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**Proposed Accounting Standards Update, *Interest – Imputation of Interest*  
(File Reference No. 2014-250)**

Dear Ms. Cospers:

We appreciate the opportunity to comment on the Proposed Accounting Standards Update (ASU), *Interest – Imputation of Interest* (the Proposed ASU) from the Financial Accounting Standards Board (FASB or Board).

We support the FASB's objective in its simplification initiative to reduce the cost and complexity of financial reporting while improving or maintaining the usefulness of the information provided to financial statement users. We agree with the Proposed ASU's requirement that 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 or premiums, because today's accounting is inconsistent with the Conceptual Framework. However, as further discussed in Appendix A, we believe the FASB can do more to address complexity associated with third-party debt issuance costs.

Our responses to the questions posed in the Proposed ASU are set out in Appendix A of this letter, and our general comments are included in Appendix B.

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We would be pleased to discuss our comments with the Board or its staff at your convenience.

Very truly yours,

**Appendix A – Responses to specific questions raised in the Proposed Accounting Standards Update, Interest – Imputation of Interest**

**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?

Yes. We agree with the Board that classifying debt issuance costs as an asset is not consistent with Concepts Statement No. 6, *Elements of Financial Statements*. Requiring debt issuance costs to be presented in the balance sheet as a direct deduction from the debt liability, consistent with the presentation of a debt discount or premium, addresses this inconsistency. It also aligns the presentation of debt issuance costs with IFRS, which we support.

While we agree that presenting these costs as a contra-liability addresses a longstanding conflict with the Conceptual Framework, and for that reason the Proposed ASU serves a valid purpose, we believe the FASB can do more to address complexity associated with third-party debt issuance costs.

For example, paragraph BC3 states that debt issuance costs that do not have an associated debt liability amount recorded in the financial statements should be reported as deferred charges. Accordingly, the Proposed ASU creates inconsistent presentation of debt issuance costs in the balance sheet as a contra-liability or, presumably, an asset, depending on whether there is an associated debt liability. Further, the Proposed ASU does not address the presentation of debt issuance costs paid to secure revolving lines of credit when amounts are drawn and repaid periodically. In these circumstances, a debt liability may be recorded and settled frequently. Under the Proposed ASU, it is not clear whether debt issuance costs associated with revolving lines of credits would be constantly reclassified between a contra-liability and an asset.

In addition, although this is not solely a presentation issue, various models treat third-party debt issuance costs differently than premiums or discounts, including discounts in the form of fees paid to the creditor. These models include measuring beneficial conversion features in Accounting Standards Codification (ASC) 470-20, *Debt – Debt with Conversion and Other Options*, and accounting for costs and fees associated with the debt modifications and extinguishments in ASC 470-50, *Debt – Modifications and Extinguishments*. Also, there is no universal agreement on what constitutes a third-party debt issuance cost. For example, when the initial purchase of debt at a discount is by an investment bank (as a legal principal to the transaction) that immediately sells the debt to the intended initial investors, there is inconsistency as to whether that initial discount is considered a debt discount (to the bank as a legal principal) or a third-party debt issuance cost (to the bank effectively as an agent).

As a result, we believe significant complexity in the accounting for debt issuance costs will remain after this project is completed, and the FASB should consider how to address this complexity.

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

Yes. Applying the proposed guidance on a retrospective basis enhances comparability. Also, because the information on debt issuance costs is already available, requiring retrospective application should not require an entity to incur significant costs when adopting the Proposed ASU this way.

**Question 3:** How much time will be necessary to adopt 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?

Given that the change required by the Proposed ASU is a simple reclassification of an amount from an asset to a contra-liability, we do not expect the time necessary to adopt the amendments to be significant. We believe a one-year adoption period, with early adoption allowed, would be appropriate. Also, for the same reason, we do not believe the time needed to adopt the amendments will differ between public and non-public business entities.

## Appendix B – General comments about the Proposed ASU

In addition to our responses to the questions specified in the Proposed ASU (Appendix A), we have the following comments:

- ▶ The proposed amendment to ASC 835-30-45-1 adds the words “assets and.” We question whether these words are misplaced because debt issuance costs would never relate to an asset. We propose the following edits:

835-30-45-1 The guidance in this Section does not apply to the amortization of premium and discount of assets and liabilities, and the debt issuance costs of ~~assets and liabilities~~, that are reported at fair value.

- ▶ Likewise, the proposed amendment to ASC 835-30-45-3 adds the word “or income.” Here, too, we question whether these words are misplaced. One may read the proposed text as currently structured to permit the reporting of the amortization of a premium on debt as income (as opposed to an offset to interest expense). In addition, the amortization of debt issuance costs can never be reported as income. We propose the following edits:

835-30-45-3 Amortization of discount or premium ~~and issue costs~~ shall be reported as interest expense, in the case of liabilities, or income, in the case of assets. Amortization of debt issuance costs shall also be reported as interest expense.