May 5, 2017

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

File Reference No. 2017-200

The Accounting Principles Committee of the Illinois CPA Society (“Committee”) appreciates the opportunity to provide its perspective on the Proposed Accounting Standards Update (“ASU”), Debt (Topic 470)—Simplifying the Classification of Debt in a Classified Balance Sheet (Current versus Noncurrent). The Committee is a voluntary group of CPAs from public practice, industry and education. Our comments represent the collective views of the Committee members and not the individual views of the members or the organizations with which they are affiliated. The organization and operating procedures of the Committee are outlined in Appendix A to this letter.

While we generally support creating a principle for determining the classification of debt, we have specific concerns with the proposed ASU. In particular, we do not agree with the condition in proposed paragraph 23(c) of ASC 470-10-45 that a waiver not give rise to an extinguishment or troubled debt restructuring in order to permit the reporting entity to classify the debt as non-current. We also disagree with the requirement to present debt for which a waiver has been obtained separately on the face of the statement of financial position. Finally, we disagree with the removal of the exception permitting the classification of short-term debt that is refinanced on a long-term basis after the date of the financial statements but before the financial statements are issued (or available for issuance) as non-current.

We address our concerns in more detail in our responses to the questions on the proposed ASU.

We appreciate the opportunity to provide our comments and observations on the proposed ASU and would be pleased to discuss them with the Board members or the FASB staff at your convenience.

Sincerely,

Ryan Brady, CPA
Chair, Accounting Principles Committee

Brian Kot, CPA
Vice Chair, Accounting Principles Committee
**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.

**Response:** We believe the proposed principle is clear and operational.

**Question 2:** The scope of the amendments in the proposed Update includes debt arrangements as well as (a) liability-classified mandatorily redeemable financial instruments with the scope of Topic 480, *Distinguishing Liabilities from Equity*, and (b) debt with conversion and other options that 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.

**Response:** We believe the proposed definition of “debt arrangements” could be read to apply to normal trade payables of a reporting entity as they generally arise from a contractual right of a third party to receive consideration on fixed or determinable dates. We assume that was not the Board’s intent. If our assumption is correct, we would recommend the Board make that clear in the definition by adding “, excluding trade payables arising in the ordinary course of the reporting entity’s business” to the end of the definition.

**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 available to be issued). Will including this exception reduce the cost of the proposed amendments? Why or why not? Please explain and suggest alternatives.

**Response:** We do not believe including the exception will reduce the cost of the proposed amendment, but we support the inclusion of the exception. However, we do not believe a reporting entity should be required to determine whether any modification accompanying the waiver qualifies as an extinguishment or a troubled debt restructuring. We believe such a requirement will increase the cost of applying the exception unnecessarily. The reporting entity will effectively have to determine the accounting for the transaction even though the accounting outcome will not affect the measurement of the liability at the reporting date, and the auditor will have to audit the reporting entity’s proposed accounting in order to be able to issue its report. Even if a modification accompanying the waiver results in an extinguishment, it did not require the use of any of the reporting entity’s assets.

If the Board decides to retain the requirement to assess whether the subsequent event qualifies as an extinguishment, we believe the condition should be amended to omit the reference to a troubled debt restructuring. Unlike an extinguishment, a troubled debt restructuring does not result in accounting that is similar to the issuance of a new debt instrument. Accordingly, the reason for the exception provided in paragraph BC 27 does not apply to the accounting for a troubled debt restructuring.

**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 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.

**Response:** The Committee is concerned with the Board providing an exception to the classification principle, but then requiring disclosure that presumably would allow users to change the classification in their models. If users believe that separate presentation (rather than extensive footnote disclosures) provides more decision-useful information, it is presumably because they are able to more easily use that information to assess the reporting entity’s risks by changing the classification. If that is the case, we do not believe the Board should provide an exception that could cause reporting
entities to incur significant costs to determine that they qualify for non-current presentation if users do not find that presentation to be decision useful.

**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.

**Response:** We disagree with the Board’s decision to supersede the guidance on accounting for short-term debt arrangements refinanced on a long-term basis after the date of the financial statements but before the financial statements are issued. We do not believe there is a significant difference between debt that is callable by the lender at the date of the financial statements because the reporting entity violated a covenant but is classified as non-current because the lender waived the violation and short-term debt that is refinanced with the same lender such that the maturity date is extended beyond one year from the date of the financial statements. It seems arbitrary to conclude that a waiver by a lender of its right to call the debt qualifies for non-current presentation but that a decision by a lender to extend the term of a loan to a reporting entity should be ignored and the debt be classified as current. We believe the model adopted by the Board for waivers should apply equally to debt that is refinanced on a long-term basis subsequent to the end of the reporting period.

**Question 6:** Paragraph 470-10-45-6 provides new disclosure requirements. Do the proposed disclosure requirements provide decision-useful information? If not, please explain and suggest alternatives.

**Response:** We generally agree with the proposed disclosures, but were not sure how to apply the disclosure required by paragraph 6(a) of ASC 470-10-50. What “deficiency” is the Board contemplating? Is it intended to be a disclosure of the covenant that the reporting entity violated? If so, we recommend making it clearer by changing “the deficiency” to “the covenant (or covenants) that was (were) violated”.

We were also not sure what disclosure would be required by paragraph 6(d) of ASC 470-10-50. Assuming the reporting entity has obtained a waiver, that would remedy the violation (or deficiency). If the Board believes something further than the reporting entity disclosing that it obtained a waiver, we recommend the Board make its expectation clearer.

**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?

**Response:** We do not believe reporting entities should need a significant amount of time to adopt the proposed amendments, and we do not believe that the amount of time needed by entities other than public business entities will be any different from the amount of time needed by public business entities. Finally, we agree that early adoption should be permitted.
APPENDIX A

ACCOUNTING PRINCIPLES COMMITTEE
ORGANIZATION AND OPERATING PROCEDURES
2016-2017

The Accounting Principles Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from industry, education and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of accounting standards. The Committee’s comments reflect solely the views of the Committee and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to fully study and discuss exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

Public Accounting Firms:

Large: (national & regional)
- Jared Bourgeois, CPA
- Ryan Brady, CPA (Chair)
- Rakesh Desai, CPA
- William Keirse, CPA
- Scott Lehman, CPA
- Reid Mitchell, CPA
- Elizabeth Prossnitz, CPA

PricewaterhouseCoopers LLP
Grant Thornton LLP
KPMG LLP
Ernst & Young LLP
Crowe Horwath LLP
Wipfli LLP
BDO USA LLP

Medium: (more than 40 professionals)
- Timothy Bellazzini, CPA
- Michael Kidd, CPA
- Matthew Mitzen, CPA
- Jeffery Watson, CPA

Sikich LLP
Mowery & Schoenfeld LLC
Marcum LLP
Miller Cooper & Company Ltd

Small: (less than 40 professionals)
- Peggy Brady, CPA
- Marvin Hoffman, CPA
- Brian Kot, CPA (Vice Chair)
- Joshua Lance, CPA

Selden Fox, Ltd.
Bronswick, Reicin, Pollack, Ltd.
Cray Kaiser Ltd CPAs
Joshua Lance CPA, LLC

Educators:
- John Hepp, CPA

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Industry:
- Rose Cammarata, CPA
- Ashlee Earl, CPA
- Jeffrey Ellis, CPA
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- Marianne Lorenz, CPA
- Michael Maffei, CPA
- Joshua Shenton, CPA
- Richard Tarapchak, CPA

Mattersight Corp.
Seaway Bank and Trust Company
FTI Consulting, Inc.
Artex Risk Solutions, Inc.
AGL Resources Inc.
GATX Corporation
Northern Trust Corp.
Reynolds Group Holdings

Staff Representative:
- Gayle Floresca, CPA

Illinois CPA Society