Cf. Comment on Proposed Accounting Standards Update: Debt (Topic 470) -- Simplifying the Classification of Debt in a Classified Balance Sheet (Current versus Noncurrent)

To the Technical Director:

This commenter has reviewed the Proposed Accounting Standards Update issued on September 12, 2019, on Topic 470, Debt -- Simplifying the Classification of Debt in a Classified Balance Sheet (Current versus Noncurrent) concerning the treatment of debt on the classified balance sheet itself and its scope and scope exceptions, presentation and disclosure matters that include the accounting treatment for debt overall and debt conversions, distinguishing debt from equity, leases, reorganizations, and subsequent events. Within the context of the classified balance sheet that reflects most importantly the economic status of the entity, the difficulties of interpreting past guidance as to the consistent and transparent presentation of current and non–current portions of liabilities have not been a process sui generis having to do with overriding bright – line principles for presentation and disclosure. This commenter believes this has been appropriate given the differences and complexities of disclosures concerning debt line items of different nature though this commenter supports the activities of the Financial Accounting Standards Board to currently to simplify debt disclosure rules. This narrator appreciates the opportunity to comment on the proposed guidance for Topic 470, Debt, and to give feedback within the framework of responses to questions as documented and set down by the Technical Director and the Board.

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? This commenter knows that the proposed guidance on unused long – term financing for the business entity in determining the classification of a debt arrangement would simplify the guidance on the accounting treatment of such instruments without diminishing the usefulness of the financial statements. Unused debt facilities represent potential future costs of the business, whether these represent expenses only, or future benefits to the entity to be capitalized, and should be discussed and disclosed caeteris paribus in the notes to the financial statements.
**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? This commenter knows the approaches discussed here, approach “a.” that combines debt with unused long-term financing arrangements, and approach “b.” evaluation of linkage between the debt facilities represents a perhaps more opaque and inconsistent treatment of long-term debt; does not account for the intentions of the entity to use or not to use the available debt facility, and other disclosure complexities that include related party matters in this accounting treatment of long-term debt. Concerning the contractual linkage considerations of paragraph BC35, the entity does have the right to defer settlement of long-term or current portion of long-term debt by this, long-term debt can secure redeemable debt as a current liability, and existing guidance on these topics is understandable for financial statement preparers and auditors and is cost effective and efficient. This commenter believes that redeemable debt, and other forms of debt should stand on their own as financial statement line items or scheduled line items in the body of the financial statements. The presentation rules as proposed would not allow for contractual linkage as such despite its purported economic utilities and in response to the provisions of paragraph BC35 favoring contractual linkage treatment is the constructive narrative of paragraphs BC33 and BC34. This commenter cites specifically the reference thereby to classification of liabilities that, in addition to the other stipulations, should not be influenced by the availability nor character of debt facilities.

**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?

Proposed paragraph 470-10-45-24 provides classification guidance in scenarios in which classification of debt is required in view of the violation of a debt covenant or covenants that can be diverse from entity to entity. This proposed guidance is clear and understandable insofar as the application of paragraph 470-10-45-22 is concerned and the guidance of 470-10-50-9.

**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? The paragraph cited here, paragraph 470-10-45-22, calls for the reclassification of current to long-term liabilities of liabilities in violation of their debt covenants. Liabilities pursuant to this are distinguished from equity on a classified balance sheet, and with the re-classification of debt as equity at the entity level, the question arises in anticipation of any reclassification a priori of a second or...
additional class of stock. This complicates the classification criteria in distinguishing liabilities from equity as the proposed guidance overall interacts with Topic 815 (Derivatives and Hedging – Contracts in Entity’s Own Equity), Topic 842 (Lease Liabilities) Subtopic 480-10 (Distinguishing Liabilities from Equity), and further with Subtopics 470-10 (Classification of Mandatorily Redeemable Financial Instruments) and 470-20 (Debt Conversion Guidance.) These interactions with the primary proposed guidance here are beyond the scope of ordinary rules given the different scenarios involved and perhaps need to be clarified further.

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? The terms of proposed paragraph 470-10-50-9 would provide decision—useful information for financial statement users, not about the intent nor purpose of the disclosure, possibly and probably, but about the debt facility itself and related covenant(s) and other limitations on the debt to be re-classified and presented as a separate line item. Entity-level financial policies, here with regard to liabilities and related agreements, are quite often privileged and while debt covenants are violated even given a grace period, the corporation or the entity could possibly be constrained in its disclosure about the covenant violation(s) by policy rules and conservatism in consideration of this proposed guidance. Accounting requirements also encompass (recognized, and to be eliminated non—recognized) subsequent events, especially when the grace period for settlement of the financial instrument ends possibly between the balance sheet date and the issuance of the financial statements; and in which case the debt terms and current and non—current portions would have to be re—classified and disclosed at the same time.

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? From the text of the proposed Update: The Board expects that the amendments in this proposed Update would result in the following benefits:

a. Reduced cost and complexity associated with determining whether debt should be classified as current or noncurrent in a classified balance sheet
b. Financial statements that provide greater transparency and consistency about the nature and types of debt that are classified as noncurrent liabilities in a classified balance sheet

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e. Improved disclosures that provide transparency into events of default occurring as of the balance sheet date and grace periods existing as of the balance sheet date. Given the above, the prospective application of the Topic 470 proposed guidance hereby will increase financial statement comparability with prior years; provide disclosure benefits from the additional refining of the liabilities disclosure rules and their application to all debt arrangements, and additional cost – effective information will be provided by the entity to financial statement users with needed consistent and transparent details given the disclosures in the balance sheet and related narrative discussion(s.)

By,

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