



May 5, 2017

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

**Re: File Reference No. 2017-200**

Dear Ms. Cospers:

PricewaterhouseCoopers LLP appreciates the opportunity to respond to the FASB's Proposed Accounting Standards Update, *Debt (Topic 470): Simplifying the Classification of Debt in a Classified Balance Sheet (Current versus Noncurrent)*, (the "ED").

We agree that the current guidance for determining whether debt should be classified as current or noncurrent in a classified balance sheet is complex and should be simplified. We support the proposed principle that an entity should classify debt as noncurrent if it has the contractual right to defer settlement for at least one year from the balance sheet date. We believe a strict contractual approach, with only a narrow exception for covenant violations that are waived after the balance sheet but before issuance of the financial statements, will result in an appropriate depiction of an entity's liquidity and can be consistently applied. However, we have some concerns about relying strictly on the "contractual right to defer settlement of the liability." Specifically, the proposal seems to suggest that debt could be classified as noncurrent regardless of the borrower's intent as long as there is sufficient capacity in the aggregate amount of all undrawn long-term financing commitments at the balance sheet date. We do not believe that the mere existence of a long-term financing agreement should be sufficient to justify noncurrent classification if the borrower does not have the intent to use it. At a minimum, we believe the borrower should have a right under the specific debt instrument, including a contractually linked financing agreement, or assert its intent to use another unrelated financing agreement.

Overall, we believe the reliance on a debt's contractual maturity at the balance sheet date, together with the elimination of the detailed guidance for post-balance sheet refinancings, is a much simpler and straightforward approach. However, we understand the concerns of private companies regarding the inability to consider post-balance sheet refinancing. Private companies may be most significantly burdened by the removal of this guidance because they typically only issue financial statements on an annual basis. This creates a longer period of time that financial statements may potentially present a liquidity position that is not reflective of the company's current circumstances. While we agree that the current guidance on short-term obligations expected to be refinanced conflicts with the overall classification principle proposed in the ED, we do not believe it is difficult to apply, and do not believe it creates any misunderstanding of a company's liquidity. Thus, providing a private company alternative to the classification principle for a refinancing completed after the balance sheet date and before the financial statements are available for issuance would not add significant complexity to the model or mislead financial statement users.

The appendix contains our detailed responses to the Questions for Respondents in the ED, additional observations, and in some cases expands on our comments above.



\* \* \* \* \*

If you have any questions, please contact Patrick Durbin at (973) 236-5152 or Donald Doran at (973) 236-5280.

Sincerely,

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

PricewaterhouseCoopers LLP



## Appendix

*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 overall principle in the ED for classifying debt as a noncurrent liability in a classified balance sheet. We believe the proposed contractual approach, with a narrow exception for debt covenant waivers, is generally simple to apply and results in an appropriate depiction of an entity's liquidity. However, we believe the following clarifications are needed:

- **Financing agreements:** Example 2 (*Classification by the Issuer of Redeemable Instruments That Are Subject to Remarketing Agreements*) and Example 7 (*Revolving Credit Agreement*) contained in sub-section 470-10-55 of the ED address an entity's ability to defer settlement in reliance on an existing financing agreement. Both examples indicate that contractually short-term debt can be classified as noncurrent if a long-term financing agreement is in place as of the balance sheet date. Example 2 states that the fact that a financing agreement is with a different party than the original debt holder is not relevant. Based on these examples, it does not appear that an entity must have the intent to use the financing agreement to refinance the short-term debt. It appears that an entity will be able to arbitrarily reclassify current debt to noncurrent to the extent of the aggregate amount of all undrawn long-term financing commitments at the balance sheet date. In the absence of intent, we do not believe this best depicts the entity's liquidity at the balance sheet date. We encourage the Board to reconsider whether the borrower's intent to use the financing agreement should continue to be a requirement to classify the otherwise current liability as noncurrent. While an additional requirement related to intent would be a departure from a pure contractual approach, we believe the mere existence of a long-term financing agreement with another party is insufficient justification for reclassification. At a minimum, the guidance should require that the borrower have a right under the specific debt instrument, including a contractually linked financing agreement (e.g., as in Example 2 in the ED) or assert its intent to use another unrelated financing agreement to support classification as noncurrent.
- **Subjective acceleration clauses:** The ED indicates that a subjective acceleration clause will only impact debt classification "when triggered." Paragraph 470-10-50-6 in the ED gives an example of the borrower being notified by the lender of noncompliance as a trigger for debt classification purposes. In addition, Example 8 in sub-section 470-10-55 in the ED uses notification of noncompliance by the lender as of the balance sheet date as the trigger for debt classification purposes. However, it is not clear whether the only trigger of a subjective acceleration clause is notification of noncompliance by the lender. It is unclear, for example, how a borrower should assess whether a covenant has been triggered if an event occurs before the balance sheet date that is so adverse that the lender would clearly exercise its right to accelerate payment of the debt, but no notice is received by the borrower at the balance sheet date. It is also unclear if a borrower should consider the receipt of notification subsequent to the balance sheet date to be an adjusting subsequent event. This situation could arise, for example, when management concludes that there is substantial doubt about the entity's ability to continue as a going concern, but the lender does not learn of this conclusion until after year-end. We recommend that the Board clarify the circumstances that constitute a trigger of a subjective acceleration clause.
- **Grace periods:** The ED removes the guidance in ASC 470-10-45-11 that addresses debt classification when a debt covenant is violated as of the balance sheet date, but the debt agreement contains a grace period that gives an entity a specified time period in which to cure the violation. The proposal is silent on how an entity would consider such a grace period in determining the classification of debt. For



example, if a calendar year-end company violated a covenant as of December 31, but the debt agreement provides for a 60-day grace period to cure the violation (i.e., by March 1 of the following year), is the debt covenant considered triggered at the balance sheet date? Would the debt be considered noncurrent because the entity does not contractually lose its right to defer settlement until the grace period expires in March? We recommend that the Board clarify the impact that grace periods have on the classification assessment.

- **Definition of a current liability:** The definition of a current liability in ASC 210-10-20 states that the term “current liability” is used principally to designate obligations whose liquidation is *reasonably expected* to require the use of existing resources properly classifiable as current assets, or the creation of other current liabilities. To avoid confusion, we believe that the Board should explicitly state that the definition of a current liability in ASC 210 does not apply to debt instruments within the scope of the new contractual rights approach proposed in the ED.

*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 with the proposed 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.*

We support the exception to the classification principle for waivers of debt covenant violations received after the balance sheet date. However, we note that the Board limited the exception to situations in which the waiver does not result in an extinguishment of the debt or a troubled debt restructuring. Because a covenant waiver could be structured separate from other modifications to the debt instrument, we recommend that the Board address how an entity should assess the exception when there are other amendments that occur before the financial statements are issued. For example, assume an entity violates a covenant at the balance sheet date and receives a waiver for the violation that does not result in an extinguishment or troubled debt restructuring. If the entity separately amends the debt instrument prior to the financial statement issuance date, and the cumulative impact of the waiver and the subsequent amendment would require the debt to be considered extinguished for accounting purposes, it is unclear if the entity would be permitted to avail itself of the waiver exception.

A similar issue arises when evaluating whether a debt modification is significant enough to result in an extinguishment. ASC 470-50-40-12(f) states that if a debt instrument is restructured more than once in a twelve month period, a cumulative assessment of all restructurings in the period should be done if the earlier restructuring was not accounted for as an extinguishment. It would be helpful if the Board clarified whether a similar cumulative assessment should be considered when evaluating a debt waiver for the classification exception.

As the cost of the proposed amendment will vary depending on the nature and complexity of each organization, we defer to feedback from the preparer community on this aspect.



*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 do not believe separate presentation of debt that has been reclassified as a result of a waiver provides decision-useful information. In our view, disclosure of the noncurrent classification based on the waiver is sufficient.

*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.*

In general, we support the proposed principle for classifying debt based on contractual rights at the balance sheet date and the treatment of post-balance sheet refinancings as nonrecognized subsequent events. However, we understand the concerns raised by private companies during the outreach on this project and recognize that private companies may be most significantly burdened by the removal of this guidance because their financial statements are typically only issued on an annual basis. For example, if a private company has short-term debt as of the balance sheet date that is refinanced on long-term basis in the first quarter, the debt will be reflected as current in the annual financial statements until the following year end. A public company, on the other hand, would classify the refinanced debt as noncurrent in their first quarter interim financial statements. While we agree that the current guidance on short-term obligations expected to be refinanced conflicts with the overall classification principle proposed in the ED, we do not believe it is difficult to apply, and do not believe it creates any misunderstanding of a company's liquidity. We believe providing a private company alternative to the classification principle for a refinancing completed after the balance sheet date and before the financial statements are available for issuance would not add significant complexity to the model or be misleading to financial statement users.

*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.*

Yes, we believe that the new disclosure requirements will provide decision-useful information.

*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? Explain.*

We believe that early adoption should be permitted and recommend the same mandatory effective date for all entities.

We defer to the preparer community regarding the cost of adoption.