November 15, 2013

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

Re: Technical Correction to Definition of Net Carrying Amount of Debt

Dear Ms. Cosper:

We are writing to propose that the Board make a technical correction to the FASB Accounting Standards Codification (the “Codification”) regarding the definition of “net carrying amount of debt” in ASC 470-50-20. This correction would be in addition to those we proposed in our August 5, 2013, letter in response to File Reference No. 2013-240, Proposed Accounting Standards Update, Technical Corrections and Improvements Related to Glossary Terms.

ASC 470-50-20 defines net carrying amount of debt as “the amount due at maturity, adjusted for unamortized premium, discount, and cost of issuance.” Further, ASC 470-50-40-2 states that a “difference between the reacquisition price and the net carrying amount of the extinguished debt shall be recognized currently in income of the period of extinguishment as losses or gains and identified as a separate item.”

Applying the definition in ASC 470-50-20 of “net carrying amount of debt” to an extinguishment of a debt instrument that an entity has elected to measure at fair value under the fair value option in ASC 825 results in an inappropriate calculation of the extinguishment gain or loss. The carrying amount of such debt in the statement of financial position is not the amount due at maturity, adjusted for unamortized premium, discount, and cost of issuance, but rather fair value. Therefore, the determination of extinguishment gain or loss should be based on the fair-value carrying amount as of the date of extinguishment rather than on the net carrying amount as it is defined in ASC 470-50-20.

The definition of “net carrying amount of debt” in ASC 470-50-20 and the guidance on the calculation of extinguishment gains or losses in ASC 470-50-40-2 were carried forward unchanged from paragraphs 3 and 20 of APB Opinion No. 26, Early Extinguishment of Debt (APB 26). The guidance on the fair value option originated in FASB Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (FAS 159). Upon review of the original text of FAS 159, we noted that although FAS 159 amended several previous accounting pronouncements, it did not amend or supersede the guidance in paragraphs 3 or 20 of APB 26. ASC 470-50 thus does not contemplate an extinguishment scenario for debt measured at fair value because it was written before the guidance on the fair value option in ASC 825-10 existed.

Accordingly, we believe that the definition of “net carrying amount of debt” should be amended to reflect the net carrying value of the debt in the statement of financial position irrespective of whether the net
carrying amount is based on a fair value measurement or the amount due at maturity adjusted for unamortized premium, discount, and cost of issuance.

We support the Board’s commitment to a standing project focused on technical corrections, clarifications, and minor improvements to keep the Codification up to date. Limiting the standing project to minor changes that do not significantly affect current practices is the most practical and efficient way to resolve technical issues related to the Codification.

If you have any questions concerning our comments, please contact Magnus Orrell at (203) 761-3402.

Yours truly,

Deloitte & Touche LLP

cc: Bob Uhl