May 5, 2017

Submitted via email: director@fasb.org
Technical Director
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

File Reference No. 2017-200

Dear Technical Director:

The Technical Issues Group (TIG) of the Missouri Society of CPAs (MOCPA) appreciates the opportunity to respond to certain matters in the Proposed Accounting Standards Update. The views expressed herein are written on behalf of the TIG of the MOCPA. The TIG has been authorized by the MOCPA Board of Directors to submit comments on matters of interest to the society's membership. The views expressed in this letter have not been approved by the MOCPA Board of Directors or Executive Board and, therefore, should not be construed as representing the views or policy of the MOCPA.

We acknowledge the difficulty in establishing any overarching principle for the classification of debt and believe the proposed principle, as well as alternative principles based on probability have their limitations. The questions the Board is attempting to address may be best suited for a larger project addressing the presentation of the balance sheet.

We believe the proposed principle is not effective at providing decision-useful information as evidenced by the exceptions proposed by the Board, as such, in the absence of a larger project, we favor a principle that utilizes a probability approach consistent with the existing definition of a current liability. We believe that if the Board retains the proposed principle, an exception should also be created for refinancing of non-revolving debt similar to that for obtaining a waiver covenant subsequent to year-end because we do not see a significant decision-useful distinction between these two types of events.

We attempted to conduct outreach regarding this proposal. We focused our outreach on private companies and their banks, because we believe they will be impacted the most. We received limited response and indications that they were not aware of the proposed change or its potential impact on the classification of debt. For this reason, we recommend the Board conduct further outreach to its stakeholders. Concerns that we identified, or that were raised, include the triggering of covenant violations because financial covenants are written to consider the existing classification method in GAAP and do not contemplate exceptions for a refinancing that would cease to be classified as noncurrent, challenges with explaining to customers, suppliers and banks of private companies about negative working capital, and the additional potential financing and transaction costs that results from the apparent degradation of the liquidity of private companies. Oftentimes, the year-end financial statements of private companies are used for an entire year period, making the inclusion of debt refinanced subsequent to year-end, but before the financial statements are available for issuance as a current liability particularly troublesome in discussions with vendors or unsophisticated users when trying to justify the credit worthiness of the private company.

Considering these issues, we propose in our response to Question 1 a potential alternative principle that we believe would not require exceptions to provide decision-useful information and would also provide a clear framework for dealing with subjective acceleration clauses, covenant violations, refinancing and contingent debt payments.

Thank you for considering our comments. We would be pleased to respond to any questions the Board or its staff may have about any of the following comments. Please direct any questions to Mark Winiarski, TIG Chairman, MWiniarski@CBIZ.com.

Sincerely,

Mark Winiarski, CPA
TIG Chairman

Robert A. Singer, CPA
TIG Member

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: The existing guidance for the classification of debt is a complex rules-based approach that makes compliance with GAAP difficult and time consuming. We believe a principles-based approach could simplify the classification guidance, reduce the amount of effort required to classify debt, and make the debt classification within the financial statements easier to understand for users of the financial statements.

However, we believe the proposed principle reduces the decision-usefulness of financial statements in a significant way and erroneously concludes that a debt can only be *reasonably expected* to be noncurrent if it has legal rights *at the balance sheet date* to defer the settlement of debt. The proposed principle eliminates the inherent judgment called for by the use of the term reasonably expected in the definition of a current liability and ignores the needs of financial statement users as evidenced by the Board's decision to include exceptions to the principle.

Our primary criticism of the proposed change is its seeming emphasis on a legal construct in determining whether debt at the balance sheet date should be afforded noncurrent status. In this sense, we view such accounting treatment as regressing towards a rules-based financial reporting structure. Accordingly, we believe that the timing of debt payments should not be limited to a legal interpretation, but should be expanded to include the intentions and motives of the parties to the arrangement, as well as changes in the economic, business and regulatory environment. In essence, we believe that consideration of the legal rights is an important condition for evaluating the current versus noncurrent classification of debt at the balance sheet date but should not serve as a sole basis for such determination. The inclusion of debts in current liabilities that as of the date the financial statements are issued, or available for issuance, that are due in a period greater than one year from the balance sheet date reduces the usefulness of the information since the current classification does not provide timely information about the characteristics of the debt payments and does not represent whether the entity would be capable of meeting its obligations.

This limitation of the proposed principle is made evident by the exception the Board proposes, namely to exclude from current classification long-term debt that is currently due at the balance sheet date because of covenant violations if a waiver is obtained prior to the financial statements being issued or available for issuance. This exception highlights our concerns with the proposed principle and leads us to ask why should a refinancing occurring post balance sheet date not be reflected by the classification within the financial statements? Furthermore, we do not believe there is a relevant distinction between a waiver obtained subsequent to year-end and a refinancing of debt subsequent to year-end. From the perspective of a financial statement user they are both relevant to the analysis of the liquidity and solvency of the entity in question at the time financial statements become available..

We propose an alternative principle as follows:

> Debt arrangements and other instruments within the scope of this Subtopic shall be classified as noncurrent liabilities in a classified balance sheet when it is probable[1] that settlement by the transfer of assets or creation of other current liabilities[2] within one year from the balance sheet date will not occur.

The Board could further clarify through explanation or by example the likelihood of settling debt is not probable when:

- The entity has a legal right to defer settlement for more than one year from the balance sheet date and the entity does not intend to settle the debt by the transfer of assets or creation of a current liability one year from the balance sheet date.
- Subsequent to the balance sheet date, but prior to the date the financial statements are issued, or available for issuance, the entity obtains the legal right to defer settlement by the transfer of assets or creation of a current liability for more than one year from the balance sheet date and the entity does not intend to settle the debt by the transfer of assets or creation of a current liability one year from the balance sheet date.
- The entity lacks the legal right to defer settlement for more than one year from the balance sheet date only due to a subjective acceleration clause, the lender has not expressed an intent to trigger and has not triggered the subjective acceleration clause as of the date the financial statements are issued, or available for issuance, and the entity does not intend to settle the debt by the transfer of assets or creation of a current liability or creation of a current liability within one year from the balance sheet date.

Although our proposed principle would require clarification through examples or other means, we believe that the utilization of actual post balance sheet transactions to support whether or not the probability threshold has been met would provide for a more consistent application across similar types of transactions than the creation of one-off exceptions.

Our proposed principle has the advantage that it does not require exceptions in order to make the financial statements decision-useful for users. We believe our proposed principle also will provide greater flexibility for new or unusual contractual terms. As an example, consider a debt agreement that calls for payment based on a percentage of free cash flow. Under our proposed principle, the expected amount to be paid in the next year would be estimated and would be recognized as current. In contrast, an analysis based on the amount the entity can legally defer could result in recognizing the entire amount as current, even portions that the probability for settlement in the next year is virtually nil.

Over the past several years, accounting principles have adopted methods that require the use of judgment and estimates, for example fair value, that are inherently complex and have

[1] We also considered the use of the term "more likely than not" to allow greater flexibility and consistency with the nature of a principle-based analysis; however, we retained in our proposal the probable threshold due to the inherent risks related to manipulation of the financial statements at the lower threshold.

[2] We also considered the inclusion of issuance of equity within one year as one of the conditions that would trigger current liability classification. Although, we believe this should be a component of the analysis, it would result in a significant difference from the definition of a current liability and therefore should be addressed in a larger scope project.

limitations on their comparability between entities in an effort to create financial statements that are more decision-useful for financial statement users. In contrast with this proposal, the Board removes judgment in an effort to simplify the accounting to the detriment of financial statement users; therefore we do not support the proposed principle.

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: We believe the scope of the proposed amendments is clear. We did not identify any other instruments that should be included within its scope.

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: As discussed in our response to Question 1, we do not support a principle that from its outset requires significant exceptions in order to meet the objectives of financial reporting. We also do not believe that an exception to the classification for waivers is appropriate without also creating an exception for refinancing of non-revolving debt subsequent to year-end, but prior to the date the financial statements are issued, or available for issuance.

In terms of preparing the financial statements, we do not believe the exception will have any significant effect on the cost of the proposed amendments because the determination of whether a waiver is obtained or not is easily applied. We also note that, even without the exception, information regarding waivers will be obtained for preparation of the disclosures to the financial statements.

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: Since the presentation requirement relates only to debt for which a waiver is obtained subsequent to year-end and not to situations where a waiver is obtained prior to year-end, we believe the intent of this presentation is to highlight the use of the exception to the proposed change that would otherwise not have permitted the classification of the debt as noncurrent. Under our proposed principle, use of an exception would not be necessary rendering the separate presentation unnecessary.

If the Board retains the proposed principle and the related exception, we note that we have not been able to identify any situations where we believe that the use of the exception, by itself, would have a significant impact on the financial statement users. We are unaware of the amount of the debt linked to waivers for covenant violations obtained subsequent to year-end being used in financial statement analyses.

We believe the useful component of this information is the fact that a covenant violation occurred and was waived, which could be accomplished almost equally as effectively through disclosure. We ask the Board to conduct further outreach to financial statement users to determine whether financial statement users consider the use of the exception of sufficient significance to warrant separate presentation. We believe that, if separate presentation is to be required, it would be more appropriate to require all debt that has a covenant violation be presented separately whether or not a waiver was obtained prior to year-end, subsequent to year-end, or not obtained at all.

In addition, we ask that the Board clarify what the intention is for the presentation of debt subject to a cross default provision or for which a covenant violation is cured rather than waived subsequent to year-end. If these circumstances do not result in a requirement to obtain a waiver for the specific debt instrument, are they therefore not required to be presented separately?

We believe there is a risk that, by having separate presentation on the balance sheet, confusion will be created as to whether particular debt instruments are subordinated to others and their relative liquidity, which is not representative of actual differences between debt instruments. Does the Board anticipate that separate classification of noncurrent debt due to obtaining a waiver would also have a separate classification for the related current portion of debt? It would seem to be appropriate to have separate current and noncurrent line items for each type of debt in order for the financial statement users to understand all of the components of debt from the balance sheet; however, this may add additional complexity to the balance sheet reducing its usefulness.

Since the separate presentation is related to the use of an exception to the principle, why does the Board not require separate presentation for debt containing a subjective acceleration clause? We believe the reason this must not be proposed is based on a qualitative assessment of the importance of a subjective acceleration clause relative to that of debt subject to a waiver issued subsequent to year-end. Since the analysis of the presentation is inherently subjective based on the facts and circumstances, we would favor a requirement either to present or disclose debt that is classified as noncurrent because of a waiver subsequent to year-end or a subjective acceleration clause that has not been triggered. This would allow the financial statement preparer and auditor with the responsibility for considering the needs of the financial statement users to consider the most useful approach (presentation or disclosure) rather than requiring separate presentation in one circumstance and not another.

If the Board retains the separate presentation for noncurrent liabilities classified as such due to the obtaining of a waiver and also includes an exception for refinanced debt, we believe that separate presentation of the refinanced debt would also be appropriate.

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.

Response: We believe that a refinancing meets the definition of a nonrecognized subsequent event; however, we believe a refinancing should not be viewed through the lens of the guidance for subsequent events. Rather as discussed in our Response to Question 1, a separate principle that takes the perspective that debt classification is, to an extent, subjective and an estimate would in part separate the analysis from a linkage to the subsequent event literature.

Alternatively, we would support an exception for refinancings consistent with the exception for obtaining debt covenant waivers, which we believe would also meet the definition of a nonrecognized subsequent event. We acknowledge that it is possible to argue that the waiver of a covenant violation may be viewed as meeting the definition of a recognized subsequent event. However, in order to qualify as a recognized subsequent event under such an interpretation, consideration must be given to the reason the waiver was granted, which the proposed exception does not consider. For instance, if the waiver was granted because the debt was refinanced after year-end, we believe it would not meet the definition of a recognized subsequent event under such an interpretation.

Lastly, we note that the guidance included in the proposal for subjective acceleration clauses would exclude a notice of acceleration from the lender received subsequent to year-end. Not only does classification based on whether a notice is received by year-end reduce the potential usefulness of the financial statements by resulting in liabilities classified as noncurrent that have come due within one year, but it also ignores the concepts of the guidance of subsequent events by not requiring a consideration of whether the change in the business that triggered acceleration had occurred prior or subsequent to year-end. We believe that if the Board's intent is to apply the subsequent event tests to the classification of debt, there should be a requirement to evaluate the reason the lender triggered a subjective acceleration clause to determine whether the event was a condition that existed at the balance sheet date, thus resulting in acceleration being recognized as of the balance sheet date.

Based on the exceptions included in the proposed principle, we do not believe applying the definition of subsequent events is appropriate for a refinancing; rather, if the proposed principle is retained, a refinancing should receive the same exception as a waiver and subjective acceleration clause.

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 believe the proposed disclosures provide decision-useful information. We do not have any additional suggestions.

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: We do not believe significant time is required to adopt the proposed amendments as they simplify the application of GAAP. We would support a one or two year transition period.

Other than public business entities should be provided one additional year to adopt the standard in order to allow additional time for education and communication with financial statement users.

We do not have any concerns with permitting early adoption.