
GRANT THORNTON LLP
Grant Thornton Tower
171 N. Clark Street, Suite 200
Chicago, IL 60601-3370

D +1 312 856 0200
F +1 312 602 8105
S [linkd.in/granthorntonus](https://www.linkedin.com/company/granthornton)
twitter.com/granthorntonus

October 28, 2019

Shayne Kuhaneck, Acting Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Via Email to director@fasb.org

Re: File Reference No. 2019-780

Dear Mr. Kuhaneck:

Grant Thornton LLP appreciates the opportunity to comment on Proposed Accounting Standards Update (ASU), *Simplifying the Classification of Debt in a Classified Balance Sheet (Current versus Noncurrent) (Debt (Topic 470))*. We support the Board's efforts to replace the current debt classification guidance, which is complex and contains various narrow-scope exceptions, with an overarching cohesive principle. We agree with the proposed debt classification principle, and believe that the proposed ASU's guidance would be simple to apply and would reduce complexity in GAAP. We therefore support issuance of the proposal as a final standard.

Our answers to selected questions for respondents follow.

Questions for Respondents

Presentation Matters

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 agree with the proposed debt classification principle, and believe that an unused long-term financing arrangement is irrelevant with respect to applying the principle to determine the classification of a debt arrangement. We believe that precluding

consideration of an unused long term financing arrangement will simplify the guidance.

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?

No, we have not identified any additional information about the expected costs and benefits, simplification of classification guidance, or operability of applying these approaches. We agree with the discussion included in the basis for conclusions regarding application of these approaches and agree that these approaches will introduce complexity in classification guidance.

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?

Yes, the guidance on how an entity should consider grace periods in determining classification of debt is clear and understandable.

We believe that this guidance would also be applicable to a debt instrument that contains a contingent put right (i.e. a right that the lender can demand repayment upon occurrence of a contingent event) and therefore until the time a contingency has occurred, the debt will be classified as noncurrent, provided that either of the criteria in ASC 470-10-45-22 is met. If the Board agrees with our analysis, we believe this should be clarified by including an illustrative example.

We also believe that the guidance should clarify how a non-contingent put right held by the lender should be considered when determining classification of debt. We believe that existence of such right would fail criterion (b) in ASC 470-10-45-22 and therefore would require the debt to be classified as current. This clarification can be provided by retaining example 2 on redeemable instruments that are subject to remarketing agreements (ASC 470-10-55-7 through 55-9) and amending the example to reflect the guidance in the proposed ASU as follows:

> > Example 2: Classification by the Issuer of Redeemable Instruments That Are Subject to Remarketing Agreements

470-10-55-7 This Example illustrates the guidance for the appropriate classification by the issuer of debt if all of the following conditions exist:

- a. The debt has a long-term maturity (for example, 30 to 40 years).

- b. The debt holder may redeem or put the bond on short notice (7 to 30 days).
- c. The issuer has a remarketing agreement with a third-party agent that states that the agent will make its best effort to remarket the bond when redeemed.
- d. The debt is secured by a short-term letter of credit that provides protection to the debt holder in the event that the redeemed debt cannot be remarketed. (Amounts drawn against the letter of credit are payable back to the issuer of the letter of credit by the issuer of the redeemable debt instrument on the same day that the drawdown occurs.)

470-10-55-8 Debt agreements that allow a debt holder to redeem (or put) a debt instrument on demand (~~or within one year~~) should be classified as short-term liabilities despite the existence of a best-efforts remarketing agreement. That is, unless the issuer of the redeemable debt instrument has a contractual right to defer settlement of the liability for a period greater than one year (or operating cycle, if longer) after the balance sheet date ~~the ability and intent to refinance the debt on a long-term basis as provided for in paragraph 470-10-45-14~~, the debt should be classified as a current liability.

470-10-55-9 Paragraph superseded by Accounting Standards Update No. 2019-XX. ~~In this Example, the obligation would be classified by the issuer as noncurrent only if the letter of credit arrangement meets the requirements of paragraph 470-10-45-14(b).~~

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?

Yes, we believe the proposed guidance in ASC 470-10-45-22 will be operable for determining classification of debt arrangements that will be settled through issuance of equity. We agree with the discussion in the basis for conclusions paragraph BC21 of the proposed ASU that classification of the debt should be based on when it is due regardless of the form of settlement. We also suggest that such discussion should be incorporated in ASC 470-10.

Expected Costs and Benefits

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?

Yes, as stated in the opening paragraph of this letter, we believe that the proposed ASU's guidance provides an overarching and cohesive principle for determining whether debt should be classified as current or noncurrent that is simple to apply and reduces complexity in GAAP. However, as stated in our comment letter dated May 5, 2017 regarding the January 10, 2017 proposed ASU, we continue to believe that the

exception in paragraph 470-10-45-25 would increase cost and complexity of the debt classification guidance and therefore the Board should consider either

- simplifying this exception by eliminating condition (c) and revising condition (d) (as suggested in our comment letter on the January 2017 proposed ASU) or
- eliminating the exception and relying on the classification principle proposed in ASC 470-10-45-22 and the grace period guidance in ASC 470-10-45-24.

We would be pleased to discuss our comments with you. If you have any questions, please contact Rahul Gupta, Partner, 312.602.8084, rahul.gupta@us.gt.com or Ryan Brady, Partner, 312.602.8741, ryan.brady@us.gt.com.

Sincerely,

/s/ Grant Thornton LLP