# Simplifying the Balance Sheet Classification of Debt
# Tentative Board Decisions to Date
# As of July 31, 2019

**Simplifying the Balance Sheet Classification of Debt**
**Tentative Board Decisions Reached to Date**
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| Topic | Decisions Reached | Meeting Date |
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| *Topic 470, Debt* | • The Board decided to add this project to the technical agenda as part of its Simplification Initiative. | August 13, 2014 |
| *Classification Principle* | • The Board decided that an entity should classify a debt as noncurrent if one or both of the following criteria are met as of the balance sheet date:<br>○ The liability is contractually due to be settled more than one year (or operating cycle, if longer) after the balance sheet date.<br>○ 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.<br>• The Board decided that decisions about the classification of debt should be made based on facts and circumstances that exist as of the reporting date (that is, as of the balance sheet date). | January 28, 2015 |
| *Scope* | • The Board decided that the scope of the guidance should apply to all debt arrangements. | January 28, 2015 |
| | • The Board decided to clarify that convertible debt instruments and liability-classified mandatorily redeemable financial instruments are included in the scope of the proposed guidance. | July 29, 2015 |
| *Presentation* | • The Board agreed that under the proposed classification principle, subjective acceleration clauses affect the classification of the debt when triggered. | July 29, 2015 |
| | • The Board decided to provide an exception to the classification principle for waivers of debt covenant violations received after the reporting date but before financial statements are issued. The exception would apply to all waivers, except for those that result in a debt modification or an extinguishment (as defined in Subtopic 470-50, Debt—Modifications and | July 29, 2015 |

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| | Extinguishments). This exception would retain the probability assessment that is performed under existing generally accepted accounting principles (GAAP) in paragraph 470-10-45-1(b). The Board also decided to require separate presentation in the balance sheet for debt that is classified as noncurrent as a result of this exception. | |
| *Disclosures* | • The Board decided to require disclosures of debt covenant violations and disclosures of significant subjective acceleration clauses and debt covenants. | July 29, 2015 |
| *Transition and Transition Disclosures* | • The Board decided that in the first interim and annual financial statements following the effective date, an entity would apply the proposed amendments on a prospective basis to all debt that exists as of that date. The Board also decided that the following transition disclosures on Topic 250, Accounting Changes and Error Corrections, should be required:<br>○ The nature of and reason for the change in accounting principle<br>○ The effect of the change on affected financial statement line items in the current period. | July 29, 2015 |
| *Next Steps* | • The Board directed the staff to draft guidance in a proposed Accounting Standards Update for vote by written ballot, with a comment period of 60 days. | July 29, 2015 |
| *Classification Principle* | • The Board affirmed its plan to move forward to a proposed Update that includes a debt classification principle based on legal terms. The proposed Update would include an exception for the classification of debt with waivers of debt covenant violations received after the reporting date but before financial statement issuance. | October 19, 2016 |
| *Presentation* | • The Board affirmed its prior decision to require separate line item presentation for debt that is classified as a noncurrent liability as a result of an exception for waivers of debt covenant violations received after the reporting date but before financial statement issuance. | October 19, 2016 |
| | • The Board affirmed its decision to retain the probability assessment in current GAAP for waivers of debt covenant violations. The Board directed the staff to modify the existing guidance on the assessment that a company would be required to make when a debt covenant is violated at the reporting date and a waiver is obtained after the reporting date for a period greater than 12 months. The clarification would require an entity to assess whether violation of any other covenants (not covered by the waiver) is probable | October 19, 2016 |

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| | within 12 months from the reporting date. If probable, the related debt would be required to be classified as current. | |
| *Recognition* | • The Board decided not to change current GAAP on the recognition of fees paid by a company for waivers of debt covenant violations. | October 19, 2016 |
| *Disclosures* | • The Board decided to require disclosure of subjective acceleration clauses and loan covenants when they are triggered. | October 19, 2016 |
| *Transition* | • The Board affirmed its decision to require an entity to apply the changes resulting from this project on a prospective basis to all debt that exists as of the effective date. The Board decided that an entity would be able to early adopt the proposed changes. | October 19, 2016 |
| *Next Steps* | • The Board directed the staff to draft a proposed Accounting Standards Update for vote by written ballot. The Board extended the comment period from 60 days to end no earlier than Friday, May 5, 2017. | October 19, 2016 |
| *Topic 470, Debt* | • The Board discussed a summary of comments received on the proposed Accounting Standards Update, Debt (Topic 470): Simplifying the Classification of Debt in a Classified Balance Sheet (Current versus Noncurrent). No decisions were made. | June 28, 2017 |
| *Next Steps* | • The Board directed the staff to continue its additional outreach and research, focusing on the evaluation process done by regulatory bodies, particularly with the construction industry and state licensing agencies. The staff will present the prior outreach, the additional outreach results, and analysis of the issues for redeliberations at a future Board meeting. | June 28, 2017 |
| *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:<br>○ The liability is contractually due to be settled more than one year (or operating cycle, if longer) after the balance sheet date.<br>○ 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.<br>• The Board decided to clarify the following:<br>○ The issuance of equity instruments does not constitute settlement when determining whether debt should be classified as current or noncurrent. | September 13, 2017 |

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| | ○ 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. | |
| *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). | September 13, 2017 |
| *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). The Board also affirmed the conditions that must exist for an entity to qualify for that exception. | September 13, 2017 |
| *Separate Line Item Presentation* | • 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. | September 13, 2017 |
| *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. | September 13, 2017 |
| *Disclosures* | • The Board affirmed the proposed amendments that would require an entity to disclose information about events of default. | September 13, 2017 |
| *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. | September 13, 2017 |
| *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. | September 13, 2017 |

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| | • The Board also affirmed the proposed amendments on transition disclosures. | |
| *Effective Date and Early Adoption* | • The Board decided that the effective date<br>○ For public business entities will be for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years.<br>○ 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.<br>• The Board affirmed that early adoption is permitted. | September 13, 2017 |
| *Costs and Benefits* | • The Board decided that the expected benefits justify the expected costs of the changes and directed the staff to draft an Accounting Standards Update for vote by written ballot. | September 13, 2017 |
| *Classification Principle—Unused Long-Term Financing Arrangements* | • The Board reversed its previous decision that if a long-term financing arrangement is in place as of the balance sheet date (for example, an unused line of credit), the amount of current maturities for any other debt arrangements would be reduced by the unused amount of the long-term financing arrangement up to the amount of the current maturities and classified as a noncurrent liability. Therefore, an unused long-term financing arrangement in place at the balance sheet date should be disregarded in determining the classification of debt.<br>• The Board directed the staff to conduct additional outreach, focusing on scenarios in which an entity has a redeemable instrument that is subject to a remarketing agreement and is also secured by a long-term letter of credit. | August 22, 2018 |
| *Grace Periods* | • The Board clarified how to apply the debt classification principle when a debt covenant violation exists and the creditor provides a grace period. Specifically, the Board decided that when a borrower violates a provision of a long-term debt agreement and the creditor provides a specified grace period for the borrower to cure the violation, which makes the debt no longer callable at the balance sheet date, the borrower should classify the debt as a noncurrent liability.<br>• The Board decided to require an entity to disclose information when a borrower violates a provision of a long-term debt agreement and the creditor provides a specified grace period. That disclosure would be required when (1) the violation has not been cured before the financial statements are | August 22, 2018 |

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| | issued (or are available to be issued) and (2) the violation would make the long-term obligation callable. | |
| *Effective Date* | • The Board decided that the effective date should be as follows:<br>○ For public business entities, for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years<br>○ For all other entities, for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. | August 22, 2018 |
| *Next Steps* | • The Board directed the staff to draft an Accounting Standards Update for vote by written ballot. | August 22, 2018 |
| *Classification Principle—Unused Long-Term Financing Arrangements* | • The Board directed the staff to conduct additional research, focusing on a potential alternative that considers the contractual linkage between certain debt arrangements and unused long-term financing arrangements in place at the balance sheet date. That research also would consider the need to include other conditions within or surrounding that financing arrangement, such as the financial capability of the lender, the existence of a subjective acceleration clause, the required use of the proceeds, and the timing and terms of the arrangements. | October 24, 2018 |
| *Classification Principle—Unused Long-Term Financing Arrangements* | • The Board directed the staff to continue its research on a potential alternative that considers the contractual linkage between certain debt arrangements and unused long-term financing arrangements in place at the balance sheet date. That research would consider the underlying economics of and the markets for those arrangements and illustrative examples related to unused long-term financing arrangements. | January 23, 2019 |
| *Classification Principle—Unused Long-Term Financing Arrangements* | • The Board affirmed its previous decision that an unused long-term financing arrangement in place at the balance sheet date should be disregarded in determining the classification of debt. | March 20, 2019 |
| *Disclosures* | • The Board decided not to amend the disclosure requirements on the combined aggregate amount of maturities in Topic 470 as part of this project. | March 20, 2019 |
| *Next Steps* | • The Board directed the staff to draft a revised proposed Accounting Standards Update for vote by written ballot, with a comment period of 45 days. | March 20, 2019 |

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| *Classification Principle—Settlement of Debt through the Issuance of Equity* | • The Board clarified how an entity would apply the debt classification principle to a debt arrangement in which its contractual terms specify that it will be entirely settled through the issuance of equity. The Board decided to include a question for respondents in the revised proposed Accounting Standard Update about equity-settled debt arrangements. | July 31, 2019 |
| *Variable Rate Demand Obligations with Remarketing Agreements* | • The Board decided that no further amendments to the revised proposed Update are necessary related to variable rate demand obligations with remarketing agreements. | July 31, 2019 |
| *Grace Period Disclosures* | • The Board decided to remove a proposed disclosure for events of default, which would have required an entity to disclose *a description of the course of action that an entity has taken, or that it proposes to take, to remedy the default*. The Board also decided not to add a similar disclosure requirement for grace periods that have not expired before the balance sheet date. | July 31, 2019 |
| *Master Glossary Definition of Current Liabilities and Illustrative Examples* | • The Board considered its prior decisions made on the Master Glossary definition of *current liabilities* and on illustrative examples. No changes were made. | July 31, 2019 |
| *Analysis of Costs and Benefits* | • The Board concluded that it has received sufficient information and analysis to make an informed decision on the perceived costs of the changes and that the expected benefits would justify the expected costs of the amendments in the revised proposed Update. | July 31, 2019 |