

# Project Overview: Simplifying the Balance Sheet Classification of Debt (Current vs. Noncurrent)

July 19, 2016



FINANCIAL  
ACCOUNTING  
STANDARDS BOARD



## Simplification Initiative Objective

- Reduce cost and complexity while maintaining or improving the usefulness of the information
- Projects include narrow-scope items that the FASB can complete in the short term



**Simplification is not always simple**

**Project added to Board's agenda in August 2014**

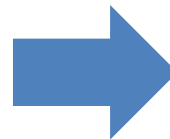
# Simplifying the Balance Sheet Classification of Debt (Current vs. Noncurrent on a Classified Balance Sheet)

## Current Guidance

## Proposed Change

What?

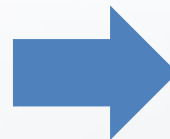
Narrow scope **rules** on specific types of debt arrangements



Overriding **principle** for the classification of debt that can apply to all arrangements\*

How?

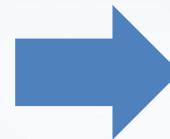
Mix of guidance using contractual maturity and management judgments



Increase focus on contractual maturity and borrower's rights...less focus on "judgment" or "intent"

When?

Some circumstances considered as of the financial statement issuance date, while others use the reporting date



Criteria considered as of the reporting date

\* Includes convertible debt and liability classified mandatorily redeemable instruments

Working group of PCC members participated in outreach with financial statement users

## Tentative Board Decision

- **Classification principle** – Debt would be classified as a noncurrent liability if either of the following criteria are met as of the balance sheet date:
  - Liability is contractually due to be settled more than one year (or operating cycle, if longer) after balance sheet date
  - Entity has contractual right to defer settlement of liability for at least one year (or operating cycle, if longer) after balance sheet date

Proposed Update to be Issued in 3Q'16

## PCC Feedback

- **Waivers of Debt Covenant Violations (when waiver is received after the balance sheet date but prior to financial statement issuance)**

### Initial Board Decision

Classification principle would result in **current classification** because borrower is in default as of year end (change from existing GAAP, which requires noncurrent classification)



### Board Decision in Proposed Update

**Exception to the principle:** The waiver should be considered when determining the balance sheet classification, unless the waiver results in extinguishment or troubled debt restructuring (additional disclosure requirements)



PCC members unanimously supported this proposal

## PCC Feedback

- **Short-term debt at the balance sheet date that is subsequently refinanced (after the balance sheet date but prior to financial statement issuance)**

### Board Decision

Classification principle would result in **current classification** because debt is due within one year as of the balance sheet date (change from existing GAAP, which requires noncurrent classification)

### PCC Feedback

PCC members' **views differed** on whether to support current classification of these obligations

Differing views on the economics and whether the refinance is an event that provides additional evidence about conditions that:

a) Existed at the balance sheet date (that is, recognized subsequent event)

b) Did not exist at the balance sheet date but arose subsequent to that date (that is, nonrecognized subsequent event)

## Refinancing Considerations

- Some PCC members suggested that the refinance only impact classification when it is with the **same lender**; FASB considered this and decided not to make that change:
  - May be **confusing** for financial statement users if the classification is impacted solely based upon who the lender is
  - **Complexity** in determining if it is the 'same lender' when the lender is a consolidated group of lenders (additional implementation guidance may be needed)
- **Inconsistencies** with subsequent events guidance
  - Could cause the Board to **reconsider** prepayments or debt covenant failures that occur after the balance sheet date but before the financial statements are issued
- Project Rationalization – Objective of project is simplification, but if more exceptions are added, the new guidance becomes more complex

Question on Refinances included in Proposed Update

# Project Timeline

