May 26, 2017

Technical Director
File Reference No. 2017-200
Financial Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

Submitted via email to director@fasb.org


Dear Technical Director:

The Virginia Society of CPAs (VSCPA) Accounting and Auditing Advisory Committee has reviewed the proposed Exposure Draft (ED), Debt (Topic 470): Simplifying the Classification of Debt in a Classified Balance Sheet, issued by the Financial Accounting Standards Board (the Board). The VSCPA is a leading professional association dedicated to enhancing the success of all CPAs and their profession by communicating information and vision, promoting professionalism, and advocating members’ interests. The VSCPA membership consists of more than 12,000 individual members who actively work in public accounting, private industry, government and education. We acknowledge that the Board has issued the ED in an effort to improve the effectiveness of disclosures in the notes to financial statements. The VSCPA appreciates the work the Board has undertaken on this effort and the opportunity to respond to the ED.

The VSCPA offers the following comments related to the “Questions for Respondents” section of the ED:

**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 believe that the proposal to classify debt as a noncurrent liability in a classified balance sheet is clear and would meet the objective of the Simplification Initiative to reduce cost and complexity without diminishing the usefulness of the information in the financial statements.

**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 of the proposed amendments is clear and have not identified any other instruments that should be included within the scope of the proposed amendments.

**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.

Including an exception for debt to be classified as a noncurrent liability because of a waiver of debt covenant violations received after the balance sheet date but before the financial statements are issued will reduce costs to the extent entities will not need to obtain waivers in advance of the reporting date if a...
debt covenant violation is a possibility. The level and extent of cost reductions realized would vary by entity and their financing terms and covenants.

**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 believe that the requirement to separately present debt that has been classified as a noncurrent liability because a waiver of debt covenant violations received after the balance sheet date, but before the financial statements are issued, would not provide decision-useful information to users of the financial statements, as there does not appear to be a clear benefit from this presentation. Disclosure of the waivers and its significant terms would be sufficient for financial statement users.

**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.

Refinancings of short-term debt (at the balance sheet date) as long-term debt (after the balance sheet date but before the financial statements are issued) are non-recognized subsequent events. The ability to successfully refinance debt is subject to factors outside the control of the entity and therefore, a condition that is unknown as of the balance sheet date.

**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.

The proposed disclosure requirements about any events of default would provide decision-useful information to financial statements users. We would expect entities to apply this requirement to events of material (financial) default, as opposed to administrative matters.

**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?

A nominal amount of time should be required to adopt the proposed amendments. Consistent with the objective of the Simplification Initiative, the proposed amendments should reduce the cost and complexity of existing accounting requirements; therefore, the time needed to adopt the proposed amendments should not be substantially dissimilar for both public business entities and entities other than public business entities. Early adoption should be permitted.

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Again, the VSCPA appreciates the opportunity to respond to this ED. Please direct any questions or concerns to VSCPA Vice President, Advocacy Emily Walker, CAE, at ewalker@vscpa.com or (804) 612-9428 or VSCPA Communications Manager Chip Knighton at cknighton@vscpa.com or (804) 612-9408.

Sincerely,

Charles M. Valadez, CPA, CGMA
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