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Ms. Susan M. Cospers
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

File Reference No. 2017-200

Re: Proposed Accounting Standards Update, *Simplifying the Classification of Debt in a Classified Balance Sheet (Current Versus Noncurrent)*

Dear Ms. Cospers:

Deloitte & Touche LLP is pleased to comment on the FASB's proposed Accounting Standards Update (ASU) *Simplifying the Classification of Debt in a Classified Balance Sheet (Current Versus Noncurrent)*.

We support the Board's efforts under its simplification initiative to improve aspects of U.S. GAAP that are unnecessarily complex and costly. We believe that the proposed ASU would further the Board's efforts by establishing a debt classification principle that is centered on a debt arrangement's terms and conditions as of the balance sheet date. Such a principle would introduce into U.S. GAAP a consistent and coherent set of requirements for classifying debt as current or noncurrent.

The appendix below contains our responses to the proposed ASU's questions for respondents and suggests certain modifications to the proposed guidance.

We appreciate the opportunity to comment on the proposed ASU. If you have any questions concerning our comments, please contact Magnus Orrell at (203) 761-3402.

Yours truly,

Deloitte & Touche LLP

cc: Jonathan Howard

Robert Uhl

Appendix

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Responses to Questions for Respondents

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.*

We support the Board's proposal to establish a debt classification principle that is based on a debt arrangement's terms and conditions as of the balance sheet date. We expect that such a principle will be easier to apply and to explain than the existing debt classification requirements in GAAP, which lack a unified principle for determining whether debt should be classified as current or noncurrent. Nevertheless, as we discuss below, we believe that the Board should clarify the wording of the proposed principle and modify certain other aspects of the proposed guidance before finalizing the amendments.

Demand and Put Features

It appears that under a literal interpretation of the classification principle in proposed ASC 470-10-45-22, an entity would be required to classify debt as noncurrent in circumstances in which the debt is contractually due to be settled more than one year (or operating cycle, if longer) after the balance sheet but the creditor can demand repayment within one year (e.g., under a noncontingent put option or demand feature that allows the debt holder to require repayment). Although the Board implies in the proposed ASU's implementation guidance and its Basis for Conclusions that debt with a demand or put feature would not meet the criteria for noncurrent classification (see, e.g., proposed ASC 470-10-55-8 and paragraph BC15), the wording of the criterion in proposed ASC 470-10-45-22(a) focuses on *when the arrangement is due to be settled*, not on *when the lender can demand repayment*. For instance, it is not uncommon for a debt arrangement that is contractually due to be settled more than one year after the balance sheet date to contain an embedded put option or demand feature that is exercisable by the counterparty during the next year.

We recommend that to increase understandability and reduce the risk of diversity or misapplication in practice, the Board modify the wording of the classification principle in proposed ASC 470-10-45-22(a) so that the evaluation of this criterion explicitly takes into account whether and, if so, when the lender can demand repayment of the debt. That is, debt would be classified as noncurrent if it is due to be settled more than one year (or the operating cycle, if longer) after the balance sheet date unless the lender will have the unconditional right to demand that the debt be settled at any point during that period.

Letter-of-Credit and Other Financing Arrangements

Some of the guidance in the proposal's Example 2 (which illustrates classification by an issuer of redeemable instruments that are subject to remarketing agreements) may be inconsistent with other aspects of the proposed ASU and GAAP. Specifically, we believe that the Board should clarify whether the letter-of-credit issuer in Example 2 is acting as an

agent of the issuer. The guidance in proposed ASC 470-10-55-9 and paragraph BC29 implies that even if the debt holder can demand repayment of a debt arrangement within one year, the arrangement should be classified as a noncurrent liability as of the balance sheet date if a letter-of-credit arrangement exists that allows the borrower to refinance the debt with a different lender after the balance sheet date.

In situations in which the letter-of-credit issuer is acting as an agent on behalf of the debtor, however, we do not agree that such classification should apply. Under GAAP, the refinancing of debt with a different lender (or with the same lender but on substantially different terms) by the debtor or a third-party intermediary acting on behalf of the debtor is not accounted for as a deferral of the settlement of the liability but as a debt extinguishment (i.e., as a debt settlement; see, e.g., ASC 405-20, ASC 470-50, and particularly ASC 470-50-55-4 and 55-5). By comparison, if the letter-of-credit issuer is acting as a principal and acquires the debt instruments from the holders for cash (i.e., upon exercise of the put feature), the transaction would be viewed as a transfer between debt holders. In that circumstance, we agree with the Board's conclusion that noncurrent classification of the debt would be appropriate (provided that the terms of the debt arrangement with the letter-of-credit issuer are not substantially different) since the transaction would have no impact on the issuer's accounting.

In addition, the ability to classify debt as noncurrent simply on the basis of a letter-of-credit arrangement with a different lender is inconsistent with the criterion in proposed ASC 470-10-45-23(c), which implies that classification of debt as noncurrent is not justified if a waiver of a debt covenant that results in a modification of the debt is accounted for as an extinguishment. Further, the ability to classify debt as noncurrent on the basis of a potential refinancing after the balance sheet date appears inconsistent with the view that nonrecognized subsequent events (e.g., a post-balance-sheet refinancing) should not affect the classification of debt as of the balance sheet date (see paragraphs BC20 through BC22 in the proposed ASU).

If the Board is proposing that entry into a letter-of-credit or other financing agreement on or before the balance sheet date should result in the classification of short-term obligations as noncurrent (as is implied in the proposal's Example 2), we recommend that the Board amend the proposed debt classification principle to explicitly state that result and specify the characteristics that a letter-of-credit or other financing agreement would need to possess for the debt to qualify for noncurrent classification. In particular, we recommend that the Board address the following questions that may be raised in practice:

- Does the financing arrangement need to be firmly committed?
- Do cancellation or termination provisions in the financing arrangement (e.g., those permitting the investor or lender to cancel the financing arrangement at any time or in circumstances that are not objectively determinable) affect the evaluation?
- Must the financing arrangement involve the issuance of debt or can it be for the issuance of equity shares?
- Does the financing arrangement need to have terms that are reasonable under current conditions (e.g., would a financing arrangement at an above-market interest rate, or otherwise unreasonable terms that do not reflect current conditions as of the balance sheet date, qualify)?
- Is the waiver exception available if the entity has violated conditions for obtaining financing as of the balance sheet date and the potential lender subsequently waives those conditions?

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.*

We agree that to avoid potential implementation questions, the proposal's amendments should explicitly extend to (1) liability-classified mandatorily redeemable financial instruments within the scope of ASC 480 and (2) debt with conversion and other options that are within the scope of ASC 470-20. We note, however, that it is unclear how the proposed amendments to ASC 470-10 interact with the requirements of ASC 210-10. We therefore recommend that the Board clarify whether an entity might be required to classify a debt arrangement as noncurrent on the basis of the guidance in ASC 210-10 even if the arrangement does not qualify as noncurrent under the proposed ASU (e.g., on the basis of the definition of current liabilities in ASC 210-10-20 or under ASC 210-10-45-12). Further, we encourage the Board to clarify the definition of a debt arrangement (e.g., on the basis of the definition of a financing arrangement in ASC 230-10-20).

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.*

As stated in our response to Question 1, we support the FASB's development of a unified debt classification principle that is centered on the contractual terms of a debt arrangement as of the balance sheet date. While the exception in proposed ASC 470-10-45-23 related to waivers would add complexity to the proposed approach, we accept the Board's rationale for the exception as discussed in paragraphs BC23 through BC28 of the proposed ASU. However, we encourage the Board to consider whether eliminating the following might simplify and improve the associated criteria for the waiver:

- The requirement in proposed ASC 470-10-45-23(c)(2) related to whether the waiver would be accounted for as a troubled debt restructuring. It is unclear why the Board chose to include this requirement since a troubled debt restructuring would not necessarily cause the debt to become due within one year (or within the operating cycle, if longer).
- The requirement in proposed ASC 470-10-45-23(d) related to whether it is probable that any other covenants in the debt arrangement will be violated in the next 12 months. This requirement contradicts the notion in the proposed ASU that debt classification should be determined on the basis of the contractual terms of a debt arrangement, not on management expectations. (Further, we note that an entity is able to bypass an assessment under this criterion by obtaining a waiver that pertains to the balance sheet date for a period greater than one year (or for the operating cycle, if longer) on or before the balance sheet date.)

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.

We agree with the separate presentation requirements in proposed ASC 470-10-45-24. If the Board retains the waiver exception guidance in proposed ASC 470-10-45-23, financial statement users will have a clearer understanding of a company's liquidity position and overall financial health as a result of the separate presentation, in a classified balance sheet, of 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.

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.*

Post-balance-sheet refinancings represent nonrecognized subsequent events. We therefore agree with the notion of requiring an entity to classify as a current liability a debt arrangement that is a short-term obligation under the circumstances as of the balance sheet date but is subsequently refinanced on a long-term basis after the balance sheet date but before the financial statements are issued.

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.*

We support the disclosure requirements in proposed ASC 470-10-50-6 because they may provide decision-useful information about the net cash inflows to (or outflows from) the reporting entity.

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?*

Since the proposed amendments are intended to reduce the cost and complexity of applying GAAP, we expect that most entities will not need a significant amount of time to implement them, and we recommend that the Board permit their early adoption.

We also recommend that if the Board decides to establish different effective dates for public and private entities, it does not determine an entity's status on the basis of the definition of "public business entity" in U.S. GAAP but instead on whether the entity files financial statements with the SEC. Basing the effective date on the definition of a public business entity would result in unnecessary complexity for public entities with equity method investees that do not file with the SEC but nevertheless are considered public business entities by the investor for financial statement purposes.