November 1, 2019

Submitted via email: director@fasb.org
Technical Director
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

File Reference No. 2019-780

Dear Technical Director:

The Technical Issues Group (TIG) of the Missouri Society of CPAs (MOCPA) appreciates the opportunity to respond to certain matters in the Proposed Accounting Standards Update. The views expressed herein are written on behalf of the TIG of the MOCPA. The TIG has been authorized by the MOCPA Board of Directors to submit comments on matters of interest to the society’s membership. The views expressed in this letter have not been approved by the MOCPA Board of Directors or Executive Board and, therefore, should not be construed as representing the views or policy of the MOCPA.

We support the Board’s attempt to reduce the cost and the complexity of the accounting standards. However, we have concerns that this proposal will decrease the usefulness of financial statements and increase the costs of financial statement users. In response to the 2017 exposure draft for this project, we expressed our disagreement with the principle that the Board had proposed. We continue to disagree with the proposed principle in this revision. We believe that the proposed principle is based on the form of the legal contract rather than the substance of the economic condition of an entity and would result in less useful financial information being conveyed to the users of the financial statements. Although the decrease in usefulness of the balance sheet is offset by additional disclosure, it is our belief that the design of the principle itself will increase the users cost for analyzing economically similar entities. Thus, we disagree with the conclusion of the Board that the benefits outweigh the costs. Our viewpoint is, in part, formed by the following considerations:

- We believe the proposed principle is form-over-substance-based accounting.
- We believe the principle prescribes an approach contrary to other areas of U.S. GAAP where management’s expectations are considered.
- The required exceptions to the proposed principle for debt waivers and material adverse change clauses indicate that the principle does not meet financial statement user needs.
- The proposed principle is contrary to the definition of a current liability; we believe the concept in the definition of a current liability is a better approach to classification decisions related to current and noncurrent liabilities.
We believe the proposed principle would result in significant, and potentially material, changes to the balance sheet. Therefore, as an administrative matter, we recommend the Board change the title of the project to remove the term “simplification” if a final standard is issued. We believe retaining the term simplification in the title would potential mislead stakeholders on the nature and scope of the change.

In the attached responses to questions 1 - 5 asked by the Board, we have responded assuming that the principle will be issued as proposed.

Thank you for considering our comments. We would be pleased to respond to any questions the Board or its staff may have about any of the following comments. Please direct any questions to Mark Winiarski, TIG Chairman, MWiniarski@CBIZ.com.

Sincerely,

Mark Winiarski, CPA
TIG Chairman
**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 believe that simplification to the proposed principle by precluding an entity from considering unused long-term financing arrangements in determining the classification of a debt agreement will not diminish the usefulness of the financial statements. Under the proposed principle, a user of the financial statements will need to carefully consider the disclosures related to debt instruments to understand how they impact the liquidity of the entity. We expect the additional effort required to understand the availability of additional credit and to adjust the balance sheet classifications for purposes of analysis and comparability amongst entities would be incrementally insignificant.

**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:** We believe the discussion of the Board captured all significant considerations related to these two approaches. In the discussion, the Board noted concerns regarding cost and complexity of both of these approaches. We believe that although either of these evaluations would require additional analysis and judgment, those costs and complexities are operable. Many of those same judgments may in fact be relevant for an entity’s analysis of its ability to continue as a going concern, and are presently evaluated by entities and audited by their auditors.

**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:** The proposed guidance is clear and understandable. However, we believe it is inconsistent with the accounting prescribed for debt covenant waivers in paragraph 470-10-45-25 and, as a result, may mislead financial statement users.

We believe a grace period should be accounted for in the same manner as a debt covenant waiver, because a grace period functions economically in the same manner as an automatic short-term waiver. Therefore, we believe that the guidance on grace periods should also include a provision that requires consideration of whether it is probable that any other covenants, including the covenant violation covered by the grace period, will be violated for 12 months (or operating cycle, if longer) from the balance sheet date.
We also believe that the disclosure requirements in paragraph 470-10-50-9 should require that a violation of a covenant covered by a grace period should be required to be disclosed when prior to issuance of the financial statements (or the financial statements are made available for issuance) the grace period has expired without the covenant being cured. Such disclosure should also include a statement that the violation has not been cured and that the debt may be called by the lender.

**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 do not believe someone applying the principle would arrive at the conclusion that the Board expressed in paragraph BC21 based on the proposed principle as it is currently written. Due to the existing definition of a current liability, which references the use of current assets or the creation of current liabilities, we believe it is necessary to clarify that the concept of settlement in the principle includes settlement by shares. We believe that the best interpretation of the proposed principle, taking into consideration the definition of a current liability, would be to exclude settlement by shares from the analysis. Someone applying the principle would need to be aware of the discussion in the basis of conclusion in BC21 in order to understand that the definition of a current liability should not be considered in determining the meaning of the term settlement when the debt is entirely share-settled.

Furthermore, we find the discussion in BC21 to be confusing because there appears to be two different answers for otherwise seemingly similar arrangements:

- For debt that contains a term for settlement by use of current assets, paragraph BC21 states “in applying the debt classification principle to convertible debt, an entity would classify that debt on the basis of when the liability is contractually due to be settled (that is, when there is a required use of current assets) rather than on the timing of the conversion of debt to equity.” Based on this statement we believe a debt that is convertible to equity at the option of lender (on demand), but that has a cash settlement date two years from the balance sheet date would be classified as noncurrent. Thus, the share settlement feature is ignored.

- For a debt that is required to be settled entirely in shares, paragraph BC21 states an entity “would determine the classification of that debt on the basis of when the liability is contractually due regardless of the form of settlement,” thus incorporating the share settlement term into the analysis. Based on this statement, we believe a debt that is convertible to equity at the option of the lender (contractually due on demand), but that has a stated settlement date two years from the balance sheet date would be classified as current. Thus, the share settlement feature is included in the analysis.

In addition to the above scenarios, we also believe that the proposed principle requires that a debt that has a cash settlement date two years from the balance sheet date, but whose settlement is due on demand of the lender, other than a subjective acceleration clause, would be classified as current.
Based on our interpretation of BC21 we believe the analysis would be as follows:

<table>
<thead>
<tr>
<th>Contractual Due Date</th>
<th>Demand Clause</th>
<th>Classification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash settlement in year 2</td>
<td>Share conversion on demand</td>
<td>Noncurrent</td>
</tr>
<tr>
<td>Share conversion in year 2</td>
<td>Share conversion on demand</td>
<td>Current</td>
</tr>
<tr>
<td>Cash settlement in year 2</td>
<td>Cash settlement on demand</td>
<td>Current</td>
</tr>
</tbody>
</table>

Although this analysis is not difficult, it seems to be inconsistent and confusing as to why all three of these debts would not receive the same classification.

**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 required disclosures would provide decision-useful information. As noted in our response to Question 3, we believe additional requirements for disclosures are necessary when a covenant violation has not been cured and the grace period has expired.

**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 the expected benefits justify the expected costs. We believe that the project will result in a significant decrease in the cost and complexity for preparers and auditors. However, we believe that the cost savings result in pushing additional costs onto financial statement users who would be required to use their judgment to make adjustments to the balance sheet to assess the liquidity of an entity. These judgments include whether debt has been refinanced, debt has been called or becomes due subsequent to the balance sheet date, or whether the entity has access to other sources of available credit to defer the ultimate payment of a debt. We believe management is better positioned to make these judgements because they have additional entity-specific information available to them in order to aid in those judgments.

As proposed, we believe the principle is particularly detrimental to financial statement users of private companies that typically report only annually. The users of these financial statements include owners, vendors, customers, certain regulators, as well as lenders, all of which may consider liquidity one of the most important pieces of information that can be derived from the balance sheet. Under the proposed principle we believe all of these parties will incur additional cost in evaluating the liquidity of an entity and may need to make additional requests of management in order to understand and analyze the liquidity of an entity.