October 25, 2019

Mr. Shayne Kuhaneck
Acting Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

By e-mail: director@fasb.org

Re: Proposed Accounting Standards Update (Revised)—*Debt (Topic 470): Simplifying the Classification of Debt in a Classified Balance Sheet (Current versus Noncurrent)*

(File Reference No. 2019-780)

Dear Mr. Kuhaneck:

The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 24,000 CPAs in public practice, business, government and education, welcomes the opportunity to comment on the above-captioned exposure draft.

The NYSSCPA's Financial Accounting Standards Committee deliberated the proposed accounting standards update and prepared the attached comments. If you would like additional discussion with us, please contact Jeffrey A. Keene, Chair of the Financial Accounting Standards Committee, at (732) 750-0900, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

Ita M. Rahilly
President

Attachment

NEW YORK STATE SOCIETY OF

CERTIFIED PUBLIC ACCOUNTANTS

COMMENTS ON

PROPOSED ACCOUNTING STANDARDS UPDATE (REVISED)—*DEBT (TOPIC 470): SIMPLIFYING THE CLASSIFICATION OF DEBT IN A CLASSIFIED BALANCE SHEET (CURRENT VERSUS NONCURRENT)*

(File Reference No. 2019-780)

October 25, 2019

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New York State Society of Certified Public Accountants

Comments on

Proposed Accounting Standards Update (Revised)—Debt (Topic 470): Simplifying the Classification of Debt in a Classified Balance Sheet (Current versus Noncurrent)

We welcome the opportunity to respond to the Financial Accounting Standards Board's (FASB or the Board) invitation to comment on Proposed Accounting Standards Update (Revised)— *Debt (Topic 470): Simplifying the Classification of Debt in a Classified Balance Sheet (Current versus Noncurrent)* (Proposed Update).

General Comments

We are supportive of FASB's intent to simplify complex accounting matters. We are not supportive of this revised proposed accounting standards update. As we commented in response to the original proposed update, we believe that current generally accepted accounting principles (GAAP) in this area is adequate, well understood and not in need of simplification.

We are concerned that the Proposed Update will confuse users of the financial statements who will observe debt that is classified as current as a result of application of the Proposed Update, in some cases being substantial and distortive, and question whether the entity will survive. We question if the user will even evaluate the liquidity footnote and read the disclosure that the debt has subsequently been refinanced. This may negatively impact the entity's relationship with its customers and vendors, resulting in loss of business, unfavorable pricing or unfavorable payment terms.

We further note that it is not uncommon for private companies to regularly violate loan covenants that are waived by the lender and also renegotiate maturity dates or refinance debt on a long term basis after year end. Indeed, private companies may not know that a loan covenant was violated until after year end, and in our experience, lenders frequently want to see at least a draft of audited financial statements before executing a loan extension or refinancing agreement. Consequently, if the Proposed Update is issued, we believe that many private companies will be forced to reclassify debt previously classified as long-term to a current liability, which as discussed above will make their financial statements more confusing to users.

We are concerned that entities will be at a disadvantage when negotiating financing arrangements as lenders will be aware of the negative consequences to the balance sheet if the transaction is executed just after year-end rather than just before year-end. This may lead to unanticipated consequences, including certain commitments to provide alternative funding or extend funding, or executing short-term extensions solely to keep the debt as long-term. Such transactions will increase complexities as reporting entities will need to evaluate derivatives, and account for the debt modifications.

We observe that FASB is under increased scrutiny, most recently with the introduction of H.R. 4565 the "Responsible Accounting Standards Act of 2019." This bill, sponsored by Representative Blaine Luetkemeyer of Missouri, if passed would require FASB and the Financial Accounting Foundation to consider the impact accounting principles have on the U.S. economy, market stability and availability of credit. For the reasons expressed above and in response to the questions, we believe that this Proposed Update, if adopted, will lead to increased external scrutiny and potential regulatory action.

We also find the following aspects of the Proposed Update to be in conflict with the Board's stated objectives and unwarranted:

- We do not see the need to separately disclose debt that is classified as a noncurrent liability because of a waiver or forbearance agreement obtained after year end. We see no value to such presentation, as note disclosure would adequately address the matter. To us it appears that such presentation could be viewed by some without a complete understanding of the facts and circumstances as a "Scarlet Letter."

- We find the conclusions in Case B (470-10-55-3D) and Case D (470-10-55-3F) inconsistent and in conflict with each other. Specifically, in Case B, the borrower determines that it violated a loan covenant after year end and determines that it is a nonrecognized subsequent event (i.e. loan is classified as noncurrent) whereas in Case D if a borrower concludes that it is probable that a loan covenant will be violated after year end such debt would be classified as a current liability. In our view these two conclusions are fundamentally in conflict with each other. We believe that the Case D conclusion is correct and that the Case B conclusion should mirror that of Case D. In addition, if the Board's goal is to increase transparency of debt liquidity disclosure and presentation, the Case B conclusion results in less transparency and potentially makes the financial statements more confusing to a user.

- Further, we believe that the Case B example in 470-10-55-45 provides useful guidance on how to evaluate classification of revolving debt subject to a borrowing base. However, we believe that entities should be required to evaluate if they believe that it is probable that the borrowing base will be able to support the noncurrent presentation over the next year (i.e. they do not think it will erode). Furthermore, we believe that the Board should provide some clarification addressing a borrowing base revolver that contains a requirement for an annual "clean up period" (i.e. requirement that the revolver be paid down for a period of thirty days).

We do not believe this is an area of GAAP that is misunderstood or too diverse in practice. We respectfully request that the FASB not adopt this Proposed Update and remove this topic from its agenda. We support the continuation of current GAAP in its entirety in this area. If FASB believes it beneficial to a user of the financial statements to understand what debt has been refinanced shortly after year-end, then we would suggest a separate line in long-term debt identifying as such.

Specific Comments

Our responses to the Questions for Respondents are presented below.

Presentation Matters

Question 1: Proposed paragraph 470-10-45-23 would preclude an entity from considering an unused long-term financing arrangement (for example, a letter of credit) in determining the classification of a debt arrangement. Would that proposed requirement simplify the guidance without diminishing the usefulness of the financial statements? Why or why not?

Response: We do not believe that the restriction in proposed paragraph 470-10-45-23 is appropriate. We are aware of instances where reporting entities have arranged for lines of credit or other enforceable funding sources for the express purpose of settling an existing debt arrangement that matures in the near term. The proposed paragraph will diminish the usefulness of the financial statements by requiring the associated debt to be classified as current even though the reporting entity has arranged for committed financing to be available when the debt matures. Presumably the Board has considered the impact that this Proposed Update will have on entities with large commercial paper programs which have typically classified such liabilities as noncurrent. As stated in the General Comments section of our response, we are not supportive of this change to longstanding GAAP that in our view is well understood and is not broken.

Question 2: The Board considered and rejected both of the following approaches in determining the classification of debt when an entity has unused long-term financing arrangements that require an entity to:

a. Combine the debt with all unused long-term financing arrangements
b. Evaluate the contractual linkage between debt and other financing arrangements.

In both approaches, the debt classification might change from a current liability to a noncurrent liability. (See paragraphs BC29–BC35 in this proposed Update for further information.) Is there any additional information about the expected costs and benefits, simplification of classification guidance, or operability of applying those approaches that the Board should be aware of?

Response: As we noted in our response to Question 1, we are aware of instances where reporting entities obtain incremental financing for the purpose of refinancing the specific debt arrangement. Failing to permit these entities to utilize sources of refinancing will result in a distorted balance sheet that does not reflect the actual financial position of the entity. Further, customers and vendors are increasingly evaluating their vendors and customers to determine if they should continue to do business with the entity. In this circumstance, presenting debt as current will negatively affect the business relationship and could result in the loss of business, unfavorable prices or unfavorable payment terms. In addition, we are particularly concerned about the impact that the Proposed Update would have on many private companies who typically only generate financial statements for external distribution on an annual basis.

Question 3: Proposed paragraph 470-10-45-24 would provide classification guidance in scenarios in which an entity violates a provision of a long-term debt arrangement and the debt arrangement provides a grace period. Is that proposed guidance clear and understandable? Why or why not?

Response: We believe the classification guidance in proposed paragraph 470-10-45-24 is clear and understandable. We believe the provisions are clear, straightforward and based on objective evidence.

Question 4: Proposed paragraph 470-10-45-22 includes a principle for classifying debt as a noncurrent liability in a classified balance sheet. Would the guidance in that proposed paragraph be operable for an entity that has a debt arrangement with contractual terms that require settlement entirely through the issuance of equity?

Response: We believe that debt, which is settled entirely through the issuance of equity, should be presented as noncurrent regardless of whether the settlement occurs in 12 months or less. We believe that proposed paragraph 470-10-45-22 should be expanded to explicitly address circumstances when the debt will be entirely settled through the issuance of equity.

Disclosure

Question 5: Proposed paragraph 470-10-50-9 would require that an entity disclose additional information in the period in which the entity violates a provision of a long-term debt arrangement about the violation and the terms of the grace period. Would the proposed requirements provide decision-useful information? Why or why not?

Response: We believe the disclosures in proposed paragraph 470-10-50-9 related to debt violations provide decision-useful information. They will inform the user of the nature of the violation, the amount of debt subject to the violation and the grace period. This will allow the user to make an informed decision of the severity and impact of the violation.

Expected Costs and Benefits

Question 6: The objective of this project is to reduce the cost and complexity for preparers and auditors when determining whether debt should be classified as current or noncurrent in the balance sheet while providing financial statement users with more consistent and transparent information. Given the additional changes in this revised proposed Update, will that objective be achieved? For example, would the expected benefits of the proposed amendments justify the expected costs? Why or why not?

Response: We do not believe this is currently an area of high cost and complexity. We do not believe the Proposed Update is necessary or beneficial. As previously mentioned, the Proposed Update will distort the balance sheet, as more debt will be classified as current. We are concerned of the potential ramifications to the reporting entity, including loss of business as customers potentially become wary, and increased prices as vendors charge more to cover their perceived increased credit risk. Further, the reporting entity will be motivated to take certain actions to avoid classifying the debt as current, including refinancing the debt before the balance sheet date, arranging alternate financing, or extending the debt beyond the period of evaluation. Any of these options will increase costs, both from the shortened debt period and related increase in debt costs, as well as the incremental costs to implement and account for the extension or refinancing.