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February 27, 2017

Technical Director
File Reference No. 2017-200

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Proposed Accounting Standards Update Debt (Topic 470) *Simplifying the Classification of Debt in a Classified Balance Sheet (Current versus Noncurrent)*

The Accounting Principles and Assurance Services Committee (the “Committee”) of the California Society of Certified Public Accountants (“CalCPA”) respectfully submits its comments on the referenced proposal. The California Society of CPA’s (“CalCPA”) Accounting Principles and Assurance Services Committee (the “Committee”) is the senior technical committee of CalCPA. CalCPA has approximately 43,500 members. The Committee consists of 55 members, of whom 45 percent are from local or regional firms, 32 percent are from large multi-office CPA firms, 12 percent are sole practitioners in public practice, 6 percent are in academia and 5 percent are in international firms. Members of the Committee are with CPA firms serving a large number of public and nonpublic business entities, as well as many non-business entities such as not-for-profits, pension plans and governmental organizations.

The Committee might support a principle for classification of debt, but if the principle does not accommodate classification of short-term debt that is refinanced on a long-term basis after the balance sheet date as non-current, then we believe the Board should remove this project from the Board’s agenda. See our responses to the questions below.

We do support the proposed changes to remove the probability assessment in evaluating classification of debt with subjective acceleration clauses or material adverse change clauses.

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.

The Committee believes that the proposed changes will diminish the usefulness of financial information provided in the financial statements. Users of financial statements have become accustomed to debt that may be current by its terms being reflected as non-current if there has been a waiver of a covenant violation as well as if there has been a long-term refinancing after the balance sheet date but before the financial statements are issued. The information provided, reflecting the most current information on whether

debt is current or non-current, is more useful that the arrangements at the balance sheet which are no longer relevant. We see no reason to change this. We do suggest, however, that both situations should be clearly disclosed on the face of the balance sheet.

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.

The Committee believes the scope is clear and has no suggestions.

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.

The proposed exception, which basically allows continuation of current practice and current GAAP, should have no effect on the cost of the proposed amendments because there is no change. Failure to maintain current GAAP could adversely affect entities who are required to maintain certain financial criteria (e.g., working capital, current ratios and the like) and who are dependent on covenant waivers.

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.

The Committee supports this disclosure, and would support it for debt classified as non-current based on a post-balance sheet refinancing. See response to Question No. 1 above.

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.

See the Committee's response to Question No. 1. We are not troubled by recognizing these refinancings as recognized subsequent events just as we are not troubled by the proposed exception for waivers of debt covenant violations received after the reporting date but before the financial statements are issued. They are both conceptually and essentially the same thing: debt terms are changed after the balance sheet date, and those changes permit the debt to become non-current. We believe exceptions should be provided for both situations.

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.

The Committee agrees with the proposed disclosures.

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?

The Committee believes that the time required to adopt the proposed amendments is not likely to be substantial, since it would simplify preparation of financial statements, but with one significant exception. If the Board does not continue current GAAP for short-term debt that is refinanced on a long-term basis after the balance sheet date, there will be additional costs. These costs at a minimum would be the time to prepare disclosures of the debt under its new terms, as a subsequent event, as well as the debt under the terms as of the balance sheet date. In addition, if an entity were to try to accelerate a refinancing to get it in place by the balance sheet date, additional management costs and legal fees may be incurred.

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We thank you for the opportunity to comment on this matter. We would be glad to discuss our opinions with you further should you have any question or require additional information.

Sincerely,

A handwritten signature in black ink that reads "A.J. Major III". The signature is written in a cursive style with a horizontal line underneath the name.

A.J. Major III
Chair
Accounting Principles and Assurance Services Committee
California Society of Certified Public Accountants