrangements are not-for-profit healthcare entities which have widely distributed financial statements. TIC believes this ED may cause healthcare entities to make business decisions to discontinue the use of a well-proven, and cost-effective method of long-term financing provided by this integrated financing arrangement. Modifying financing arrangements creates incremental administrative burden and expense for these

entities and therefore would significantly increase the costs to these entities.

TIC supports an exception to the general principle for these types of arrangements to allow classification based on contractual linkage as described in BC 32-33 and supported by BC 35.

Question 3: *Proposed paragraph 470-10-45-24 would provide classification guidance in scenarios in which an entity violates a provision of a long-term debt arrangement and the debt arrangement provides a grace period. Is that proposed guidance clear and understandable? Why or why not?*

In general, yes, TIC believes the guidance related to grace periods is clear and understandable. However, TIC noted that the ED, BCs, and examples do not address when a grace period ends before the financial statements are issued or available to be issued. To add clarity, TIC recommends providing an additional example in the ED or revising the example at 470-10-55-3G to illustrate when there is a violation of a covenant at the balance sheet date and the debt is classified as non-current due to the grace period with the grace period ending before the financial statements are issued or available to be issued and the covenant violation has not been cured.

Question 4: *Proposed paragraph 470-10-45-22 includes a principle for classifying debt as a noncurrent liability in a classified balance sheet. Would the guidance in that proposed paragraph be operable for an entity that has a debt arrangement with contractual terms that require settlement entirely through the issuance of equity?*

Yes, TIC believes that the guidance in the proposed paragraph, the scope paragraphs at 470-10-15, as well as further discussion in BC 21 are clear and operable for an entity that has a debt arrangement with contractual terms that require settlement entirely through the issuance of equity.

Question 5: *Proposed paragraph 470-10-50-9 would require that an entity disclose additional information in the period in which the entity violates a provision of a long-term debt arrangement about the violation and the terms of the grace period. Would the proposed requirements provide decision-useful information? Why or why not?*

Yes, TIC agrees that the disclosures proposed provide decision useful information. By removing subjective assessments in the balance sheet classification of debt and requiring classification to be based on contractual provisions (with the exception of debt covenant waivers), the added disclosures provide users of the financial statements with important comprehensive information about the debt instruments carried on the balance sheet.

Question 6: *The objective of this project is to reduce the cost and complexity for preparers and auditors when determining whether debt should be classified as current or noncurrent in the balance sheet while providing financial statement users with more consistent and transparent information. Given the additional changes in this revised proposed Update, will that objective be achieved? For example, would the expected benefits of the proposed amendments justify the expected costs? Why or why not?*

No, TIC does not believe that the redrafted ED will reduce cost and complexity when determining whether debt should be classified as current or noncurrent. As discussed in our response to question 2, some health care entities may experience increased cost to modify variable rate debt obligations. In addition, as discussed in the additional comments section following, TIC believes the probability assessment in ASC 470-10-45-25d will add cost and complexity when applicable.

ADDITIONAL COMMENTS

Waiver Requirements

As noted in our May 5, 2017 comment letter on the original ED, TIC members have expressed concern about the current proposed waiver requirements in ASC 470-10-45-25b. 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, in the past, TIC members have noted reluctance by banks and other lenders to issue waivers for a year and a day for covenants that are only measured annually.

TIC suggests the Board consider adding guidance with respect to annual covenants and revising the language in ASC 470-10-45-25b 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.

Probability Assessment

TIC members have expressed concern about the proposed waiver requirements in ASC 470-10-45-25d. The requirement to assess the probability that any other covenants in the debt arrangement including subjective acceleration clauses will be violated for 12 months from the balance sheet date when a violation of a covenant at the balance sheet date has been waived will add cost and complexity to determining the balance sheet presentation of debt. While allowing the non-current debt classification to be retained at the balance sheet date when a waiver is obtained is a simplification and addresses a practical problem that is prevalent in the private company space (BC 44), adding the probability assessment for all covenants introduces new cost and complexity.

TIC would prefer this requirement be removed. If it is not removed, one solution would be to limit the assessment to the covenant that was violated as follows:

“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.”

Effective Date

While TIC does believe that this ED results in simplification of debt classification on the balance sheet, it could have a negative impact on smaller private companies in particular 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. In our previous comment letter dated May 5, 2017, TIC supported a similar treatment as is described in Paragraph 470-10-45-25 related to debt covenant waivers where refinancing situations would be separately presented in the balance sheet as noncurrent liabilities.

TIC believes that, although the proposed classification of this debt as short-term may be more in line with the overall broad principles of this ED, it puts smaller private entities at a disadvantage as typically those entities do not have the same leverage and ability to renegotiate quickly with their lenders. Many times, with smaller private entities, the bank requires financial statements before moving ahead with the refinancing, so the refinancing would not be approved until after the financial statements have been issued or become available to be issued. Requiring this debt to be classified as short term could also create going concern issues which could add additional cost and complexity regarding management's requirements under GAAP related to going concern as well as the audit of those assumptions.

TIC requests that, if the guidance on refinancings remains in the final standard, additional adoption time be provided for private companies since they will have to work with banks to determine if there is a way to change behavior related to the timing of these refinancings. Therefore, TIC requests the Board consider allowing private companies 2 years from the effective date for public companies to adopt this standard. This is consistent with the FASB August 15, 2019 Exposure Draft, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates* and the FASB August 21, 2019 Exposure Draft, *Financial Services—Insurance (Topic 944): Effective Date*.

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, appearing to read "Danielle Supkis-Cheek", with a long, sweeping flourish extending to the right.

Danielle Supkis-Cheek, Chair
On Behalf of the PCPS Technical Issues Committee