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May 30, 2025

Via email to director@fasb.org

Mr. Jackson M. Day, Technical Director
Financial Accounting Standards Board
801 Main Avenue
P.O. Box 5116
Norwalk, CT 06856-5116

Re: Accounting for Debt Exchanges (File Reference No. 2025-ED200)

Dear Mr. Day:

We appreciate the opportunity to respond to the Board's exposure draft. Overall, we support the Board's proposal to recognize certain debt exchanges as extinguishments to better reflect the underlying economics of these transactions and provide more useful information to stakeholders.

In the final amendments, we recommend clarifying that the term "multiple creditors" means two or more lenders, assuming that reflects the Board's intent. We also believe additional guidance is needed to address how sweeteners affect whether the new debt obligation was issued at market terms. We have described our suggestions in our responses to the Questions for Respondents in the attached Appendix.

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Jin Koo at (214) 243-2941 or Adam Brown at (214) 665-0673.

Very truly yours,

BDO USA, P.C.

BDO USA, P.C.

Appendix

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.

Generally, we agree with the scope of the proposed amendments. However, we suggest the Board provide clarity on the following:

- We observe the Merriam Webster dictionary[1] includes more than one definition for the term "multiple." Based on paragraph BC33, we believe the Board intended the term "multiple creditors" in paragraph 470-50-40-9 to represent "two or more creditors" rather than "three or more creditors". To prevent diversity in application, we suggest the Board to clarify this by replacing the term "multiple creditors" in paragraph 470-50-40-9 with "two or more creditors".
- Paragraph BC10 states *"…the 10 percent cash flow test is performed on a creditor-by-creditor basis…"*. However, the guidance in Subtopic 470-50 does not explicitly require the 10 percent cash flow test to be performed on a creditor-by-creditor basis. Rather, the test is typically applied that way in practice, but the guidance ultimately allows for professional judgement based on facts and circumstances. Unless it was the Board's intent to always require the 10 percent cash flow tests be performed on a creditor-by-creditor basis, we suggest the Board add the word "typically" in paragraph BC10 as follows: *"…the 10 percent cash flow test is <u>typically</u> performed on a creditor-by-creditor basis…"*.
- Paragraph 470-50-40-9 states "*If both of these conditions are met, an entity shall not apply the guidance in paragraphs 470-50-40-17 and 470-50-40-18.*" Paragraphs 470-50-40-17 and 40-18 provide guidance on the accounting for fees between the debtor and the creditor and costs incurred with third parties. If a debt exchange is accounted as an extinguishment under the proposed amendments, we ask the Board to clarify how such fees and third-party costs incurred in a debt exchange should be treated if paragraphs 470-50-40-17 and 40-18 are no longer applicable.

  In that circumstance, we read the proposal to treat all lender fees and third-party costs as deferred borrowing costs, similar to a new loan from a new lender. While we understand that view, it will have the effect of treating certain extinguishments under Subtopic 470-50 different than other extinguishments. We believe this should be more clearly explained in the basis for conclusions.

In addition, we ask the Board to provide guidance on the following related matters:

- Debt exchanges can involve multiple creditors under common management, for example, multiple funds in a private equity group that are considered related parties. We suggest the Board provide guidance on the application of the proposed amendments in these

[1] https://www.merriam-webster.com/dictionary/multiple

arrangements to prevent diversity in practice (that is, whether such multiple creditors should be treated as a single creditor). While this issue exists today, it will become more prevalent under the final ASU in the absence of additional guidance, as borrowers may reach potentially different conclusions about whether multiple, legally distinct lenders should be combined as one, or not.

- We believe the proposed amendments only apply to exchanges of term debt (that is, non-revolving debt arrangements) as the term "extinguishment" is only applicable for those types of arrangements. If that is the case, we suggest the Board explicitly note that the proposed amendments only apply to term, non-revolving debt arrangements.

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.

While we ultimately defer to investors on the decision usefulness of the proposed amendments, we believe the proposed amendments will result in more decision-useful information since the effective interest rate for a new debt instrument reflects current market information, as opposed to a blended rate that reflects old and new debt issuance costs under modification accounting. Further, it results in widely held private placement debt and public debt exchanges being accounted for consistently.

We also expect the proposed amendments to reduce the costs of applying the guidance in Subtopic 470-50 because the 10 percent cash flow test would no longer be necessary to determine whether the debt exchange should be accounted as a modification or an extinguishment.

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?

We suggest the Board clarify the discussion in paragraph BC25 regarding how sweeteners affect whether the new debt instrument was issued at market terms. Consider two contrasting examples:

- New debt instrument issued with an 8% interest rate, which is reflective of market terms.
- New debt instrument issued with an 8% interest rate, which is reflective of market terms, and warrants with a fair value representing 15% of the par amount of the new debt.

We note the debt instrument is identical in both cases. The issuance of warrants might inform whether the transaction as a whole was at market. However, that appears to be different than determining whether the debt, in isolation, is at market. We recommend clarifying the final ASU in this regard.

In addition, see our response to Question 4.

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.

We suggest removing the term "customary marketing process" because we struggle to envision how debt issued at current market terms should not be eligible for the relief provided in this proposal.

That assessment may result in additional cost for preparers and practitioners to determine whether an entity issued the new debt obligation following its customary marketing process. If the Board decides to keep the term "customary marketing process", we suggest including an example of a debt obligation issued at market terms, but through an abnormal marketing process, such that extinguishment accounting under the proposed amendments is precluded. Further, if that debt exchange could still be considered an extinguishment under the existing guidance in Subtopics 470-50, the benefits of reaching that conclusion through the existing 10% cash flow test, but not through the proposed amendments, are unclear.

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.

We agree that the proposed amendments should be applied on a prospective basis to exchanges of debt instruments that occur on or after the date of the initial application. Additionally, we agree that early adoption of the proposed amendments should 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, which is consistent with recent standard setting initiatives.

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.

We note it is common for entities to disclose the adoption of a new standard and whether its impact was material to the financial statements, or not. While we expect there to be a limited number of situations in which the impact in the initial period of adoption is material because this guidance is transaction based, that outcome is not unusual. Further, financial statement users in future periods will be familiar with the provisions of this final standard, if and when they have a material impact on a reporting entity. Therefore, we agree with the proposed transition disclosure approach.

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.

We do not expect a significant amount of time to be required for entities to adopt the proposed amendments as the amendments are narrow and would be applied prospectively. For the same reasons, we do not believe private entities should require more time than public entities to adopt the proposed amendment. However, we would not object to a later effective date for private entities, consistent with many other proposed accounting standard updates, 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.

We do not believe that an entity should be required to adopt the final ASU as of the beginning of an annual reporting period because the guidance is transaction based.