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May 5, 2017

Ms. Susan Cospier
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Via email to director@fasb.org

Re: File Reference No. 2017-200

Dear Ms. Cospier:

We are pleased to comment on the Financial Accounting Standards Board's (FASB or Board) Proposed Accounting Standards Update, *Debt (Topic 470): Simplifying the Classification of Debt in a Classified Balance Sheet (Current versus Noncurrent)* (the Proposal).

While we are supportive of the Board's efforts to reduce the complexity of areas of U.S generally accepted accounting principles (GAAP) where such changes may be of benefit to preparers and users of financial statements, the proposed amendments would result in a significant change in practice. Although we agree with the technical merits of the Board's decision to require entities to focus on the contractual obligation of a debt arrangement when determining appropriate balance sheet classification, we are also cognizant of the fact that some stakeholders may be concerned that the proposed changes 1) are too significant of a change to existing practice and 2) do not result in providing decision useful information regarding an entity's liquidity. Given the significance of the proposed amendments on existing practice, we encourage the Board to carefully consider all stakeholder feedback received as the proposed amendments are deliberated.

Our responses to specific questions in the Proposal are included in Attachment 1.

Please contact Scott G. Lehman at (630) 574-1605 or scott.lehman@crowehorwath.com should you have any questions.

Sincerely,

A handwritten signature in blue ink that reads "Crowe Horwath LLP".

Crowe Horwath LLP

Attachment 1

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 financial statements? Is the proposed principle clear? Why or why not? Please explain and suggest alternatives.

While we believe the proposed principle is clear for the most part, and would simplify the classification, there are several areas of the proposed classification of debt principle that require clarification. First, the proposed amendment in 470-10-45-22 b. states “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.” By contrast, the International Accounting Standards Board (IASB) in International Accounting Standards (IAS) 1, *Presentation of Financial Statements*, paragraph 73 states “If an entity expects, and has the discretion, to refinance or rollover an obligation for at least twelve months after the reporting period under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. However, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no arrangement for refinancing), the entity does not consider the potential to refinance the obligation and classifies the obligation as current.”

We suggest the FASB reconsider whether its proposed amendment in 470-10-45-22 b. should be more specific with respect to what is meant by “contractual right to defer settlement.” For instance, some could interpret this statement to mean an entity with the ability to refinance an obligation provided by a “contractual right” could utilize this right to classify a short-term obligation as non-current. This would be inconsistent with the proposed **Example 6: Short-Term Debt Refinanced on a Long-Term Basis** contained in paragraphs 470-10-55-37 and 470-10-55-38 of the Proposal.

Secondly, **Example 8: Subjective Acceleration Clause**, contained in paragraphs 470-10-55-41 through 470-10-55-43 of the proposal, includes a fact pattern whereas prior to year-end, a lender notifies a borrower of noncompliance with a material adverse change clause in its debt arrangement. The example further indicates that in such a circumstance, because the lender notified the borrower of an event of default, the debt fails to meet the criteria in paragraph 470-10-45-22. Therefore, the borrower would classify the debt as a current liability in its classified balance sheet. This simplified example does not address several other situations related to subjective acceleration clauses that commonly arise in practice. These situations include lenders notifying borrowers that they are in noncompliance with a material adverse change clause after the balance sheet date but before the financial statements are issued as well as when a lender waives said clause. The proposal is very clear with respect to how covenant violations and related waivers would be accounted for in accordance with the proposed amendments. We urge the Board to provide additional guidance with respect to the accounting for subjective acceleration clauses in the final amendments when issued.

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 believe the scope is sufficiently clear, and no other instruments should be included within the scope of the proposed amendments.

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.

Existing GAAP (ASC 470-10-45-1) already contains a similar provision that allows for covenant waivers obtained after the balance sheet date but before financial statements are issued or made available to be issued to be considered in the determination of whether debt should be classified as current or non-current. Therefore, we do not believe inclusion of the proposed exception will have a significant impact on the overall cost of the proposed amendments.

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.

Although we see the potential benefit of the separate presentation of a noncurrent liability classified as such because a covenant violation waiver was obtained, we believe that this would be best accomplished through disclosure in the notes to the financial statements. The proposed disclosure requirements contained in paragraph 470-10-50-6 would provide financial statement users with adequate information regarding an entity's covenant violation activity without causing additional line items being added to the balance sheet. In addition, we suggest the Board look to comments received from financial statement users with respect to this question to determine if this stakeholder group considers such presentation to provide decision useful information.

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.

Although we believe the proposed amendments will result in a significant change in practice, we agree that such subsequent refinancings are nonrecognized subsequent events when considering the provisions of Topic 855, *Subsequent Events*. However, we would like to point out a potential inconsistency for the Board to consider as follows:

- It is unclear whether the proposed amendments are in conflict with the definition of the term current liabilities contained in the ASC Master Glossary, which are defined as “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.” In many cases, debt that is classified as current based on contractual terms which is subsequently refinanced as a long-term obligation may not represent an obligation that is liquidated using existing resources properly classifiable as current assets or the creation of other current liabilities. In many cases, the resources necessary to liquidate the total obligation do not yet exist as of the balance sheet date. For example, they may arise from a loan obtained 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.

We agree with the proposed disclosures but believe the Board should consider providing additional clarification on the following disclosure.

- d. A description of the course of action that the entity has taken, or that it proposes to take, to remedy the situation.

Without additional clarification, we see the potential for significant inconsistencies amongst entities in similar situations. For instance, could an entity simply satisfy this requirement by saying that its plan is to continue to obtain covenant violation waivers as a remedy? Or is the expectation that an entity's discussion of its plans to remedy to be more consistent with the discussion of management's plans when "substantial doubt" is present or has been alleviated with respect to an entity's evaluation of its ability to continue as a going concern in accordance with ASU 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*?

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?

Although we believe financial statement preparers are in a better position to respond to this question, it does not appear that the time necessary to adopt the proposed amendments will be significant. In addition, consistent with recent ASUs issued by the Board, we suggest the Board consider allowing for a delayed implementation date of one year for entities other than public business entities. Finally, we agree that early adoption should be permitted.