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Via Email to director@fasb.org

Re: File reference number 2017-200

Dear Ms. Cospers:

Grant Thornton LLP appreciates the opportunity to comment on proposed Accounting Standards Update, *Debt (Topic 470): Simplifying the Classification of Debt in a Classified Balance Sheet (Current versus Noncurrent)*. We support the Board's efforts to replace the current debt classification guidance, which is complex and contains various narrow-scope exceptions, with an overarching, cohesive principle.

As explained further below, we do not believe that an exception to the proposed classification principle is adequately supported by the fact that creditors typically do not provide waivers of covenant violations *at or prior to* the balance sheet date. However, if an exception is provided, then we encourage the Board to reconsider the proposed requirements that entities perform an evaluation of the waiver under the modification and extinguishment guidance in ASC 470-50, *Debt: Modifications and Extinguishments*.

Our responses to the questions for respondents are as follows.

Responses to Invitation to Comment questions

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.

Yes, we believe the proposed principle is clear and will simplify the classification guidance without diminishing the usefulness of information provided in the financial statements.

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.

Yes, we believe that the scope of the proposed amendments is clear and that no other instruments should be included within the scope of the proposed ASU.

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 understand that, according to paragraphs BC24 and BC25 in the proposed Update, the Board proposed this exception based on feedback from Private Company Council and Small Business Advisory Committee members indicating that application of the proposed principle without such an exception would have a significant effect on private companies due to their inability to obtain a covenant violation waiver prior to the reporting date. We are still unclear about how a requirement to classify a debt obligation that is contractually payable on demand as of the reporting date due to a covenant violation for which a waiver is obtained after the reporting date, but before the financial statements are available to be issued, as current liability would adversely affect private companies.

In addition, we note that, as a condition for this exception, the Board would require that debt classified as noncurrent due to a waiver obtained after the reporting date to be separately presented and captioned as such on the face of the balance sheet. We do not believe that this proposed presentation requirement is significantly different from a requirement to classify such debt obligations as current liabilities such that an exception to the proposed principle is warranted.

As an alternative, we suggest that the Board remove the proposed exception and rely on the principle expressed in ASC 470-10-45-22 for debt classification decisions.

However, if the Board decides to provide this exception, then we believe that

- Condition (c) in paragraph 470-10-45-23 should be removed because an entity should not be required to apply the modification and extinguishment guidance in ASC 470-50 or the troubled debt restructuring guidance in ASC 470-60 to waivers obtained after the balance sheet date to determine whether the exception is applicable. Although the proposed exception is generally consistent with current guidance, we believe that the requirement for entities to analyze waivers obtained after the balance sheet date under

ASC 470-50 and ASC 470-60 would be costly, and would require auditors to perform additional procedures with respect to amendments that occur outside of the reporting period. We believe it is reasonable to view debt amendments, including those within the scope of both ASC 470-50 and ASC 470-60, as akin to refinancings, such that they should be viewed as type-two subsequent events and therefore be excluded from considering the classification of debt at the balance sheet date. Under this view, the exception would be narrowly applied to subsequent amendments that involve *only* the waiver of a covenant violation at the balance sheet date.

- The Board should revise condition (d) in paragraph 470-10-45-23, such that it only requires an entity to evaluate the probability of whether the same or a more restrictive covenant will be violated within 12 months from the balance sheet date, which is similar to current GAAP. We believe that requiring entities to assess the probability of violating each and every covenant within a debt agreement to qualify for the exception would be costly and would add complexity to the classification guidance. In addition, the proposed condition (d) or a similar assessment is not required under current GAAP and would therefore be a significant change from current practice.

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 believe that separate presentation of such debt arrangements could provide decision-useful information to financial statement users, but, as stated in our response to Question 3 above, we do not believe that the cost associated with identifying such arrangements based on the proposed criteria supports this potential benefit.

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.

We agree that these refinancings are nonrecognized subsequent events. A recognized subsequent event provides evidence about conditions that existed at the date of the balance sheet. If anything, the fact that a debt arrangement is refinanced on a long-term basis after the balance sheet date provides evidence that, at the balance sheet date, the debt was payable on terms different from those resulting from the refinancing, which could require payment within 12 months.

In addition, we do not believe that there is a substantial difference between (1) obtaining a covenant violation waiver that eliminates a creditor's ability to demand repayment within 12 months of the balance sheet date, and (2) refinancing a debt arrangement that was contractually due within 12 months of the balance sheet date such that it becomes contractually due outside of that 12-month period, such that these arrangements should be classified differently.

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 believe that the proposed disclosure requirements provide decision-useful information, but we encourage the Board to provide additional clarity about what information should be disclosed.

Subparagraph (a) of ASC 470-10-50-6 would require an entity to disclose "An explanation of the deficiency." We believe this disclosure requirement would be clearer if it requires entities to disclose "A description of the event of default."

Subparagraph (d) of ASC 470-10-50-6 would require an entity to disclose "A description of the course of action that the entity has taken, or that it proposes to take, to remedy the deficiency." We are not clear how the Board intends entities to interpret the term "remedy." For example, this could refer to whether the entity intends to obtain a waiver for a covenant violation, or it could refer to how an entity intends to adjust its operations or strategy to resolve the underlying issue that gave rise to the covenant violation. We suggest that this proposed requirement be clarified based on the Board's intent.

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?

In our view, entities would not need a significant amount of time to adopt the proposed guidance, and we are not aware of any reason why the effective date should be different for public and other than public business entities. We agree that early adoption should be permitted.

If you have any questions about our response, or wish to further discuss our comments, please contact Rahul Gupta, Partner, at 312.602.8084 or rahul.gupta@us.gt.com.

Sincerely,

/s/ Grant Thornton LLP