October 31, 2019

Technical Director, File Reference No. 2019-780
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116


We are writing on behalf of the Emerging Standards Committee (ESC) of the Kentucky Society of Certified Public Accountants (KyCPA). The KyCPA is the sole professional organization representing CPAs in the Commonwealth of Kentucky. Its 5,100 members are engaged in business communities throughout the Commonwealth and have a comprehensive grassroots view of the needs of businesses, ranging from large public companies to small owner-managed businesses. KyCPA's ESC consists of a group of KyCPA members organized to monitor the activities of accounting and auditing standard setters, with the objective of participating in the standards-setting process by providing thoughtful comment on developing issues.

Our comments for your consideration are as follows:

**Overall comments** - We appreciate the FASB's efforts to address some of the more complex and confusing aspects of debt classification. However, several aspects of this project would not be considered a “simplification”. We are aware the Board has had issues and disagreements specifically with existing classification accounting for subsequent (to Balance Sheet date) debt refinancing and obtaining a debt covenant waiver of compliance. The Board is using this project to attempt to remedy this perceived conceptual flaw.

The problem with the Board’s "legal status" of debt at balance sheet date approach (or principle) is that legal status is easy to alter or manipulate. It elevates form over substance, which is not in the interest of meaningful financial reporting. For example, embedding more grace periods or deferring the debt compliance measurement date past the balance sheet date would make the debt not out of compliance (with no violation at balance sheet date), resulting in noncurrent classification, with only disclosure requirements. We are not certain this treatment is in the best interest of the financial statement users. The added disclosures are very important, but the balance sheet, if not remedied at the time of financial statement issuance, risks being misleading to users.

In addition, under the Company’s (and auditors) Going Concern assessments and responsibilities, the resolution of the violation during the grace period will need to be addressed in a satisfactory manner. This would most likely embody actually curing the violation during the grace period, or concluding this favorable outcome is virtually certain.
Further, we believe segregating on the face of the balance sheet, and separately labeling, debt that was in violation with a waiver obtained before issuance is grossly excessive and unnecessary. This is not consistent with simplification and could be confusing to users. That is, you segregate debt that has obtained a waiver, but do not segregate debt that is out of compliance but is within the grace period. This out of compliance debt (not yet cured or waived) is significantly more important to users than debt that has actually been waived. This is an additional example of form over substance emphasis.

We also note that in circumstances where companies have several different debt instruments outstanding, with different lenders, it is common for there to be “cross-default” provisions amongst the debt instruments. That is, a covenant violation of one, creates a violation of all. Often, the waiver, or cure by the lender of the specific debt instrument in violation, waives or cures the other debt instruments under the cross-default provisions. Accordingly, all of the outstanding debt would be in technical violation at the balance sheet date. We suggest the Board add guidance related to this matter for preparers and auditors to be cognizant of.

**Question 3** – We believe there is ambiguity in the provisions relating to grace periods. Specific examples would be useful. Also, are all grace periods created equal? Some items of noncompliance relate to administrative matters that are more easily curable. Other matters may not be easily curable or even at all. It would not seem these differing conditions impact proposed classification accounting, but rather disclosure (possibly).

The Board may also wish to address proper accounting and disclosure for the following circumstance: a company violates a provision, but there is a grace period. Management and auditors determine a cure for the violation is unlikely during the grace period and conclude that “substantial doubt” exists related to the ability of the company to continue as a going concern. Would the debt continue to be noncurrent? If other debt existed with cross default provisions, would that debt also continue to be classified as noncurrent, if also under a grace period? Would financial statement users find this presentation confusing and not meaningful?

**Question 4** – We believe there is a lack of clarity in the application of 470-10-45-22 to a debt arrangement with contractual terms that require settlement entirely through the issuance of equity.

**Question 5** – We believe this disclosure provides useful information for the financial statement user. However, we believe a user would strongly want management’s opinion of the likelihood of curing the violation during the grace period. We also suggest disclosure address the impact on other debt where cross default provisions exist.

**Question 6** – We believe the requirement in 470-10-45-25d is excessive, costly and is inconsistent with the principles of simplification.

**Other** – We suggest a two-year deferral for the effective date of this standard, beyond that stipulated for Public Companies/Issuers.

Thank you for your consideration.

Sincerely,

Glenn Bradley, CPA, Chair
On behalf of the Emerging Standards Committee
Kentucky Society of CPAs