May 5, 2017

Via email to director@fasb.org

Susan M. Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: Debt (Topic 470): Simplifying the Classification of Debt in a Classified Balance Sheet (Current versus Noncurrent) (File Reference No. 2017-200)

Dear Ms. Cosper:

We are pleased to provide comments on the Board’s proposal to simplify debt classification. We agree that a more principles-based approach will reduce the complexity arising from the disparate and sometimes inconsistent guidance that exists today.

Our responses to the Board’s questions are provided in the Appendix to this letter, including certain clarifications to the scope of the final amendments and other matters.

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Adam Brown at (214) 665-0673 or Gautam Goswami at (312) 616-4631.

Very truly yours,

BDO USA, LLP
Appendix

Question 1: Paragraph 470-10-45-22 includes a principle for classifying debt as a noncurrent liability in a classified balance sheet. Would the proposed principle simplify the classification guidance in GAAP without diminishing the usefulness of the information provided in the financial statements? Is the proposed principle clear? Why or why not? Please explain and suggest alternatives.

We agree that the proposed debt classification principle is well-defined and provides a simpler model that is easier to apply than the existing guidance. However, application issues may arise for certain structures unless additional implementation guidance is provided. For instance, if debt is currently convertible, but otherwise due in 5 years, would it be classified as a current liability under paragraph 470-10-45-22? In other words, do conversion terms need to be considered when determining whether the liability is contractually due to be settled within a year? Also, does it matter whether the conversion is settled in cash or equity or a combination of both? We note that paragraph 470-20-45-3 indicates that for instruments with cash conversion features, all terms of the debt instrument (including the equity component) should be considered in determining classification. An example of whether that assessment results in current classification would be helpful, along with elevating the discussion in BC9 and/or BC12 within the implementation guidance of the final standard.

ASC 480-10-25-6 states certain provisions\(^1\) that may extend, delay or accelerate the timing of redemption of a mandatorily redeemable financial instrument should not affect its classification as a liability. However, it is unclear whether such a provision would be considered a contractual right to defer settlement of the liability for noncurrent classification purposes, considering that it is not relevant for applying the recognition criteria of ASC 480. We suggest that the Board clarify through an example the interaction of this ASC 480 guidance with the principle proposed in paragraph 470-10-45-22.

Paragraph 470-10-15-3(i) scopes into the proposed guidance proceeds from sales of future revenues that are classified as debt. It is unclear how the proposed principle should be applied for such obligations i.e., whether the amortization period in accordance with paragraph 470-10-35-3 should be considered analogous to “settlement” for determining classification.

We also suggest clarifying how the proposal interacts with the guidance for classifying a disposal group as held for sale since the Codification is silent on this point today. For instance, if the disposal is expected to be consummated within one year of the balance sheet date, as is typical, would all the liabilities be classified as current? Or would the new debt classification principle still be applied to debt within the disposal group? As such, we recommend addressing whether debt classification before the disposal occurs should still be based on the contractual terms of the debt itself rather than a separate sale agreement of the disposal group.

Finally, an example addressing the classification of debt payable to a related party without a specific due date may be useful in a private company context. For example, a family or an individual may direct the timing of repayment from a reporting entity with a loan payable to its sister company.

\(^{1}\) For example, redemption may be deferred unless a specified liquidity level is reached.
**Question 2:** The scope of the amendments in this proposed Update includes debt arrangements as well as (a) liability-classified mandatorily redeemable financial instruments within the scope of Topic 480, Distinguishing Liabilities from Equity, and (b) debt with conversion and other options that are within the scope of Subtopic 470-20, Debt—Debt with Conversion and Other Options. Is the scope of the proposed amendments clear? Why or why not? Are there any other instruments that should be included within the scope of the proposed amendments? If so, please explain.

We believe the scope and application of the proposed amendments should be further clarified as follows:

- Liabilities arising from arrangements that do not qualify for sales accounting, such as those that fail the sale accounting criteria under ASC 860, Transfers and Servicing. Specifically, settlement of the “debt” in those situations may not occur on a “fixed” date, but the timing of repayment may be “determinable,” similar to a sale of future revenues that is within the scope of the exposure draft. If the Board incorporates these liabilities within the scope, we believe the final amendments should include an example of how the basic classification principle applies.

- Similarly, if a transfer of a nonfinancial asset under ASC 610-20 does not meet the criteria for derecognition, such that proceeds from the counterparty are recorded as a financing (see Case B—Control Transfers under Topic 810 but Not under Topic 606 in 610-20-55-15 and 55-16), additional guidance as to whether that liability is within the scope of the final ASU would be helpful.

- Separately, should an obligation to transfer an entity’s own equity be considered “consideration” for the purposes of determining whether an instrument meets the proposed definition of a debt arrangement? Considering that mandatorily redeemable financial instruments and convertible debt are separately discussed in paragraph 470-10-15-4, this does not appear to be the Board’s intent. However, for clarity, we suggest that the basis specify whether (and why) other instruments within the scope of Subtopic 480-10, such as certain obligation to repurchase equity shares by transferring assets and certain other obligations to issue a variable number of shares are excluded from the scope of the proposed amendments.

- Paragraph BC264 of ASU 2016-02 on Leases indicates that finance lease liabilities are the equivalent of debt. Considering the broad application of the leases standard, we suggest that the proposal specify whether finance lease liabilities are within its scope.\(^2\) Similarly, although operating lease obligations under the new leases guidance are not considered debt-like but operating in nature, we suggest that the Board clarify whether preparers are precluded from analogizing to the proposed guidance for classifying these instruments.

- We also suggest clarifying how to determine the classification of a hybrid instrument when the host and an embedded derivative are accounted for separately, but presented as a single line item on the balance sheet. For example, this situation commonly arises with convertible debt.

\(^2\) To the extent the final amendments take effect prior to ASU 2016-02, similar guidance should be provided for capital lease liabilities under ASC 840.
**Question 3:** Paragraph 470-10-45-23 includes an exception to the classification principle for waivers of debt covenant violations received after the reporting date but before the financial statements are issued (or are available to be issued). Will including this exception reduce the cost of the proposed amendments? Why or why not? Please explain and suggest alternatives.

We agree with the exception, but recommend removing the requirement to assess the potential for other covenant violations that could be triggered within the next year to make the final standard more objective, and therefore, operational.

**Question 4:** Paragraph 470-10-45-24 would require separate presentation in a classified balance sheet for debt that is classified as a noncurrent liability because of a waiver of a debt covenant violation received after the reporting date but before the financial statements are issued (or are available to be issued). Does separate presentation of this amount provide decision-useful information for those using the financial statements? Why or why not? Please explain and suggest alternatives.

We do not think that separate presentation in a classified balance sheet is necessary. We believe such a presentation would, in effect, be tantamount to second-guessing the determination of such debt being noncurrent and that the disclosures required by paragraph 470-10-50-6 along with 855-10-50-2 are sufficient in this regard.

**Question 5:** The proposed amendments would require an entity to classify as a current liability a debt arrangement that is short-term debt (at the balance sheet date) but that is subsequently refinanced as long-term debt (after the balance sheet date but before the financial statements are issued). That would result in more current liabilities and less noncurrent liabilities, as compared with current GAAP. Do you agree that these refinancings are nonrecognized subsequent events? If not, please explain why and suggest alternatives.

The current liability classification of short-term debt subsequently refinanced as long-term debt is consistent with the application of the proposed debt classification principle. We also agree that accounting for refinancings as nonrecognized subsequent events simplifies the debt classification guidance. However, the Board may wish to consider additional input from users as to the most meaningful presentation of debt that is successfully refinanced on a long-term basis after the balance sheet date. Some constituents may believe a current classification at period-end under these circumstances does not provide relevant information.

**Question 6:** Paragraph 470-10-50-6 provides new disclosure requirements. Do the proposed disclosure requirements provide decision-useful information? If not, please explain why and suggest alternatives.

We agree with the proposed disclosure requirements, but suggest that entities should be provided with the flexibility of combining these disclosures as appropriate e.g., in a going concern footnote, if applicable.

In addition, we believe that entities should be required to disclose the existence of subjective acceleration clauses and lockbox arrangements, since this information may be useful to investors.

**Question 7:** How much time would be necessary to adopt the proposed amendments? Would the amount of time needed to apply the proposed amendments by entities other than public
business entities be different from the amount of time needed by public business entities? Do you agree that early adoption should be permitted?

We believe that adopting the proposed amendments does not require additional time for nonpublic business entities. However, we observe that as indicated in BC8, some entities may need to renegotiate their debt covenants and therefore suggest a year’s delay for mandatory adoption by all entities. We agree that early adoption should be permitted.