

Simplifying Presentation of Debt Issuance Costs

FASB Exposure Draft (October 2014)

- Present debt issuance costs as direct deduction of debt liability - same as debt discount or premium
 - Consistent with IFRS
 - Consistent with Concepts Statement 6, which states that debt issuance costs are not assets
- Final guidance would be applied on a retrospective basis
- Effective Date – To be discussed during redeliberations

Questions for Respondents

- Question 1: Should debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability, consistent with debt discounts? If not, why?
- Question 2: Should the proposed guidance be applied on a retrospective basis?
- Question 3: How much time would be necessary to adopt the amendments in the proposed Update? Should 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?

Respondent Summary

Stakeholder Group	Number of Respondents	CL#
Accounting Firms	9	2,9,11,14,18,20,22,24,28
Preparers	9	1,7,10,12,13,15,19,21,27
Professional Accounting Associations	8	5,6,8,16,17,23,25,26,
Academics	2	3,4
Total:	28	

Summary of Feedback Received

- All respondents (except two professional accounting associations that focus on private companies) supported presenting debt issuance costs as a direct deduction from the carrying amount of the debt liability
- Some of the issues raised were:
 - Guidance for debt issuance cost related to revolving debt (for example, line of credit)
 - Further simplification by amending the guidance for debt issuance costs in accounting for conversion options and the accounting for the third-party costs of exchange or modification of debt instruments

Summary of Feedback Received

- Most respondents agreed with retrospective transition
 - Information necessary to change the reporting for debt issuance costs is currently tracked separately; therefore, minimal cost and effort associated with retrospective application
- Nearly all respondents agreed that implementation of the proposed amendments would not require significant time or cost
- Time needed to adopt the amendments should not differ between public and non-public entities
 - Two respondents requested a transition period of two years
 - Two respondents requested a transition period of one year
 - One respondent requested amendments be effective upon issuance
- All respondents favored early adoption

Private Company Specific Feedback

- One professional accounting association respondent (CL#26) that did not agree with the proposed guidance stated:
 - TIC believes the source of the borrowing can be a determining factor in whether the proposal is viewed as a relevant simplification for users of public v. nonpublic financial statements. For example, the face amount of nonpublic borrowings, such as those from a bank, is usually the most relevant amount because lenders, users, and owners look to the contractual amount of the outstanding debt* on the face of the balance sheet to determine the amount of the liability. Most nonpublic borrowings, such as bank debt, usually do not involve discounts and premiums; therefore, the proposed presentation would be a more significant change for private entities
 - TIC therefore recommends that private entities be provided with an exemption from the proposed presentation

* Staff notes that paragraph 835-30-45-2 currently requires the face amount of the note to be disclosed in the financial statements or in the notes to the statements.

Private Company Specific Feedback

- Another professional accounting association respondent (CL#23) that did not agree with the proposed guidance stated that for small and medium sized entities and for users of the financial statements of those entities, more useful information about the financial condition of the entity would be presented if the debt liability is shown in total and not netted. This respondent requested that for entities with total assets under \$100 million, an option to adopt the amendments in the proposed Update or to reflect the costs as a deferred asset be allowed. In addition, this respondent noted that GASB standards* require debt issuance costs to be expensed in full and the Board should consider converging the GAAP guidance with GASB standards.

* GASB Statement 65 states in paragraph 15 that debt issuance costs, except any portion related to prepaid insurance costs, should be recognized as an expense in the period incurred. Prepaid insurance costs should be reported as an asset and recognized as an expense in a systematic and rational manner over the duration of the related debt.

Questions to the PCC

- Does the PCC agree with the guidance in the proposed Update?
- Would the PCC support an alternative that would require debt issuance costs to be expensed as they are incurred?
- Would the PCC support a retrospective transition approach for the final guidance?
- Does the PCC believe there should be a delayed effective date for private entities for the final guidance that results from this simplification project?