October 25, 2019

Mr. Shayne Kuhaneck
Acting 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

Re: Proposed Accounting Standards Update, Debt (Topic 470), Simplifying the Classification of Debt in a Classified Balance Sheet (Current vs. Noncurrent) (File Reference No. 2019-780)

Dear Mr. Kuhaneck:

We appreciate the opportunity to comment on the proposed accounting standards update referenced above. Our comments will be in the form of responses to specific questions included in the proposed accounting standards update as well as other comments.

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?

While it would simplify the guidance, we believe that if unused long-term financing arrangements are precluded from being considered in the classification of contractually linked debt arrangements, the proposed guidance would diminish the usefulness of the financial statements, as liabilities, that are designed to be long-term, would be presented as current liabilities. In addition, we believe that the proposed guidance would be inconsistent with the definition of current liabilities in the Master Glossary as debt arrangements with contractually linked financing arrangements do not require the, “use of existing resources properly classifiable as current assets, or the creation of other current liabilities.”

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?

Yes, as indicated in question 1 above, we believe that the Board has taken too narrow a view of what constitutes a “debt arrangement.” We believe that if an unused long-term financing arrangement is contractually linked to a debt arrangement, and that unused long-term financing arrangement can only be used to pay off the
contractually linked debt arrangement, the long-term financing arrangement should be considered when determining the classification of the debt outstanding under the terms of the debt arrangement.

**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?

Yes, we believe that the guidance is clear and understandable, particularly when considered in conjunction with the illustration referenced in the guidance.

**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?

No, we do not believe that it is clear how paragraph 470-10-45-22 would apply to contractual terms that require settlement entirely through the issuance of equity. We also believe that there are inconsistencies between the definition of current liabilities in the Master Glossary and the Board’s explanation in paragraph BC21 of the application of paragraph 470-10-45-22 to debt arrangements with contractual terms that require settlement entirely through the issuance of equity (i.e. settlement entirely through the issuance of equity would not reasonably be expected, “to require the use of existing resources properly classifiable as current assets, or the creation of other current liabilities”).

In addition to clarifying the application of paragraph 470-10-45-22 to debt arrangements with contractual terms that require settlement entirely through the issuance of equity, we believe that the Board should clarify the application of paragraph 470-10-45-22 to convertible debt arrangements. The application of that paragraph to convertible debt arrangements is mentioned in paragraph BC21, but we believe that guidance should be included in the proposed standard itself, and not just in the basis for conclusions.

**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?

Yes, we believe that the proposed requirements would provide decision-useful information.

**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?

Yes, with the exception of the change related to unused long-term financing arrangements contractually linked to debt arrangements, we believe that the objective has been achieved. With respect to unused long-term financing arrangements contractually linked to debt arrangements, we do not believe that the application of paragraphs 470-10-45-22 and 23 will result in a presentation that represents the true economic realities of these debt arrangements.
Other Comments

To further the Board’s goal of simplifying U.S. GAAP, we believe that the Board should also review the guidance in ASC 470-50, Modifications and Extinguishments for potential simplifications, particularly in light of the guidance in proposed paragraph 470-10-45-25c.2. which would require the application of the extinguishment guidance in ASC 470-50 when evaluating the classification of debt when a debt covenant violation waiver has been obtained.

We appreciate the opportunity to provide the above comments and are available for further discussion with the Board if that would be useful to the process. Should you wish to discuss any of these comments, please contact David Johnson, Professional Practice Group Partner, at david.johnson@bakertilly.com or +1 (608) 240 2422.

Sincerely,

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David A. Johnson, Professional Practice Group Partner