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Technical Director  
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Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
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**Re: Proposed Accounting Standards Update – *Simplifying the Classification of Debt in a Classified Balance Sheet (Current versus Noncurrent)*.**

CliftonLarsonAllen LLP (CLA) is pleased to comment on the FASB's proposed Accounting Standards Update of **Debt (Topic 470), *Simplifying the Classification of Debt in a Classified Balance Sheet (Current versus Noncurrent)***.

We support the Board's efforts to reduce the complexity in determining the classification of debt in the balance sheet and to provide more consistent and transparent information to financial statement users. Thank you for the opportunity to submit comments developed with the shared goal of improving the usefulness of the reporting model. However, we do not support the proposed amendments that would change classification of debt from today's accounting model.

**GENERAL COMMENTS**

Goals of the proposed amendments include simplifying existing guidance in Topic 470 for determining whether debt should be classified as current or noncurrent in a classified balance sheet, and improving consistency.

We are in favor of efforts to simplify existing guidance and to increase consistent application of accounting principles across entities in this area. We have some comments to share relating to the Board's intention to replace the current, fact-specific guidance with an overarching principle that an instrument should be classified as noncurrent if, at the balance sheet date, either (1) the liability is contractually due to be settled more than one year (or operating cycle, if longer) after the balance sheet date, or (2) the entity has a contractual right to defer settlement of the liability for at least one year (or operating cycle, if longer) after the balance sheet date. These comments are discussed below.

***SIMPLIFICATION:***

As a result of the proposed amendments, short-term debt refinanced on a long-term basis (with debt or equity securities) after the balance sheet date would be classified as short-term, because preparers would be prohibited from considering the subsequent refinancing when determining debt classification as of the balance sheet date.

The proposal indicates that subsequent refinancing is a 'non-recognized subsequent event' because it provides evidence about conditions that did not exist as of the balance sheet date. This would be a significant change from current guidance that allows short-term debt (at the balance sheet date) that is refinanced on a long-term basis (after the balance sheet date but before the financial statements are issued or are available to be issued) to be classified as a noncurrent liability.

While this would introduce a principle that might be simpler for preparers to apply, it would not be consistent with accounting for other subsequent events based on the spirit of ASC 855 (Type 1 versus Type 2 considerations). As a result, this inconsistency would potentially be less simple for both preparers and users of financial statements to apply and interpret.

We acknowledge that today's model permitting long-term classification of short-term debt refinanced after the balance sheet date can create some issues. The timing of issuance of financial statements during a refinancing could result in different financial positions presented on the balance sheets of two borrowers with otherwise similar fact patterns. Management of non-public companies who are preparing financial statements for lenders and/or future investors could be in a position to delay issuance of financial statements to avoid short-term classification of their debt.

Despite these potential issues, we believe that our clients negotiate with lenders in good faith and do not intentionally manipulate their balance sheets or delay issuance of their financial statements. While the proposal to classify debt that is refinanced after year end as "current" on the balance sheet would be in line with the contractual provisions of the debt agreement at the year-end reporting date, it is our opinion that the balance sheet should reflect the true liquidity of the entity as of the date the financial statements are issued or available. Therefore, in our view, the debt should reflect what the company truly expects to pay over the next year.

The proposed amendment's different treatments for waivers of covenant violations that occur before and after the balance sheet date add complexity as compared with existing guidance. A covenant violation as of the balance sheet date that is waived before the financial statements are issued would not result in a change from long-term classification (based on Illustration Case A), but the borrower would have to present in a separate line on its balance sheet the amount of debt that is classified as noncurrent because of the application of this guidance. However, a violation after the balance sheet date that is waived before the financial statements are issued would also result in long-term classification without any segregation on the balance sheet (based on Illustration Case B). The borrower would provide disclosures about the non-recognized subsequent event.

We again suggest that the notion of non-recognized subsequent events in this proposed guidance is less simple than the current approach for evaluating and disclosing covenant violations and waivers that occur before the financial statements are issued.

In our view, and based on discussions with our clients, the current standard is not broken and does not need to be fixed in the interest of simplification. We believe that the current standard is not overly complex. The suggested modifications could add complexity, and resulting changes to debt classification could have financial implications to certain entities that outweigh improved consistency of reporting.

### **IMPROVING CONSISTENCY:**

Despite the two criteria proposed for classification of debt as noncurrent, the amendments would continue to require classification of debt as a noncurrent liability when there has been a debt covenant violation but the entity receives a waiver of that violation that meets certain conditions before the financial statements are issued (or are available to be issued). We support the long-term classification of debt in this situation, but we feel that this 'exception' to the proposed general rule is inconsistent with the intent of the new criteria. In our view, including a principle that does not permit consideration of subsequent refinancing but allows an exception for debt waivers (when the facts and circumstances could be similar) is inconsistent within the same standard.

While we agree that improving comparability and consistency of reporting of debt is an important goal, we are not convinced that there is a need to improve consistency in the area of classification. Since the current reporting model has been in use for many years, our clients' financial statement users (including lenders) are generally familiar with the definitions and underlying restrictions and know how to apply and interpret them consistently.

### **SPECIFIC COMMENTS**

**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.

### **RESPONSE:**

Basing classification on the scheduled maturity date of an obligation is not necessarily indicative of the point in time at which that obligation will require the use of funds. Users of the financial statements are better served by debt classification that is in line with when the obligations will actually be due and payable. The existing definitions under GAAP for classification of liabilities are sufficient.

Rather than changing classification guidance, we suggest enhancing the disclosures of debt terms and details of refinancing arrangements with lenders in notes to financial statements.

Other recent changes in standards, including ASU 2014-15, Presentation of Financial Statements – Going Concern, may directly or indirectly impact liquidity disclosures. ASU 2014-15 focuses on substantial doubt about an entity's ability to continue as a going concern, which exists when conditions and events, considered in the aggregate, indicate that it is probable that the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued (or are available to be issued, when applicable). This timeframe is meant to give financial statement users a clear view of an entity's operations and management's plans to address liquidity concerns, including known events in the substantial doubt assessment after one year from the balance sheet date, which may include debt that is refinanced after the balance sheet date.

**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.

**RESPONSE:**

The scope is appropriate and clear. It should include any arrangement that provides a lender with a contractual right to receive consideration and a borrower with a contractual obligation to pay consideration.

**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.

**RESPONSE:**

We agree with the classification of debt as noncurrent in this situation. However, as noted above, we do not believe that a general principle for classifying debt as noncurrent is needed. Creating exceptions to that general principle diminish the usefulness of having a general principle.

**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.

**RESPONSE:**

We do not believe that separate balance sheet presentation of debt classified as noncurrent because of a waiver of a covenant violation provides needed information that is not already available to users in the notes to financial statements. Presenting additional line items on a balance sheet does not provide financial statement users greater transparency about the nature of the debt. If the classification principles are clear and consistent, segregating different types of long-term debt on the balance sheet based on the reason they were classified as long-term does not provide meaningful information and could make balance sheets too detailed and harder to read.

**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 re-financings are non-recognized subsequent events? If not, please explain why and suggest alternatives.

**RESPONSE:**

As noted in our general response above, we do not agree that short-term debt at the balance sheet date that is refinanced as long-term before the financial statements are issued should be a non-recognized subsequent event. This approach would not be consistent with accounting for other subsequent events based on the spirit of ASC 855. We are in favor of retaining the current accounting for short-term debt in this situation with detailed disclosure of the refinancing, including the disclosure currently provided for in 470-10-50-4 (intended to be superseded by this amendment).

**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.

**RESPONSE:**

We agree that the proposed additional disclosures would provide decision-useful information in the event of any events of default.

**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?

**RESPONSE:**

The amount of time necessary to adopt the amendments could be significant if the proposed changes in classification (particularly relating to short-term debt refinanced as long-term debt after the balance sheet date) are approved. New processes and controls relating to accounting and disclosure for these items would need to be developed. More significantly, companies would need to evaluate their debt agreements and initiate conversations with lenders about their debt and covenants in advance of the effective date. The amount of time for both private and public companies will obviously be impacted by the number of debt instruments and lenders they have and their financial position and liquidity. We do agree that early adoption should be permitted.

Sincerely,

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**