

Private Company Council



Topic 7: Simplifying the Balance Sheet Classification of Debt

Project Update

**Topic 7 – PCC Open
Session, September 11, 2019**

The views expressed in this presentation are those of the presenter.
Official positions of the FASB are reached only after extensive due process and deliberations

Project Objective and Timeline

Project Objective: To provide guidance that will reduce the cost and complexity of determining the current balance sheet classification of debt versus the noncurrent balance sheet classification of debt.

The objective would be achieved by replacing the current, fact-specific guidance with an overarching, cohesive principle.

August 2014	Project added to the agenda
January 2015–October 2016	Deliberations took place
January 2017	Proposed Update issued
May 2017	Comment period ended
September 2017–July 2019	Redeliberations took place
September 2019	Issue a revised proposed Update.

Classification Principle

(For entities that present a classified balance sheet)

Debt arrangements 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 the balance sheet date.
- Entity has a contractual right to defer settlement of the liability for a period greater than one year (or operating cycle, if longer) after the balance sheet date.

Consequential Issue—Equity-Settled Debt

- **Issue raised:** How would the classification principle be applied to a debt arrangement in which its contractual terms require that it will be entirely settled through the issuance of equity?
- **Board clarification:** An entity would determine the classification of debt on the basis of when the liability is contractually due (regardless of the form of settlement).

Question for the PCC: Would the classification principle be operable for an entity that has a debt arrangement with contractual terms that require settlement entirely through the issuance of equity?

Other Board Decisions—July 2019

- No further amendments to the revised proposed Update are necessary related to variable rate demand obligations with remarketing agreements.
- 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*
 - Not to add a similar disclosure requirement for grace periods that have not expired before the balance sheet date.
- The Board considered its prior decisions made to the Master Glossary definition of the term *current liabilities* and to the illustrative examples. No changes were made.