Riyadh Philanthropic Society for Science

Prince Sultan University

College of Business Administration

Department of Accounting

Comment Letter
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Dear fellow Americans and FASB,

It is a great honor to have an opportunity to engage in the discussion of whether to merge debt issuance costs as a discount within liabilities. I have been teaching both US GAAP and IFRS standards. Debt issuance costs are one of those minor discrepancies that I have had a bit too much time to think about since I started teaching. As an aspiring philosopher in accounting, I provide my views, thoughts, and opinions as follows.

Question 1: Should debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability, consistent with debt discounts? If not, why?

To provide an opinion to this question, we should look at the costs and benefits of debt issuance costs and inconsistencies with US professional bodies. Under both US GAAP and IFRS with all else fixed, debt issuance costs will probably result in a valuation of debt that is highly comparable, if not exactly the same. It is not too difficult to add debt issuance costs with initial discounts for either preparer or user. In addition, the AICPA recently revised professional ethics standards with one in particular that states that its members should make decisions that considers the greater good of society. What might we face in a world without a line for debt issuance costs and what can we project to happen without its built-upon information?

I have had the tremendous honor and opportunity to work outside my home country at a young age. Once had taken this for granted, rules of law and standardized procedures result in far greater stability, predictability, transparency, and equity in many areas compared to than most other nations. Financial accounting in the United States is what it is today thanks to the efforts of former and current board members, staff, advisors, and interns. Rigid and rigorous black-and-white rules in combination with advisory support and relevancy in practice have made US GAAP the most advanced accounting standard knowledge base in the world. This also results in some of the best financial statements issued by complying companies.

Based on my observations and *only* my observations, politics is fundamental and deeply ingrained into IFRS and its advocacy groups. By providing as little information as possible for complicated topics or, vice versa, providing as much information as possible for simple topics, IFRS standard setting appears to have become a political game for a variety of individuals, companies, institutions, and organizations. Even the spread of IFRS can be coincidentally reflected to British conquest strategy by surrounding the enemy rather than facing the enemy head on. By not providing information on debt issue costs, IFRS issuers help conceal financial institutions and other debt service providers. It is not entirely a matter of purpose because deciding whether to include a separate line or not might not be obvious at initial glance. Today in an increasingly interconnected world, decision making is no longer based on simple reasons alone but on multifaceted issues, objectives, and interests. We need to choose the best outcome.

If we aggregate debt issuance costs with the carrying value of debt and remove its supplementary information, this simplifies the report by a few lines, removes supplementary information, and makes annual reports lighter. If debt issuance costs are immaterial to the financial statements, it would be of little significance anyways. But if we see things as an ethical member of the AICPA, we should also consider the good for society as a whole.

Debt issuance costs as a separate line item help financial institutions and other debt issuance services remain competitive and in check. By having an idea of how much others have charged the reporting firm and estimating the market, other firms have an opportunity to more effectively compete. As the US's post-WWII economy has been developing on somewhat fair competition at least on an organizational level, removing such information disables competition and enables large, established firms maintain their share while keeping small, establishing firms in the elementary stages of trial and error. In addition, economists and researchers who analyze such data to determine the "health" of debt industries would have one less piece of data to analyze. Red flags or indicators in the financial system are sometimes found by collecting obscure pieces of data and analyzing the data as a whole. To disable such competition and possible flags or indicators at the cost of a few lines in the financial report is **unconscionable**.

We can reflect the possibilities of removal with the EU. Corruption and unfair practices tend to be rampant where people of similar backgrounds and experiences live and work in close and closed vicinities. While IFRS generally assumes that companies are reasonable and fair in dealings when compared to US GAAP (e.g. revenue recognition before convergence, implicit rate on capital leases, debt issuance costs), such assumptions generate uncertainty and risks by governmental entities and banks that cannot help but unwittingly extend the economic crisis in some EU member states. Though, there are many other contributory reasons such as unreliability of reports, self-centered politics, and wealth of former empires.

Should the US take a step back and be more like the EU? Should GAAP take a step back and be more like IFRS? I think that US GAAP should remain its own set of high quality accounting standards by retaining debt issuance costs rather than cater to entities that do not want or would not like to have such data for whatever reasons or developing perspectives available. FASB is a federally-funded entity that should serve in the best interests of the nation as a whole rather than a few select groups. Alternatively, by removing the line item and adding parenthetical information next to discounts or premiums, similar to the presentation of original costs of fixed assets, would retain the quality of information. Though, supplementary notes about debt issuance costs should be removed if it is already stated in the financial statements.

Question 2: Should the proposed guidance be applied on a retrospective basis?

Since this is a change in presentation, the financial statement values itself should not change and will still be comparable with minimal efforts by the user. But, I believe that it would be a lot better for society if preparers prospectively apply the change. Adam Smith's Wealth of Nations provides a good explanation.

Questions 3: How much time will be necessary to adopt the amendments in this proposed Update? Should 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? *No comment.*

Sincerely,

/s/Alan J. Pan/s/
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This letter expresses solely the author's opinion and in no way represents his institution as a whole.