

May 5, 2017

SENT VIA EMAIL

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

File Reference: No. 2017-200, Proposed Accounting Standards Update, *Debt (Topic 470), Simplifying the Classification of Debt in a Classified Balance Sheet (Current versus Noncurrent)*

Dear Ms. Cospers:

We appreciate the opportunity to share our views on the proposed Accounting Standards Update, *Debt (Topic 470), Simplifying the Classification of Debt in a Classified Balance Sheet (Current versus Noncurrent)* (the "proposed ASU").

Moss Adams LLP is the largest accounting and consulting firm headquartered in the Western United States, with a staff of over 2,600, including more than 275 partners. Founded in 1913, the firm serves public and private middle-market businesses, not-for-profit, and governmental organizations across the nation through specialized industry and service teams.

We support the Board's simplification initiatives with respect to the application of U.S. GAAP, and more specifically to the proposed ASU, the creation of a principle for the classification of debt arrangements. However, we have reservations about some specific aspects of the proposed ASU. We believe classifying debt arrangements based solely on contractual settlement terms may reduce the decision usefulness of such information and may not align with the definition of current liabilities in ASC Topic 210. In particular, we believe the Board should retain the extant requirement in ASC Topic 470 to classify short-term debt as noncurrent in situations where short-term debt is refinanced on a long-term basis after the balance sheet date. We also believe additional guidance will be required to consistently apply the principle in certain situations. We believe additional outreach to users of financial statements may help determine what information is most decision useful.

Our responses to certain questions included in the proposed ASU are presented in the Appendix to this letter. If you require further information regarding our response, please contact Bret Rutter, Partner, at 206-302-6800 or by e-mail at Bret.Rutter@mossadams.com.

Sincerely,

Moss Adams LLP

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Below are our responses to selected questions in the exposure draft.

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 classifying debt arrangements based solely on contractual settlement terms will reduce the decision usefulness of such information. The Board should retain the extant requirement in ASC Topic 470 to classify short-term debt as noncurrent in situations where short-term debt is refinanced on a long-term basis after the balance sheet date. We believe that providing information to users that is based on the most current information as of the date the financial statements are issued (or issuable) is most decision useful. We also recommend the Board perform additional outreach to users of financial statements to obtain their specific perspective on what would be most useful to them.

There are other circumstances where we believe the principle will either reduce decision useful information or additional guidance would be required. For example, an entity receives a notification of default under a subjective acceleration clause in its long-term debt agreement shortly after the balance sheet date. Under the proposed ASU, the debt would be classified as noncurrent. We do not believe the noncurrent classification would provide decision useful information in this circumstance.

Additionally, a debt arrangement may include settlement provisions that are undetermined at the balance sheet date. For example, a debt arrangement may require repayment based on variable measures, such as periodic excess cash flow or a deficiency in a borrowing base amount requiring repayment of a portion of the borrowings prior to the contractual due date. We believe additional guidance would be necessary for these types of circumstances.

The principle included in proposed ASC 470-10-45-22 does not specifically address classification of current and noncurrent maturities included in a debt arrangement. We recommend the Board consider modifying the principle or providing additional guidance to differentiate the classification of maturities included in a debt arrangement rather than referring to “the liability.”

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 believe that when a covenant violation occurs which gives the lender the right to demand payment, paragraph 23 should provide for noncurrent classification when the entity has obtained from the lender written evidence of the lender having given up its legal rights resulting from the covenant violation to demand payment for at least a year from the balance sheet date. Use of specific terms in the Codification, such as “waiver” or “forbearance”, may result in inconsistent application based on terminology we observe in practice where lenders may refer to an agreement as a “waiver” but it is not truly a forfeiture of the lender’s legal rights to call the debt under a covenant violation.

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However, if the existing terminology in proposed paragraph 23 is retained, we believe clarification is needed relating specifically to paragraphs 23b and 23d. A “waiver of the violation” in the first sentence of paragraph 23b would permanently waive a specific violation. The second sentence of paragraph 23b appears to require a prospective waiver even when a future violation of the covenant is not probable within a period of one year after the balance sheet date. There could also be situations where a lender enters into a forbearance agreement to not act on any prior covenant violation for a period of time. It’s not clear to us whether it is the Board’s intention to require that a waiver of a violation also waive the related covenant itself for a period greater than one year after the balance sheet date or only that the past violation be waived such that the lender could not demand payment pursuant to the past violation for a period greater than one year after the balance sheet date.

For example, an entity has long-term debt that requires quarterly compliance with a fixed charge ratio covenant. As of December 31, 20X1 the entity is in violation of the fixed charge ratio covenant. The entity receives a waiver of the violation as of December 31, 20X1 in which the lender legally gives up its rights to demand payment on the debt as a result of the fixed charge covenant violation that occurred at December 31, 20X1. It’s probable that the entity will comply with the quarterly fixed charge ratio covenant during all of 20X2. A “waiver of the violation” has been obtained in writing from the lender and since it is a waiver of the violation it effectively lasts in perpetuity but does not waive future quarterly measurements. We believe in this situation that the debt arrangement should be classified as noncurrent. We do not believe it should be necessary to obtain a prospective waiver of the covenant for future quarterly measurements during 20X2 because the entity believes it is probable it will be in compliance at the quarterly covenant measurement dates during all of 20X2. Additionally, in practice, we rarely observe a client obtaining a prospective waiver of a covenant for possible future violations. We believe adding a requirement in an accounting standard to obtain a “waiver of a covenant” for a period of time where future compliance is expected, would likely have the effect of increasing costs and may be impractical to implement.

We provide the following suggested replacement of paragraph 23b for your consideration:

- b. The lender has given up its legal rights to demand payment under the covenant violation before the date that the financial statements are issued (or the date that the financial statements are available to be issued).

We believe the criteria in paragraph 23d should not be applicable only in circumstances when a covenant violation has occurred as of the balance sheet date. Rather, to remain in alignment with the definition of current liabilities included in ASC Topic 210, we believe the evaluation at the balance sheet date of whether it is probable the lender will have the legal right under the debt agreement to demand payment as a result of a violation of a covenant in the debt agreement within 12 months (or operating cycle, if longer) from the balance sheet date should be an element of all evaluations of the classification of debt instruments and not limited to only those situations where one or more covenants has already been violated as the title “Classification of Debt Subject to a Covenant Violation” above ASC 470-10-45-23 indicates. Rather, we believe consideration of classification of all debt arrangements subject to covenants, which if violated, could allow the lender to accelerate the debt payments to be due within one year of the balance sheet date is necessary.

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For example, an entity is in compliance with all covenants as of December 31, 20X1 (the balance sheet date), however management believes it is probable the entity will not be in compliance at the next quarterly covenant measurement date and at March 31, 20X2 (prior to issuance of the financial statements) is in-fact out of compliance with the covenant and the lender has not given up its legal rights to demand payment under the terms of the covenant violation.

Under the proposed ASU, this debt arrangement would be classified as noncurrent. While we recognize the proposed ASU would better align ASC 470-10-45 with subsequent events guidance in ASC 855-10-25 we believe that classifying such liabilities as noncurrent does not serve the interests of the users of the financial statements. We believe such liabilities should be classified as current as they would be callable and liquidation would require the use of existing resources properly classified as current assets. We believe that the debt classification principle in paragraph 22 should be amended so that debt arrangements are classified as current when it is probable that the lender will have the legal right under the debt agreement to demand payment due to violation of a covenant in the debt arrangement, or for other reasons, within 12 months (or operating cycle, if longer) from the balance sheet date.

Additionally, many debt agreements contain default interest rates that may be significantly higher than the base interest rate in the debt agreement absent a covenant violation. When evaluating whether a waiver meets the criteria for a debt extinguishment under ASC 470-50 as required by proposed paragraph 23(c), should the default interest rate or the original base interest rate of the debt agreement be used? We believe clarification of this and other circumstances would be beneficial to the application of the proposed ASU.

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 generally agree that disclosure of the amount of debt classified as a noncurrent liability because of a waiver of a debt covenant violation would provide decision-useful information to financial statement users. However, we believe that disclosure of debt amounts classified on the balance sheet in a manner that differs from contractual terms may be better included in the notes to the financial statements and should not be presented separately on the balance sheet. This would provide users of the financial statement with decision-useful information without over-complicating the presentation of the balance sheet. We suggest such disclosures be provided in a tabular format in the footnotes to the financial statements and reconciled to amounts reported on the balance sheet along with qualitative disclosure of the classification.

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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.*

We believe that short-term debt that is subsequently refinanced as long-term debt should be classified as a noncurrent liability. Short-term debt subsequently refinanced as long-term debt would be treated as noncurrent under the conceptual definition of current liabilities as liquidation would not require the use of existing resources properly classifiable as current assets.

We further note that the proposed treatment of subsequent refinancing is inconsistent with the proposed treatment of waivers received subsequent to year end as discussed in proposed paragraph 470-10-45-23. We believe that short-term debt subsequently refinanced as long-term debt should be classified as a noncurrent liability to better align with (1) the conceptual definition of current liabilities; and (2) the proposed treatment of waivers received subsequent to the balance sheet date. We acknowledge such treatment of waivers and refinancings occurring subsequent to the balance sheet date are both inconsistent with guidance for recognized subsequent events at ASC 855-10-25, however we do believe treating them consistently with each other is important.

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 generally agree that the disclosure requirements proposed in paragraph 470-10-50-6 provide decision-useful information. We suggest the Board provide additional clarification or implementation guidance for the required specificity of the disclosure of “an explanation of the deficiency” as required in paragraph 470-10-50-6a. For example, does the covenant threshold need to be disclosed (e.g. working capital ratio of 2.5) or is the nature of the covenant (e.g. covenant related to working capital) sufficient?