October 28, 2019

Technical Director
File Reference No. 2019-780
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116
Via email: director@fasb.org

Dear Technical Director:

Partners HealthCare System, Inc. (We or Partners) appreciates the opportunity to comment on the Financial Accounting Standards Board's (FASB’s) exposure draft of the revised proposed Accounting Standards Update, Debt (Topic 470): Simplifying the Classification of Debt in a Classified Balance Sheet (Current versus Noncurrent).

Partners is an integrated healthcare delivery system which currently operates academic medical centers, community acute care hospitals, facilities that provide both inpatient and outpatient mental health services, urgent care centers, rehabilitation medicine and long-term care services, physician organizations, a home health agency, nursing homes and a graduate level program for health professions. In addition, Partners is a nonuniversity-based non-profit private medical research enterprise and is a principal teaching affiliate of the medical and dental schools of Harvard University. Partners operates a licensed, not-for-profit managed care organization and a licensed, for-profit insurance company.

General Comments

In the exposure draft, the FASB states it is issuing this proposed update as part of its initiative to reduce complexity in accounting standards (Simplification Initiative). The objective of the Simplification Initiative is to identify, evaluate, and improve areas of generally accepted accounting principles (GAAP) for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to financial statement users. Partners supports the FASB’s goals; however, we believe this proposed Update will add to complexity and create confusion.
Specific Issue

An example of a change in the classification would be short-term debt that has a contractually linked long-term financing arrangement. Under current GAAP, short-term debt is classified as a noncurrent liability if an entity enters into a financing arrangement and meets certain conditions, including the fact that the debt is not expected to be paid within the next period of reporting. The amendments in this proposed Update would preclude an entity from considering contractually linked long-term financing arrangements (such as lines of credit, standby bond purchase agreements, etc., collectively “bank facilities”) in determining the classification of the debt.

Partners response:

Variable Rate Debt Obligations (VRDOs) were developed as an alternative to fixed rate financing arrangements. The option to finance via VRDO backed by a bank facility has been viewed as interchangeable with other long-term financing options such as floating rate notes or fixed rate bonds. As VRDOs are typically structured with long-dated maturities, they were clearly intended to be a long-term debt vehicle in practice.

The proposed Update would require short-term classification for VRDOs regardless of maturity date which would have a significant impact on financial metrics and potentially debt covenants of healthcare organizations. Partners has proactively negotiated bank facilities with specific tenors and repayment terms that can begin more than a year from when the VRDO is put to the bank facility. We have structured our arrangements in this manner to mitigate the risk of having to repay VRDOs within a short period of time and fully cognizant of the GAAP reporting rules and because we believe it fundamentally matches the economics of these transactions.

The proposed Update would not only unduly impact and skew metrics of healthcare organizations, including Partners, we believe it would be misleading to the users of our financial statements and potentially lead to unintended consequences. Specifically, presenting VRDOs (with appropriate supporting bank facilities) all as current could mislead a user of the financial statements into thinking an organization may be having a liquidity issue, when in reality, the organization has mitigated a liquidity risk by entering into and paying for specific terms in bank facilities.

An example of an unintended consequence, that we believe could be detrimental to users of the financial statements, is that upon a failed remarketing and the bank facilities are used, the debt would be classified according to the repayment terms of the bank facilities, which could extend beyond 1 year. In a scenario of a failed remarketing, it is likely there are other negative economic factors in the environment and an organization’s balance sheet appears stronger as the debt is moved from current to noncurrent. Said another way, under this proposed Update, the balance sheet looks better when we fail a remarketing then when conditions are operating as intended. Partners believes this isn’t reflective of the economics of the transaction and detrimental to the users of our financial statements.
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As of our most recently issued financial statements (September 30, 2018), Partners had approximately $430 million of VRDOs, of which $175 million were classified as current and $255 million as noncurrent. Cognizant of the current accounting rules, we have specifically negotiated terms in our bank facilities, and accepted the cost associated with those terms, to ensure classifications of the VRDOs consistent with our intent and ability to repay. If the proposed accounting changes were enacted, at a minimum, Partners would have to reflect an additional $255 million in current liabilities even though actual cash would not be due within a year.

Partners, as a conduit bond obligor with widely distributed financial statements, would feel compelled to explain that current liabilities as presented on the balance sheet (under the proposed update), are not representative of cash outlays within the next year. We believe explaining the difference between the financial statement presentation and the actual potential cash need would lead to confusion in our routine continuing disclosure requirements and the new liquidity disclosures required under ASU 2016-14 (Presentation of Financial Statements of Not-for-Profit Entities). Lastly, we have concerns about how an auditor may interpret this new classification when assessing organizations ability to continue as a going concern if this new classification were to significantly change a current ratio.

We respectfully request the FASB staff reconsider this provision as we believe it will result in increased confusion and complexity and subsequently lead to additional administrative burden and expense for healthcare organizations.

Thank you for the opportunity to comment. We are always ready to provide additional comments, or meet with you or members of your board to discuss this matter further. If we can provide additional material or perspective on this issue, please contact Brian Huggins, Corporate Controller, at bhuggins@partners.org or 857-282-0756.

Sincerely,

Brian J. Huggins
Corporate Controller
Partners HealthCare System, Inc.