

MINUTES



MEMORANDUM

To: Board Members
From: FASB Staff
Subject: Minutes of September 13, 2017
Board Meeting on Simplifying the Balance Sheet Classification of Debt
Date: September 14, 2017
cc: Dawn Tosches

The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue an Accounting Standards Update or a Statement of Financial Accounting Concepts.

Topic: Simplifying the Balance Sheet Classification of Debt

Basis for Discussion: Board Memo No. 10

Length of Discussion: 10:00 a.m. to 12:15 p.m.

Attendance:

Board members present: Golden, Kroeker, Botosan, Hunt, Monk, Siegel

Board members absent: Schroeder

Staff in charge of topic: Posta, Wyss, Matherson

Other staff at Board table: Mazzella, Lusniak

Outside participants: None

Tentative Board Decisions

The Board completed redeliberations of proposed Accounting Standards Update, *Debt (Topic 470): Simplifying the Classification of Debt in a Classified Balance Sheet (Current versus Noncurrent)*. The Board made the following decisions.

Classification Principle

The Board affirmed the proposed amendments that debt and other instruments within the scope of the final Update should be classified as noncurrent liabilities in a classified balance sheet if either of the following criteria is met as of the balance sheet date:

1. The liability is contractually due to be settled more than one year (or operating cycle, if longer) after the balance sheet date.
2. The entity has a contractual right to defer settlement of the liability for at least one year (or operating cycle, if longer) after the balance sheet date.

(Vote: Unanimous)

The Board decided to clarify the following:

1. The issuance of equity instruments does not constitute settlement when determining whether debt should be classified as current or noncurrent.

(Vote: Unanimous)

2. If, before the balance sheet date, an arrangement is in place with a third party (for example, a line of credit) that would result in the entity avoiding the transfer of current assets within 12 months from the balance sheet date, the debt should be classified as noncurrent because the entity has a contractual right to defer settlement.

(Vote: 6-1)

Scope

The Board decided to modify the proposed scope to clarify that the classification principle also should apply to lease liabilities (under Topic 842, Leases).

(Vote: Unanimous)

Waivers of Debt Covenant Violations

The Board affirmed the proposed amendments to provide an exception to the classification principle for waivers of debt covenant violations received after the balance sheet date but before the financial statements are issued. That exception would continue to require an entity to classify a debt arrangement as a

noncurrent liability when there has been a debt covenant violation, if the entity receives a waiver of that violation that meets certain conditions before the financial statements are issued (or are available to be issued).

(Vote: Unanimous)

The Board also affirmed the conditions that must exist for an entity to qualify for that exception.

The votes for each condition were as follows:

- a) One of the criteria in paragraph 470-10-45-22 would have been met absent the covenant violation.

(Vote: Unanimous)

- b) A waiver of the violation has been obtained by the borrower before the date that the financial statements are issued (or the date that the financial statements are available to be issued). The waiver is for a period of greater than one year (or operating cycle, if longer) from the balance sheet date.

(Vote: 6-1)

- c) At the time the waiver is granted, the waiver for the debt arrangement does not result in a modification that is either:
 - a. An extinguishment of debt accounted for in accordance with guidance in Subtopic 470-50
 - b. A troubled debt restructuring accounted for in accordance with Subtopic 470-60

(Vote: 4-3)

- d) It is not probable that any other covenants in the debt arrangement (for example, other covenants not included in the waiver) will be violated within 12 months (or operating cycle, if longer) from the balance sheet date

(Vote: 4-3)

Separate Presentation in a Classified Balance Sheet

The Board affirmed the proposed amendments that an entity should separately present, in a classified balance sheet, the amount of debt that is classified as a noncurrent liability because of waivers obtained after the balance sheet date.

(Vote: 5-2)

Refinancing after the Balance Sheet Date

The Board affirmed the proposed amendments for short-term debt that is refinanced on a long-term basis after the balance sheet date. The classification principle should apply to those debt arrangements, which would result in an entity classifying those debt arrangements as current liabilities.

(Vote: 6-1)

Disclosures

The Board affirmed the proposed amendments that would require an entity to disclose information about events of default.

(Vote: Unanimous)

Implementation Guidance and Illustrative Examples

The Board affirmed the proposed implementation guidance and illustrative examples with revisions to conform and clarify that guidance, as needed.

(Vote: Unanimous)

Transition Method and Transition Disclosures

The Board affirmed the proposed transition guidance that an entity should apply a prospective method of transition. That transition would be applied to all debt arrangements and other instruments within the scope that exist at the date of initial adoption and after that date.

The Board also affirmed the proposed amendments on transition disclosures.

(Vote: Unanimous)

Effective Date

The Board decided that the effective date

1. For public business entities will be for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years.
2. For all other entities will be for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021.

(Vote: 6-1)

Early Adoption

The Board affirmed that early adoption is permitted.

(Vote: Unanimous)

Costs and Benefits

The Board decided that the benefits justify the costs of the changes and directed the staff to draft an Accounting Standards Update for vote by written ballot.

(Vote: 6-1)

General Announcements: None.