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Via email to [director@fasb.org](mailto:director@fasb.org)

Mr. Shayne Kuhaneck, Acting Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, Connecticut 06856-5116

**Re: Simplifying the Classification of Debt in a Classified Balance Sheet (Current versus Noncurrent) (File Reference No. 2019-780)**

Dear Mr. Kuhaneck:

We are pleased to provide comments on the Board's proposal for simplifying the classification of debt in a classified balance sheet.

We generally agree with the proposed changes and believe they will improve the consistency of financial reporting in this area and that having principle-based guidance will be an improvement over the previous guidance in this area. Our detailed responses to the Questions for Respondents are contained in the Appendix.

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Gautam Goswami (312) 616-4631 or Jon Linville (214) 243-2940.

Very truly yours,

A handwritten signature in black ink that reads "BDO USA, LLP". The letters are written in a cursive, slightly slanted style.

BDO USA, LLP

## Appendix

***Question 1: Proposed paragraph 470-10-45-23 would preclude an entity from considering an unused long-term financing arrangement (for example, a letter of credit) in determining the classification of a debt arrangement. Would that proposed requirement simplify the guidance without diminishing the usefulness of the financial statements? Why or why not?***

We believe that the proposed requirement simplifies the guidance without diminishing the usefulness of the financial statements. We note that simplicity is enhanced because the requirement is consistent with the principles in proposed paragraph 470-10-45-22. We also believe this requirement provides decision-useful information as it informs the reader of the contractual maturities of specific debt arrangements as of the balance sheet date. Such information, when coupled with disclosures of subsequent events (e.g., a subsequent refinancing) or the availability of additional financing arrangements, provides the reader with sufficient information to make judgments regarding the likelihood and timing of settling a debt arrangement.

***Question 2: The Board considered and rejected both of the following approaches in determining the classification of debt when an entity has unused long-term financing arrangements that require an entity to:***

- a. Combine the debt with all unused long-term financing arrangements***
- b. Evaluate the contractual linkage between debt and other financing arrangements.***

***In both approaches, the debt classification might change from a current liability to a noncurrent liability. (See paragraphs BC29-BC35 in this proposed Update for further information.) Is there any additional information about the expected costs and benefits, simplification of classification guidance, or operability of applying those approaches that the Board should be aware of?***

We believe that the Board's proposed approach is generally more operable and provides more useful information than either of the rejected approaches noted above. However, we note that the Board's proposed approach may have significant impacts as it relates to linked long-term financing arrangements typical in certain industries, such as the healthcare industry (as mentioned in the basis of conclusions paragraph BC28(c) through BC28(d)). As such, the Board may wish to consider additional outreach with the preparers and users of the financial statements in these industries before concluding on the benefits and costs of finalizing this guidance. Alternatively, the Board may wish to consider whether it would be appropriate to "grandfather" certain existing arrangements, with appropriate disclosures.

***Question 3: Proposed paragraph 470-10-45-24 would provide classification guidance in scenarios in which an entity violates a provision of a long-term debt arrangement and the debt arrangement provides a grace period. Is that proposed guidance clear and understandable? Why or why not?***

We believe the guidance in proposed paragraph 470-10-45-24 is clear and understandable. Further, we believe that this guidance is consistent with the principles introduced by this proposed Update as noted in paragraph 470-10-45-22 and that such information, when coupled with the disclosures required by paragraph 470-10-50-9, provides decision-useful information for financial statement users.

Furthermore, we agree with the Board that the guidance for considering grace periods is consistent with the accounting for subsequent events as discussed in paragraph BC37. We support aligning the debt classification model with the subsequent events model, as we believe this generally provides an appropriate basis for evaluating the classification of debt.

However, we note that the current proposed guidance may be inconsistent with the subsequent events model in some instances. Specifically, we note that paragraph 470-10-50-8 indicates that, "A subjective acceleration clause is triggered when a borrower is notified by a lender of noncompliance..." As discussed in paragraph BC42, there could be scenarios in which a lender, subsequent to the balance sheet date, exercises its right to accelerate the debt based on events that take place before the balance sheet date. In such instances, we believe it would be more appropriate to account for the notification by the lender of noncompliance as a recognized subsequent event (i.e., the notification by the lender confirms that the condition existed as of the balance sheet date). For example, if the facts in Case B (paragraphs 470-10-55-42 through 55-43) were modified to (1) indicate that the borrower did not make the lender aware of the loss of a significant customer until after the balance sheet date (even though the loss of the customer occurred prior to the balance sheet date) and, (2) as a result, the lender did not notify the borrower of an event of default until after the balance sheet date, we believe that it would be more appropriate to treat the loss of the customer as the triggering event rather than the notice by the lender.

If the proposal is retained in its current form, we recommend clarifying whether a lender notification dated prior to the period end but received subsequently would be considered triggered as of the date of the letter.

Similarly, consistent with the new principle, once a waiver has been granted for a particular violation, we do not believe it should be necessary to consider the duration of the waiver. We note that when a waiver has been granted, there is no longer a contractual obligation as of the balance sheet date that could require a premature settlement of the contract (assuming that one of the criteria in paragraph 470-10-45-22 is met). As such, we recommend that the staff remove the requirement that a waiver be for a period greater than one year (or operating cycle, if longer). In making this recommendation, we note that the proposed requirement in paragraph 470-10-45-25(d) which requires a borrower to assess the probability of a covenant violation occurring within 12 months (or operating cycle, if longer) addresses the concern that a potential violation may recur in the future.

***Question 4: Proposed paragraph 470-10-45-22 includes a principle for classifying debt as a noncurrent liability in a classified balance sheet. Would the guidance in that proposed paragraph be operable for an entity that has a debt arrangement with contractual terms that require settlement entirely through the issuance of equity?***

Based on this question and the discussion in paragraph BC21, we infer that the Board intends any stock-settled debt, whether it is a convertible debt under Topic 470 or stock settleable debt under Topic 480, to be included in the scope of this proposed accounting standards update. However, if that is the case, we believe additional clarification is needed considering that paragraphs 470-10-15-3 through 15-4 do not appear to include liabilities under Topic 480 (other than mandatorily redeemable financial instruments) within the scope of this guidance. Additionally, it is not clear whether the "consideration" referred to in the proposed definition of a "Debt Arrangement" in the Master Glossary includes equity consideration (and thereby would include any stock-settled debt within its scope as a result of the definition).

If the Board clarifies that any stock-settled debt is within the scope of this standard, we believe the guidance in ASC 470-10-45-22 as clarified by paragraph BC21 is generally operable for an entity that has a debt arrangement with contractual terms that may require settlement entirely through the issuance of equity. However, we recommend that the Board consider including a discussion similar to paragraph BC21 within the Codification to provide additional clarity for preparers.

For example, the Board could add clarifying language in paragraph 470-10-45-22 such as:

"In applying the debt classification principle to convertible debt, an entity should classify that debt on the basis of when the liability is contractually due to be settled (for example, when there is a required use of current assets) rather than on the timing of the conversion of debt to equity. If debt arrangements include contractual terms that require settlement entirely in shares, an entity should determine the classification of that debt on the basis of when the liability is contractually due, regardless of the form of settlement."

Although we believe classification of debt based on when the liability is contractually due, regardless of the form of settlement, is a practical solution for stock-settled debt, we note this is inconsistent with the ASC Master Glossary, which defines current liabilities to be "obligations whose liquidation is reasonably expected to require the use of existing resources properly classifiable as current assets, or the creation of other current liabilities." Considering that debt arrangements that require settlement entirely through the issuance of equity would not require the use of current assets or the creation of other current liabilities, we recommend that the basis of conclusions explicitly acknowledge this inconsistency.

***Question 5: Proposed paragraph 470-10-50-9 would require that an entity disclose additional information in the period in which the entity violates a provision of a long-term debt arrangement about the violation and the terms of the grace period. Would the proposed requirements provide decision-useful information? Why or why not?***

We believe the disclosures required by proposed paragraph 470-10-50-9 are important for the user to understand the nature of a covenant violation and its associated risks. As such, we believe the proposed disclosures provide decision-useful information; however, we recommend that the Board consider adding a requirement that an entity also disclose the potential consequences under the contract of a failure to cure the violation.

Similarly, we recommend that the Board consider adding a requirement to the disclosures listed in paragraph 470-10-50-8 regarding an event of default.

We also recommend that the Board consider requiring a disclosure if, subsequent to the balance sheet date, but prior to the issuance of the financial statements, a preparer determines that a covenant violation is probable of occurring within one year of that Balance Sheet date. We believe this disclosure would be beneficial even if there has not been a covenant violation and/or a waiver as of the balance sheet date.

Additionally, we observe that the analysis regarding classification of debt under this Topic may be related to analyses performed under Subtopic 205-40 *Going Concern* and Topic 855 *Subsequent Events*. As such, we recommend that the Board amend ASC 470-10-60 Relationships section to include references to those areas.

***Question 6: The objective of this project is to reduce the cost and complexity for preparers and auditors when determining whether debt should be classified as current or noncurrent in the balance sheet while providing financial statement users with more consistent and transparent information. Given the additional changes in this revised proposed Update, will that objective be achieved? For example, would the expected benefits of the proposed amendments justify the expected costs? Why or why not?***

We believe that the proposed debt classification principle is generally clear and provides a simpler model that is easier to apply than the existing guidance. Although we note that preparers may incur additional effort in explaining their intentions and plans in regard to refinancing debt after the balance sheet date to financial statement users, we believe that the proposed model and proposed disclosure requirements will result in more consistent application of GAAP and will provide transparent information to financial statement users. We believe that the additional changes in this revised proposal will improve the operability of the guidance. As such, we believe that the potential benefits of this proposed amendment will justify the expected costs.

That said, we believe the final ASU will pose an operational challenge for some preparers. In our experience, entities often obtain waivers for covenant violations after the balance sheet date but before the financial statements are issued. Some entities evaluate whether the waiver represents a TDR, a modification, or an extinguishment at that time. Others do so in the following quarter. For the second group of entities, the requirement to determine the accounting for the debt amendment when evaluating whether debt is current or long-term may be difficult because of the compressed timeline. This will be most acute for smaller, resource-constrained entities that have previously evaluated these contractual amendments in the following quarter. For this reason, the Board may wish to perform additional outreach with these preparers before finalizing the ASU.

#### ***Other Observations***

In addition to the specific questions raised by the Board above, we also recommend that the Board consider the following matters:

#### ***Lease Liabilities***

We note that paragraph 470-10-15-4(b) has been updated to specifically indicate that lease liabilities under Topic 842 are within the scope of the classification guidance for current and noncurrent liabilities in Subtopic 470-10. We recommend that paragraph 470-10-15-4(b) also include a reference to Topic 840.

Additionally, we recommend that the Board consider clarifying in the basis of conclusions that although operating leases are subject to the same current versus noncurrent classification requirements as outlined in this proposed accounting standards update, they are not considered debt (rather, they are operating liabilities as noted in the basis of conclusions for ASU 2016-02).

#### Scope Clarifications

As indicated in our previous comment letter, dated May 5, 2017, we believe the scope and application of the proposed amendments should be further clarified in regards to the following:

- 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 it would be helpful if the final amendments include an example of how the 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.
- We note that except for mandatorily redeemable shares and lease liabilities, the proposal does not explicitly include within its scope other instruments outside of Topic 470 that may be liability classified (e.g., other Topic 480 liabilities or derivative liabilities under Topic 815). We believe it would be helpful for the Board to clarify why those instruments (and any other liabilities not explicitly referred in the scope) have been scoped out and whether entities should continue to follow current classification practice for such liabilities or whether they can apply the new guidance by analogy (e.g., as a prospective accounting policy election). For example, could an entity apply this guidance, by analogy, to determine the current versus noncurrent classification of warrant liabilities and bifurcated conversion features classified as liabilities under Topics 480 and 815?

#### Separate Balance Sheet Classification of Debt that is noncurrent due to a Waiver

As indicated in our previous comment letter, dated May 5, 2017, we do not think the requirement to separately present debt that is classified as a noncurrent liability because of a waiver or forbearance agreement obtained after the balance sheet date is necessary (as proposed in paragraph 470-10-45-26). 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 paragraphs 470-10-50-8 and 855-10-50-2 are sufficient in this regard.