May 20, 2025

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RE: File Reference No. 2025-ED200

We appreciate the opportunity to provide feedback on the proposed Accounting Standards Update (ASU), *Debt-Modifications and Extinguishments (Subtopic 470-50) and Liabilities-Extinguishments of Liabilities (Subtopic 405-20)*, dated April 30, 2025. The purpose of the proposed ASU is to specify that an exchange of debt instruments that meet certain requirements should be accounted for by the debtor as the issuance of a new debt obligation and an extinguishment of the existing debt obligation. We commend the FASB for this proposed amendment, as we believe this will benefit preparers and auditors by simplifying the accounting for these transactions while at the same time benefiting investors by providing information that will be more consistent across lenders and more consistent with the economics of the new debt arrangement.

The views expressed herein are written on behalf of the Professional Standards Committee (PSC) of the Texas Society of CPAs. The committee has been authorized by the Texas Society of CPAs' Leadership Council 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' Leadership Council or Board of Directors and, therefore, should not be construed as representing the views or policy of the Texas Society of CPAs. Please find our responses below for the request for comment.

Question 1:
The amendments in this proposed Update would apply only to transactions that involve the contemporaneous exchange of cash between the same debtor and creditor in connection with the issuance of a new debt obligation with multiple creditors and the satisfaction of an existing debt obligation. The proposed amendments would not affect an exchange of debt instruments that involves a single creditor in the new debt instrument. Do you agree with the scope of the proposed amendments, including that multiple creditors must have participated in the new debt issuance? Please explain why or why not.

Response:
The PSC agrees with the scope of the proposed amendments, including that multiple creditors must have participated in the debt issuance. The PSC believes that having multiple creditors involved may serve to substantiate that the new debt obligation has been issued at market terms.

Question 2:
For exchanges of debt instruments that are within the scope of the proposed amendments, a debtor would extinguish the existing debt instrument and recognize a new debt instrument without being required to assess whether the new debt instrument and existing debt instrument have substantially different terms (and, therefore, a debtor would not need to perform the 10 percent cash flow test). Would this result in decision-useful financial reporting information? Please explain why or why not. Would the proposed amendments reduce the cost of applying the guidance in Subtopic 470-50? Please explain why or why not.

Response:
The PSC believes the proposed amendments will likely provide better decision-useful financial reporting information to investors because if the conditions for applying the amendment are met, the amendments will result in a consistent treatment of all creditors in the syndicate. Additionally, we believe the amendments will result in an effective borrowing rate that is more closely aligned with the new debt. The PSC believes the proposed amendments will simplify the accounting for debt exchanges that meet the conditions of the amendment and thus will reduce costs.

Question 3:
The proposed amendments contain the following two conditions for determining whether transactions that involve the contemporaneous exchange of cash between the same debtor and creditor in connection with the issuance of a new debt obligation with multiple creditors and the satisfaction of an existing debt obligation should be accounted for as the issuance of a new debt obligation and an extinguishment of the existing debt obligation:

a. The existing debt obligation has been repaid in accordance with its contractual terms or repurchased at market terms.
b. The new debt obligation has been issued at market terms following the issuer's customary marketing process.

Do you agree with these two conditions? Please explain why or why not. If not, please provide alternative suggestions. Are these two conditions clear and operable? Please explain why or why not. What auditing challenges, if any, do you foresee related to these two conditions?

Response:
The PSC is generally supportive of the two conditions listed above. Requiring both conditions implies that the settlement of the existing debt can reasonably be separated from the issuance of the new debt.

Question 4:
Condition (b) (see Question 3 above) includes the term customary marketing process. Is this component of the condition necessary to demonstrate that the issuance of a new debt obligation and satisfaction of an existing debt obligation are independent transactions? Please explain why or why not. If this component of condition (b) is necessary, is the term customary marketing process clear and operable? Please explain why or why not. If not, please provide alternative suggestions.

Response:
Regarding the second condition, the PSC recommends removing the reference to the "issuer's customary marketing process" as this requirement may result in inconsistent application and auditing challenges. The PSC believes requiring the new debt obligation to be issued at market terms should suffice to satisfy the purpose of the standard.

Question 5:
Should the proposed amendments be applied on a prospective basis to exchanges of debt instruments that occur on or after the date of initial application? If not, why not and what transition method would you recommend? Should early adoption be permitted for financial statements that have not yet been issued for public business entities or been made available for issuance for all other entities? Please explain why or why not.

Response:
The PSC agrees the proposed amendments should be applied on a prospective basis due to reduced costs for the implementation and limited benefits from a retrospective adoption. The PSC does not believe investors will see much benefit from a retrospective adoption and the effort to do a retrospective adoption could be significant. The PSC recommends allowing early adoption to implement the proposed amendments, as we believe these proposed amendments will be received favorably by preparers, auditors and investors.

Question 6:
The proposed amendments would require a transition disclosure stating the nature of and reason for the change in accounting principle in the interim reporting period (if applicable) and the annual reporting period of adoption. Because this guidance is transaction based, is that transition disclosure necessary and, if so, is it clear and operable? Do you expect that it would provide decision-useful information? Please explain why or why not.

Response:
The PSC does not believe transition disclosures (other than the fact that the company has adopted the amendment) are needed since the guidance is transaction based and the effects of the transaction are required to be disclosed.

Question 7:
How much time would be needed to implement the proposed amendments? Should the effective date for entities other than public business entities be different from the effective date for public business entities? If so, how much additional time would you recommend for entities other than public business entities? Please explain your reasoning.

Response:
The PSC does not believe significant time will be needed to implement the proposed amendments, as the outcome will be a simplification of the required assessment and accounting of exchange of debt instruments. The PSC supports providing private companies with extra time to implement the proposed amendments as is generally customary for other standards, as long as early adoption is allowed.

Question 8:
The proposed amendments would permit early adoption. If an entity elects to early adopt the proposed amendments in an interim reporting period, should the entity be required to adopt those proposed amendments as of the beginning of an annual reporting period? Please explain why or why not.

Response:
Because the amendment is transaction based, the PSC does not believe entities should be required to adopt it as of the beginning of an annual reporting period. Instead, companies should be allowed to apply the new standard to any transactions that occur after the standard has been adopted as long as these transactions have been properly disclosed.

We appreciate the opportunity to submit comments on the proposed Accounting Standards Update (ASU), *Debt-Modifications and Extinguishments (Subtopic 470-50) and Liabilities-Extinguishments of Liabilities (Subtopic 405-20).*

Sincerely,

Jeffrey L. Johanns

Jeffrey Johanns, CPA
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