



May 5, 2017

Technical Director
Financial Accounting Standards Board
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Via e-mail – director@fasb.org

Re: File Reference No. 2017-200. Proposed Accounting Standards Update: Debt (Topic 470): *Simplifying the Classification of Debt in a Classified Balance Sheet (Current versus Noncurrent)*

Plante & Moran, PLLC is pleased to offer comments on the above referenced Exposure Draft. We support the efforts of the Financial Accounting Standards Board (“Board”) to simplify the classification of debt in a classified balance sheet. Following, please find our responses to the specific Questions for Respondents in the proposed Update.

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 1: We agree the proposed principle would simplify the determination of whether debt should be classified as current or noncurrent. The principle provides a clear framework to be utilized in all situations and should provide for consistent conclusions to be reached across a variety of different types of debt arrangements because conclusions will be based solely on the terms and conditions of the debt contract.

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 2: We believe the scope of the proposed amendments is clear and do not believe there are other types of instruments that should be included within the 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 3: We are supportive of the Board's initial preferred approach in this project whereby an entity would classify debt with a covenant violation (and with no waiver granted by the lender as of the reporting date) as a current liability. As the Board has acknowledged, obtaining a waiver of debt covenant violations after the balance sheet date is a nonrecognized (Type 2) subsequent event, and providing an exception to the core principle in the proposed Update creates unnecessary complexity and costs. The initial preferred approach is similar to IAS 1 where debt with a covenant violation as of the reporting date is classified as a current liability. As the Board noted in the Basis for Conclusions, reporting the debt as a current liability would provide decision-useful information to the users of the financial statements because it reflects the contractual status of the debt at the balance sheet date. This approach has been used in IFRS for many years, and in our experience has provided simplicity in the classification of debt without negative impact on financial statement users.

If the Board concludes to provide an exception to the core principle for waivers of covenant violations received after the balance sheet date but before the financial statements are issued (or available to be issued), we are concerned that the proposed guidance in paragraph 470-10-45-23(b) will have limited applicability in practice. The proposed guidance allows for an exception only when the waiver is for a period greater than one year (or operating cycle, if longer) from the balance sheet date. In our experience, lenders rarely (if ever) provide waivers for periods greater than one year from the balance sheet date. In most circumstances, covenants are measured quarterly; however, some arrangements provide for semi-annual or annual measurement dates. When providing waivers, lenders will generally only provide a waiver to the next covenant measurement date; even when covenants are measured annually, a waiver to the next measurement date is not more than one year from the balance sheet date as required by the proposed guidance. If it was the Board's intention to limit the exception to situations where waivers are received for periods beyond one year from the balance sheet date, it is important to understand that we would not expect many entities (including private companies) to be able to apply the exception.

We acknowledge that requiring all debt with covenant violations as of the reporting date to be classified as a current liability even if a waiver of the debt covenant violation is received prior to the issuance of the financial statements will result in reporting more current liabilities and less noncurrent liabilities as compared to current GAAP. However, we believe this presentation would better reflect an entity's financial position at the reporting date and that clear disclosures will allow financial statement users to understand changes that have occurred after the balance sheet date. In particular, we believe disclosure of debt maturities that include the effects of the waiver will allow users to understand the anticipated cash outflows, while the balance sheet reflects the contractual status of the debt agreement as of the reporting 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.

Response 4: Should the Board conclude to provide an exception for waivers of debt covenants after the balance sheet date, we do not support the proposed requirement for separate presentation of debt on the balance sheet. We believe the proposed approach will add

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unnecessary complexity to the balance sheet and that the information required by financial statement users will be best provided through disclosure.

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

Response 5: We agree with the proposed amendments that a debt arrangement that is short-term as of the balance sheet date but is subsequently refinanced should be classified as short-term. We believe the refinancing of debt is a nonrecognized (Type 2) subsequent event and classification of the debt as of the reporting date should not be affected by a refinancing that occurs after the balance sheet date.

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 6: We agree the new disclosure requirements provide decision-useful information to financial statement users.

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 7: The time necessary to adopt the proposed amendments would not be significant and thus entities other than public business entities would not need additional time to apply the standard. We believe that early adoption should be permitted for all entities.

Thank you again for the opportunity to comment on this exposure draft. We would be pleased to respond to any questions the Board or its staff may have about these comments. Please direct any questions to David Grubb at david.grubb@plantemoran.com or at (248) 223-3745.

Very truly yours,

PLANTE & MORAN, PLLC