

October 28, 2019

Director@fasb.org  
File Reference No. 2019 - 780

Technical Director  
FASB  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116

Re: Proposed Accounting Standards Update, Debt (Topic 470), Simplifying the Classification of Debt in a Classified Balance Sheet (Current versus Noncurrent)

Dear FASB:

The views expressed herein are written on behalf of the Professional Standards Committee (PSC) of the Texas Society of CPAs. The PSC has been authorized by the Texas Society of CPAs' Board of Directors to submit comments on matters of interest to the membership. The views expressed in this document have not been approved by the Texas Society of CPAs' Board of Directors or Executive Board and, therefore, should not be construed as representing the views or policy of the Texas Society of CPAs. Please find our responses below to the questions included in the above referenced exposure draft.

**General Comments:**

Overall, the committee generally agrees with the simplification of this proposed standard. We support the minimization of exceptions to standards. We note the changes within this exposure draft result in increasing the importance of disclosure of material subsequent events related to debt. Also, we think that the FASB should support early adoption while also allowing sufficient time for entities to renegotiate debt and other contracts in order to minimize the negative impact of the debt reclassification required in this standard.

The committee also respectfully requests that future exposure drafts be released for comment while considering the other due dates within our profession. Many CPAs are too busy during tax season, which now has a second busy season ending October 15, to thoughtfully provide a response.

**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?

**Response:** The committee believes that the proposed standard would simplify the classification of debt in general. Assuming that a contract may be renegotiated to long term is an action that may or may not occur, and that is not the purpose of a balance sheet, which is a point-in-time report.

**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, and 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?

**Response:** The committee believes that the guidance provided in BC29 – BC35 is clear.

**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?

**Response:** The committee agrees that the guidance provided in 470-10-45-24 is clear and understandable. We appreciate the illustration that accompanied the guidance.

**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?

**Response:** The committee believes that the principle included in the proposed paragraph 470-10-45-22 would be operable for debt arrangements that require settlement through the issuance of equity.

**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?

**Response:** The committee agrees that a disclosure should be required by an entity that violates any provision of a long-term debt arrangement.

**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?

**Response:** The committee believes that the objectives of this project were achieved and that users of financial statements will be provided consistent and transparent information. The proposed changes are simple and straight forward and should require less analysis by preparers of the statements.

We appreciate the opportunity to provide input into the standards-setting process.

Sincerely,



Ken Sibley, CPA

Chair, Professional Standards Committee

Texas Society of Certified Public Accountants