FASB EXPOSURE DRAFT

Proposed Accounting Standards Update (Revised)

Issued: September 12, 2019
Comments Due: October 28, 2019

Debt (Topic 470)

Simplifying the Classification of Debt in a Classified Balance Sheet (Current versus Noncurrent)

Revision of Exposure Draft Issued January 10, 2017

The Board issued this revised Exposure Draft to solicit public comment on proposed changes to Topic 470 of the *FASB Accounting Standards Codification*®. Individuals can submit comments in one of three ways: using the electronic feedback form on the FASB website, emailing comments to director@fasb.org, or sending a letter to "Technical Director, File Reference No. 2019-780, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116."

Financial Accounting Standards Board

Notice to Recipients of This Exposure Draft of a Proposed Accounting Standards Update

The Board invites comments on this Exposure Draft until October 28, 2019. Interested parties may submit comments in one of three ways:

- Using the electronic feedback form available on the FASB website at Exposure Documents Open for Comment
- Emailing comments to director@fasb.org, File Reference No. 2019-780
- Sending a letter to "Technical Director, File Reference No. 2019-780, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116."

All comments received are part of the FASB's public file and are available at www.fasb.org.

The *FASB Accounting Standards Codification*® is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective. A copy of this Exposure Draft is available at www.fasb.org.

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FASB FINANCIAL ACCOUNTING STANDARDS BOARD®

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Simplifying the Classification of Debt in a Classified Balance Sheet (Current versus Noncurrent)

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Summary and Questions for Respondents

Why Is the FASB Issuing This Proposed Accounting Standards Update (Update)?

The Board is issuing this proposed Update as part of its initiative to reduce complexity in accounting standards (Simplification Initiative). The objective of the Simplification Initiative is to identify, evaluate, and improve areas of generally accepted accounting principles (GAAP) for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to financial statement users.

Stakeholders have told the Board that the guidance on determining whether debt should be classified as current or noncurrent in a classified balance sheet is overly complex. Topic 470, Debt, includes guidance on various narrow-scope, fact-specific debt transactions. The amendments in this proposed Update would replace the current, fact-specific guidance with an overarching, cohesive principle for debt classification. The Board expects that the proposed amendments would reduce the cost and complexity for preparers and auditors when determining whether debt should be classified as current or noncurrent in the balance sheet, while providing more consistent and transparent information to financial statement users.

The FASB issued a proposed Accounting Standards Update, *Debt (Topic 470): Simplifying the Classification of Debt in a Classified Balance Sheet (Current versus Noncurrent)*, for public comment on January 10, 2017, with comment letters due on May 5, 2017. The Board received 29 comment letters in response to the amendments in that proposed Update and then conducted additional research on various aspects of those amendments. The Board added the proposed requirements to preclude the consideration of unused long-term financing arrangements and to allow the consideration of grace periods in this revised proposed Update but has not made significant changes to the other aspects of the 2017 proposed amendments. The Board decided to reexpose the 2017 proposed amendments to raise awareness of the revisions with all entities, including private company and not-for-profit organization stakeholders, and to avoid unintended consequences of the final guidance.

Who Would Be Affected by the Amendments in This Proposed Update?

While not required for all entities, most entities' balance sheets show separate classification of current assets and current liabilities (commonly referred to as a classified balance sheet) permitting ready determination of working capital. The

amendments in this proposed Update relate to separate classifications of current debt and noncurrent debt within a classified balance sheet. Separate classification of current debt and noncurrent debt is not required for entities that do not present a classified balance sheet.

The amendments in this proposed Update would apply to all entities that enter into a debt arrangement and present a classified balance sheet. A debt arrangement provides a lender with a contractual right to receive consideration and a borrower with a contractual obligation to pay consideration on demand or on fixed or determinable dates. The proposed amendments also would apply to convertible debt instruments, liability-classified mandatorily redeemable financial instruments, and lease liabilities.

What Are the Main Provisions?

The amendments in this proposed Update would introduce a principle for determining whether debt or other instruments within the scope of the proposed amendments would be classified as a noncurrent liability as of the balance sheet date. According to that principle, an entity would classify an instrument as noncurrent 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 a period greater than one year (or operating cycle, if longer) after the balance sheet date.

The amendments in this proposed Update would continue to require that an entity classify debt as a noncurrent liability when there has been a debt covenant violation, if the entity receives a waiver of or a forbearance agreement for that violation that meets certain conditions before the financial statements are issued (or are available to be issued). That classification is an exception to the principle above but is similar to current GAAP. That exception would apply to all waivers except for those that result in a *troubled debt restructuring* (as defined in the Master Glossary of the Codification) or those that are accounted for as a debt extinguishment in Subtopic 470-50, Debt—Modifications and Extinguishments. An entity also would be required to separately present in the balance sheet liabilities that are classified as noncurrent as a result of this exception.

The amendments in this proposed Update also would require more comprehensive disclosures about defaults resulting from violations of a loan covenant, grace periods within which a debtor may cure a violation, and triggers of a subjective acceleration clause.

How Would the Main Provisions Differ from Current Generally Accepted Accounting Principles (GAAP) and Why Would They Be an Improvement?

The current guidance on determining when debt should be classified as a current liability or a noncurrent liability in the balance sheet can be difficult for preparers and auditors to navigate and for financial statement users to understand. The amendments in this proposed Update would reduce the cost and complexity associated with determining whether debt would be classified as current or noncurrent in a classified balance sheet. As a result, the proposed amendments would provide (1) greater transparency and consistency about the nature and types of debt arrangements that are classified as noncurrent and (2) more understandable information for financial statement users.

The amendments in this proposed Update could shift classification of certain debt arrangements between noncurrent liabilities and current liabilities as compared with current guidance. The existing classification guidance would be superseded by a principle that may result in a classification that differs from the classification produced under existing rules.

An example of one of the most significant changes to the classification would be short-term debt that is refinanced on a long-term basis after the balance sheet date. Current guidance requires that short-term debt (at the balance sheet date) that is refinanced on a long-term basis (after the balance sheet date but before the financial statements are issued or are available to be issued) be classified as a noncurrent liability. Consistent with the accounting for other subsequent events, the amendments in this proposed Update would prohibit an entity from considering a subsequent refinancing when determining the classification of debt as of the balance sheet date. A subsequent refinancing provides evidence about conditions that did not exist at the date of the balance sheet but arose after that date (that is, a nonrecognized subsequent event). Similarly, under the proposed amendments a subsequent refinancing of short-term debt with the issuance of equity securities no longer would affect the classification of debt as of the balance sheet date. Therefore, those debt arrangements would be classified as current liabilities.

Another example of a change in the classification would be short-term debt that has an associated long-term financing arrangement. Under current GAAP, short-term debt is classified as a noncurrent liability if an entity enters into a financing arrangement and meets certain conditions. The amendments in this proposed Update would preclude an entity from considering other financing arrangements (such as letters or lines of credit) in determining the classification of the debt.

An additional example of a change in the classification would result from debt that contains subjective acceleration clauses or material adverse change clauses. Current GAAP requires that an entity consider the likelihood of acceleration of the due date when determining noncurrent or current classification. The amendments

in this proposed Update would remove that probability assessment, and, instead, the subjective acceleration clause would affect the classification of debt when it is triggered. However, when there is debt subject to a covenant violation as of the balance sheet date, an entity would be required to assess whether it is probable that the subjective acceleration clause would be violated within 12 months from the balance sheet date.

There also could be a change in classification when a borrower violates a provision of a long-term debt arrangement and the debt arrangement provides a specified grace period. Current GAAP requires that an entity classify that debt as a current liability unless it is probable that the violation will be cured within the period, which would prevent the debt from becoming callable. The amendments in this proposed Update would require that the principle be applied in that scenario, which would result in a noncurrent liability classification if either of the criteria in the principle is met as of the balance sheet date.

When Would the Amendments Be Effective?

In the first set of interim and annual financial statements following the effective date of the amendments in this proposed Update, an entity would apply the proposed amendments on a prospective basis to debt that exists at that date and after that date. Early adoption of the proposed amendments would be permitted.

The effective date of the amendments in this proposed Update will be determined after the Board considers stakeholder feedback.

Questions for Respondents

Much of the guidance in this revised proposed Update is similar to the guidance in the 2017 proposed Update on which the Board has received extensive feedback. Hence, the Board is not seeking specific comments on all matters in this revised proposed Update. Instead, the Board invites individuals and organizations to comment on the questions on unused long-term financing arrangements, grace periods, and debt arrangements settled entirely in equity, and the costs and benefits of the proposed amendments. Comments are requested from those who agree with the proposed guidance as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposed guidance are asked to describe their suggested alternatives, supported by specific reasoning.

Presentation Matters

Question 1: Proposed paragraph 470-10-45-23 would preclude an entity from considering an unused long-term financing arrangement (for example, a letter of credit) in determining the classification of a debt arrangement. Would that

proposed requirement simplify the guidance without diminishing the usefulness of the financial statements? Why or why not?

Question 2: The Board considered and rejected both of the following approaches in determining the classification of debt when an entity has unused long-term financing arrangements that require an entity to:

a. Combine the debt with all unused long-term financing arrangements
b. Evaluate the contractual linkage between debt and other financing arrangements.

In both approaches, the debt classification might change from a current liability to a noncurrent liability. (See paragraphs BC29–BC35 in this proposed Update for further information.) Is there any additional information about the expected costs and benefits, simplification of classification guidance, or operability of applying those approaches that the Board should be aware of?

Question 3: Proposed paragraph 470-10-45-24 would provide classification guidance in scenarios in which an entity violates a provision of a long-term debt arrangement and the debt arrangement provides a grace period. Is that proposed guidance clear and understandable? Why or why not?

Question 4: Proposed paragraph 470-10-45-22 includes a principle for classifying debt as a noncurrent liability in a classified balance sheet. Would the guidance in that proposed paragraph be operable for an entity that has a debt arrangement with contractual terms that require settlement entirely through the issuance of equity?

Disclosure

Question 5: Proposed paragraph 470-10-50-9 would require that an entity disclose additional information in the period in which the entity violates a provision of a long-term debt arrangement about the violation and the terms of the grace period. Would the proposed requirements provide decision-useful information? Why or why not?

Expected Costs and Benefits

Question 6: The objective of this project is to reduce the cost and complexity for preparers and auditors when determining whether debt should be classified as current or noncurrent in the balance sheet while providing financial statement users with more consistent and transparent information. Given the additional changes in this revised proposed Update, will that objective be achieved? For example, would the expected benefits of the proposed amendments justify the expected costs? Why or why not?

Amendments to the *FASB Accounting Standards Codification*®

Summary of Proposed Amendments to the Accounting Standards Codification

1. The following table provides a summary of the proposed amendments to the Accounting Standards Codification.

Codification Section	Description of Changes
Debt—Overall—Overview and Background (470-10-05)	• Amended paragraph that provides an overview of the guidance included in the Subtopic
Scope and Scope Exceptions (470-10-15)	• Added examples of debt arrangements and other arrangements included in the scope of this guidance
Other Presentation Matters (470-10-45)	• Removed various fact-specific, narrow-scope guidance on determining the classification of debt • Added debt classification principle and guidance on unused financing arrangements in place at the balance sheet date • Added and amended guidance on how to determine the classification of debt subject to a covenant violation
Disclosure (470-10-50)	• Removed disclosures on (a) subjective acceleration clauses and (b) a description of financing arrangements and the terms of a new obligation expected to be issued as a result of a refinancing • Added disclosures about events of default, triggers of a subjective acceleration clause, and grace periods

Codification Section	Description of Changes
Implementation Guidance and Illustrations (470-10-55)	• Removed illustrations on subjective acceleration clauses, classification by the issuer of redeemable instruments that are subject to remarketing agreements, classification of debt when a financing arrangement exists, refinancing of debt, and classification of a short-term obligation repaid before being replaced by a long-term security • Added illustrations on short-term debt refinanced on a long-term basis, subjective acceleration clauses, and objectively determinable clauses • Amended illustrations on the classification of long-term debt that includes covenants and revolving credit agreements
Balance Sheet—Overall—Other Presentation Matters (210-10-45) Debt—Debt with Conversion and Other Options—Other Presentation Matters (470-20-45) Distinguishing Liabilities from Equity—Overall—Other Presentation Matters (480-10-45) Leases—Lessee—Other Presentation Matters (842-20-45)	• Made conforming amendments

Codification Section	Description of Changes
Reorganizations—Overall—Other Presentation Matters (852-10-45) Subsequent Events—Overall—Scope and Scope Exceptions (855-10-15)	

Introduction

2. The Accounting Standards Codification is amended as described in paragraphs 3–16. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

Amendments to Master Glossary

3. Add the new Master Glossary term *Debt Arrangement*, with a link to transition paragraph 470-10-65-1, as follows:

Debt Arrangement

An arrangement that provides a lender with a contractual right to receive consideration and a borrower with a contractual obligation to pay consideration on demand or on fixed or determinable dates.

4. Supersede the following Master Glossary terms, with a link to transition paragraph 470-10-65-1, as follows:

~~**Callable Obligation**~~

~~An obligation is callable at a given date if the creditor has the right at that date to demand, or to give notice of its intention to demand, repayment of the obligation owed to it by the debtor.~~

~~**Lock-Box Arrangement**~~

~~An arrangement with a lender whereby the borrower's customers are required to remit payments directly to the lender and amounts received are applied to reduce the debt outstanding. A lock-box arrangement refers to any situation in which the borrower does not have the ability to avoid using working capital to repay the amounts outstanding. That is, the contractual provisions of a loan arrangement require that, in the ordinary course of business and without another event occurring, the cash receipts of a debtor are used to repay the existing obligation.~~

~~**Short-Term Obligations**~~

~~Short-term obligations are those that are scheduled to mature within one year after the date of an entity's balance sheet or, for those entities that use the operating cycle concept of working capital described in paragraphs 210-10-45-3 and 210-10-45-7, within an entity's operating cycle that is longer than one year.~~

~~**Springing Lock-Box Arrangement**~~

~~Some borrowings outstanding under a revolving credit agreement include both a subjective acceleration clause and a requirement to maintain a springing lock-box arrangement, whereby remittances from the borrower's customers are forwarded to the debtor's general bank account and do not reduce the debt outstanding until and unless the lender exercises the subjective acceleration clause.~~

Amendments to Subtopic 470-10

5. Amend paragraph 470-10-05-5 and add paragraphs 470-10-05-6 and 470-10-15-3 through 15-4, with a link to transition paragraph 470-10-65-1, as follows:

Debt—Overall

Overview and Background

470-10-05-5 The Overall Subtopic addresses classification ~~determination~~ for a **debt arrangement** (see examples in paragraph 470-10-15-3), a liability-classified **mandatorily redeemable financial instrument** within the scope of Subtopic 480-10 on distinguishing liabilities from equity, and lease liabilities within the scope of Topic 842.~~specific obligations, such as the following:~~

a. Subparagraph superseded by Accounting Standards Update No. 2019-XX.~~Short-term obligations expected to be refinanced on a long-term basis~~
b. Subparagraph superseded by Accounting Standards Update No. 2019-XX.~~Due-on-demand loan arrangements~~

c. Subparagraph superseded by Accounting Standards Update No. 2019-XX.~~Callable debt~~
d. Subparagraph superseded by Accounting Standards Update No. 2019-XX.~~Sales of future revenue~~
e. Subparagraph superseded by Accounting Standards Update No. 2019-XX.~~Increasing-rate debt~~
f. Subparagraph superseded by Accounting Standards Update No. 2019-XX.~~Debt that includes covenants~~
g. Subparagraph superseded by Accounting Standards Update No. 2019-XX.~~Revolving credit agreements subject to lock-box arrangements and subjective acceleration clauses~~
h. Subparagraph superseded by Accounting Standards Update No. 2019-XX.~~Indexed debt.~~

470-10-05-6 ~~Paragraph not used.~~This Subtopic also includes recognition and measurement guidance for increasing-rate debt, sales of future revenue that are classified as debt, and indexed debt.

Scope and Scope Exceptions

> Entities

470-10-15-1 The guidance in this Subtopic applies to all entities.

> Transactions

470-10-15-2 The guidance in this Subtopic that relates to separate classification of current assets and current liabilities (that is, a classified balance sheet) applies only when an entity is preparing a classified balance sheet for financial accounting and reporting purposes.

470-10-15-3 The Overall Subtopic addresses classification of current and noncurrent liabilities that arise from a **debt arrangement**. Examples of debt arrangements include any of the following:

a. Term debt
b. Due-on-demand loan agreements
c. Callable debt agreements
d. Increasing-rate debt
e. Debt that includes covenants
f. Revolving credit arrangements
g. Debt with a **subjective acceleration clause**
h. Indexed debt
i. Proceeds from sales of future revenue that are classified as debt

j. Debt with conversion or other options within the scope of Subtopic 470-20.

470-10-15-4 The classification guidance for current and noncurrent liabilities in this Subtopic also applies to the following:

a. A liability-classified **mandatorily redeemable financial instrument** within the scope of Subtopic 480-10 on distinguishing liabilities from equity
b. A **lease liability** within the scope of Topic 842.

6. Add paragraph 470-10-35-2A, with a link to transition paragraph 470-10-65-1, as follows:

Subsequent Measurement

> Increasing Rate Debt

470-10-35-1 A debt instrument may have a maturity date that can be extended at the option of the borrower at each maturity date until final maturity. In such cases, the interest rate on the note increases a specified amount each time the note is renewed. For guidance on accounting for interest, see Subtopic 835-30.

470-10-35-2 The borrower's periodic interest cost shall be determined using the interest method based on the estimated outstanding term of the debt. In estimating the term of the debt, the borrower shall consider its plans, ability, and intent to service the debt. Debt issue costs shall be amortized over the same period used in the interest cost determination. The term-extending provisions of the debt instrument should be analyzed to determine whether those provisions constitute an embedded derivative that warrants separate accounting as a derivative under Subtopic 815-10.

470-10-35-2A If the debt is paid at par before its estimated maturity, any excess interest accrued shall be an adjustment of interest expense. **[Content moved from paragraph 470-10-45-8]**

7. Supersede paragraphs 470-10-45-1 through 45-21 and their related headings and add paragraphs 470-10-45-22 through 45-26 and their related heading, with a link to transition paragraph 470-10-65-1, as follows:

Other Presentation Matters

~~> Classification of Debt That Includes Covenants~~

470-10-45-1 Paragraph superseded by Accounting Standards Update No. 2019-XX.~~Some long-term loans require compliance with certain covenants that must be met on a quarterly or semiannual basis.~~ **[Content amended and moved to paragraph 470-10-45-24]** ~~If a covenant violation occurs that would otherwise give the lender the right to call the debt, a lender may waive its call right arising from the current violation for a period greater than one year while retaining future covenant requirements. Unless facts and circumstances indicate otherwise, the borrower shall classify the obligation as noncurrent, unless both of the following conditions exist:~~

- ~~a. A covenant violation that gives the lender the right to call the debt has occurred at the balance sheet date or would have occurred absent a loan modification.~~
- ~~b. It is probable that the borrower will not be able to cure the default (comply with the covenant) at measurement dates that are within the next 12 months.~~

~~See Example 1 (paragraph 470-10-55-2) for an illustration of this classification guidance.~~ **[Content amended and moved to paragraph 470-10-45-25]**

~~> Subjective Acceleration Clauses and Debt Classification~~

470-10-45-2 Paragraph superseded by Accounting Standards Update No. 2019-XX.~~In some situations, the circumstances (for example, recurring losses or liquidity problems) would indicate that long-term debt subject to a **subjective acceleration clause** should be classified as a current liability. Other situations would indicate only disclosure of the existence of such clauses. Neither reclassification nor disclosure would be required if the likelihood of the acceleration of the due date were remote, such as if the lender historically has not accelerated due dates of loans containing similar clauses and the financial condition of the borrower is strong and its prospects are bright.~~

~~> Classification of Revolving Credit Agreements Subject to Lock-Box Arrangements and Subjective Acceleration Clauses~~

470-10-45-3 Paragraph superseded by Accounting Standards Update No. 2019-XX.~~This guidance does not apply to lock-box arrangements that are maintained at the discretion of the borrower.~~

470-10-45-4 Paragraph superseded by Accounting Standards Update No. 2019-XX.~~Borrowings outstanding under certain revolving credit agreements are considered long-term debt because the borrowings are due at the end of a specified period (for example, 3 years) rather than when short-term notes roll over (for example, every 90 days). Borrowings may be collateralized, but the only note is the overall note signed at the agreement's inception. Some agreements require that the borrower maintain a **lock-box arrangement**. If borrowings outstanding under the agreement are considered **long-term obligations**, the effect of a~~

~~subjective acceleration clause on balance sheet classification is determined based on the criteria in paragraph 470-10-45-2. If borrowings outstanding are considered short-term obligations, and the borrower intends to refinance the obligation on a long-term basis, paragraph 470-10-45-13 applies and the debt shall be classified as a current liability because of the existence of the subjective acceleration clause.~~

470-10-45-5 Paragraph superseded by Accounting Standards Update No. 2019-XX.~~Borrowings outstanding under a revolving credit agreement that includes both a subjective acceleration clause and a requirement to maintain a lock-box arrangement shall be considered short-term obligations. Accordingly, because of the subjective acceleration clause, the debt shall be classified as a current liability unless the conditions in paragraph 470-10-45-14 are met based on an agreement, other than the revolving credit agreement, to refinance the obligation after the balance sheet date on a long-term basis.~~

470-10-45-5A Paragraph superseded by Accounting Standards Update No. 2019-XX.~~The term *lock-box arrangement* as used in this guidance refers to any situation in which the borrower does not have the ability to avoid using working capital to repay the amounts outstanding. That is, if the contractual provisions of a loan arrangement require that, in the ordinary course of business and without another event occurring, the cash receipts of a debtor be used to repay the existing obligation, the credit agreement shall be considered a short-term obligation.~~

470-10-45-6 Paragraph superseded by Accounting Standards Update No. 2019-XX.~~Borrowings outstanding under a revolving credit agreement that includes both a subjective acceleration clause and a requirement to maintain a **springing lock-box arrangement** shall be considered long-term obligations since the remittances do not automatically reduce the debt outstanding without another event occurring. The effect of the agreement's subjective acceleration clause shall be determined based on the provisions of paragraph 470-10-45-2.~~

~~> Classification of Increasing-Rate Debt~~

470-10-45-7 Paragraph superseded by Accounting Standards Update No. 2019-XX.~~Classification of increasing-rate debt as current or noncurrent would reflect the borrower's anticipated source of repayment that is, current assets or a new short-term debt borrowing versus a long-term refinancing agreement that meets the requirements of this Subtopic and need not be consistent with the time frame used to determine periodic interest cost.~~

470-10-45-8 Paragraph superseded by Accounting Standards Update No. 2019-XX.~~If the debt is paid at par before its estimated maturity, any excess interest accrued shall be an adjustment of interest expense.~~ **[Content moved to paragraph 470-10-35-2A]**

~~> Due on Demand Loan Arrangements~~

470-10-45-9 Paragraph superseded by Accounting Standards Update No. 2019-XX.~~Loan agreements may specify the debtor's repayment terms but also enable the creditor, at his discretion, to demand payment at any time. Those loan arrangements may have wording such as either of the following:~~

~~a. "The term note shall mature in monthly installments as set forth therein or on demand, whichever is earlier."~~
~~b. "Principal and interest shall be due on demand, or if no demand is made, in quarterly installments beginning on…."~~

470-10-45-10 Paragraph superseded by Accounting Standards Update No. 2019-XX.~~The current liability classification shall include obligations that, by their terms, are due on demand or will be due on demand within one year (or **operating cycle**, if longer) from the balance sheet date, even though liquidation may not be expected within that period. The demand provision is not a subjective acceleration clause as discussed in paragraph 470-10-45-2.~~

~~**> Callable Debt**~~

470-10-45-11 Paragraph superseded by Accounting Standards Update No. 2019-XX.~~Current liabilities shall include long-term obligations that are or will be callable by the creditor either because the debtor's **violation of a provision** of the debt agreement at the balance sheet date makes the **obligation callable** or because the violation, if not cured within a specified grace period, will make the obligation callable. Accordingly, such callable obligations shall be classified as current liabilities unless either of the following conditions is met:~~

~~a. The creditor has waived or subsequently lost (for example, the debtor has cured the violation after the balance sheet date and the obligation is not callable at the time the financial statements are issued or are available to be issued [as discussed in Section 855-10-25]) the right to demand repayment for more than one year (or operating cycle, if longer) from the balance sheet date. If the obligation is callable because of violations of certain provisions of the debt agreement, the creditor needs to waive its right with regard only to those violations.~~
~~b. For long-term obligations containing a grace period within which the debtor may cure the violation, it is **probable** that the violation will be cured within that period, thus preventing the obligation from becoming callable.~~

470-10-45-12 Paragraph superseded by Accounting Standards Update No. 2019-XX.~~Drawing a distinction between significant violations of critical conditions and technical violations is not practicable. A violation that a debtor considers to be technical may be considered critical by the creditor. Furthermore, a creditor may choose to use a technical violation as a means to withdraw from its lending relationship with the debtor. If the violation is considered insignificant by the creditor, then the debtor should be able to obtain a waiver as discussed in the preceding paragraph.~~

~~> Short-Term Obligations Expected to Be Refinanced~~

470-10-45-12A Paragraph superseded by Accounting Standards Update No. 2019-XX.~~Some short-term obligations are expected to be refinanced on a long-term basis and, therefore, are not expected to require the use of working capital during the ensuing fiscal year. Examples include commercial paper, construction loans, and the currently maturing portion of long-term debt.~~

470-10-45-12B Paragraph superseded by Accounting Standards Update No. 2019-XX.~~Refinancing a short-term obligation on a long-term basis means either replacing it with a long-term obligation or with equity securities or renewing, extending, or replacing it with short-term obligations for an uninterrupted period extending beyond one year (or the operating cycle, if applicable) from the date of an entity's balance sheet.~~

470-10-45-13 Paragraph superseded by Accounting Standards Update No. 2019-XX.~~Short-term obligations arising from transactions in the normal course of business that are due in customary terms shall be classified as current liabilities. A short-term obligation shall be excluded from current liabilities only if the conditions in the following paragraph are met. Funds obtained on a long-term basis before the balance sheet date would be excluded from current assets if the obligation to be liquidated is excluded from current liabilities~~.

~~> Intent and Ability to Refinance on a Long-Term Basis~~

470-10-45-14 Paragraph superseded by Accounting Standards Update No. 2019-XX.~~A short-term obligation shall be excluded from current liabilities if the entity intends to refinance the obligation on a long-term basis (see paragraph 470-10-45-12B) and the intent to refinance the short-term obligation on a long-term basis is supported by an ability to consummate the refinancing demonstrated in either of the following ways:~~

- ~~a. Post-balance-sheet-date issuance of a long-term obligation or equity securities. After the date of an entity's balance sheet but before that balance sheet is issued or is available to be issued (as discussed in Section 855-10-25), a long-term obligation or equity securities have been issued for the purpose of refinancing the short-term obligation on a long-term basis. If equity securities have been issued, the short-term obligation, although excluded from current liabilities, shall not be included in owners' equity.~~
- ~~b. Financing agreement. Before the balance sheet is issued or is available to be issued (as discussed in Section 855-10-25), the entity has entered into a financing agreement that clearly permits the entity to refinance the short-term obligation on a long-term basis on terms that are readily determinable, and all of the following conditions are met:~~
    - ~~1. The agreement does not expire within one year (or operating cycle) from the date of the entity's balance sheet and during that period the~~

~~agreement is not cancelable by the lender or the prospective lender or investor (and obligations incurred under the agreement are not callable during that period) except for violation of a provision with which compliance is objectively determinable or measurable. For purposes of this Subtopic, violation of a provision means failure to meet a condition set forth in the agreement or breach or violation of a provision such as a restrictive covenant, representation, or warranty, whether or not a grace period is allowed or the lender is required to give notice. Financing agreements cancelable for violation of a provision that can be evaluated differently by the parties to the agreement (such as a material adverse change or failure to maintain satisfactory operations) do not comply with this condition.~~

~~2. No violation of any provision in the financing agreement exists at the balance sheet date and no available information indicates that a violation has occurred thereafter but before the balance sheet is issued or is available to be issued (as discussed in Section 855-10-25), or, if one exists at the balance sheet date or has occurred thereafter, a waiver has been obtained.~~

~~3. The lender or the prospective lender or investor with which the entity has entered into the financing agreement is expected to be financially capable of honoring the agreement.~~

470-10-45-15 Paragraph superseded by Accounting Standards Update No. 2019-XX.~~Repayment of a short-term obligation before funds are obtained through a long-term refinancing requires the use of current assets. Therefore, if a short-term obligation is repaid after the balance sheet date and subsequently a long-term obligation or equity securities are issued whose proceeds are used to replenish current assets before the balance sheet is issued or is available to be issued (as discussed in Section 855-10-25), the short-term obligation shall not be excluded from current liabilities at the balance sheet date. See Example 5 (paragraph 470-10-55-33) for an illustration of this guidance.~~

470-10-45-16 Paragraph superseded by Accounting Standards Update No. 2019-XX.~~If an entity's ability to consummate an intended refinancing of a short-term obligation on a long-term basis is demonstrated by post-balance-sheet-date issuance of a long-term obligation or equity securities (see paragraph 470-10-45-14(a)), the amount of the short-term obligation to be excluded from current liabilities shall not exceed the proceeds of the new long-term obligation or the equity securities issued.~~

470-10-45-17 Paragraph superseded by Accounting Standards Update No. 2019-XX.~~If ability to refinance is demonstrated by the existence of a financing agreement (see paragraph 470-10-45-14(b)), the amount of the short-term obligation to be excluded from current liabilities shall be reduced to the amount available for refinancing under the agreement if the amount available is less than the amount of the short-term obligation.~~

470-10-45-18 Paragraph superseded by Accounting Standards Update No. 2019-XX.~~The amount to be excluded shall be reduced further if information (such as restrictions in other agreements or restrictions as to transferability of funds) indicates that funds obtainable under the agreement will not be available to liquidate the short-term obligation.~~

470-10-45-19 Paragraph superseded by Accounting Standards Update No. 2019-XX.~~Further, if amounts that could be obtained under the financing agreement fluctuate (for example, in relation to the entity's needs, in proportion to the value of collateral, or in accordance with other terms of the agreement), the amount to be excluded from current liabilities shall be limited to a reasonable estimate of the minimum amount expected to be available at any date from the scheduled maturity of the short-term obligation to the end of the fiscal year (or operating cycle). If no reasonable estimate can be made, the entire outstanding short-term obligation shall be included in current liabilities.~~

470-10-45-20 Paragraph superseded by Accounting Standards Update No. 2019-XX.~~The entity may intend to seek an alternative source of financing rather than to exercise its rights under the existing agreement when the short-term obligation becomes due. The entity must intend to exercise its rights under the existing agreement, however, if that other source does not become available. The intent to exercise may not be present if the terms of the agreement contain conditions or permit the prospective lender or investor to establish conditions, such as interest rates or collateral requirements, that are unreasonable to the entity.~~

~~> Transactions after the Balance Sheet Date~~

470-10-45-21 Paragraph superseded by Accounting Standards Update No. 2019-XX.~~Replacement of a short-term obligation with another short-term obligation after the date of the balance sheet but before the balance sheet is issued or is available to be issued (as discussed in Section 855-10-25) is not, by itself, sufficient to demonstrate an entity's ability to refinance the short-term obligation on a long-term basis. If, for example, the replacement is made under the terms of a revolving credit agreement that provides for renewal or extension of the short-term obligation for an uninterrupted period extending beyond one year (or operating cycle) from the date of the balance sheet, the revolving credit agreement must meet the conditions in paragraph 470-10-45-14(b) to justify excluding the short-term obligation from current liabilities. Similarly, if the replacement is a rollover of commercial paper accompanied by a standby credit agreement, the standby agreement must meet the conditions in that paragraph to justify excluding the short-term obligation from current liabilities.~~

> Classification of Debt

470-10-45-22 An entity shall classify **debt arrangements** and other instruments within the scope of this Subtopic (see paragraphs 470-10-15-3 through 15-4) as

noncurrent liabilities in a classified balance sheet if either of the following criteria is met as of the balance sheet date:

a. The liability is contractually due to be settled more than one year (or **operating cycle**, if longer) after the balance sheet date (such as **long-term obligations**).
b. The 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.

An exception to this principle is described in paragraph 470-10-45-25.

470-10-45-23 An entity is precluded from considering all unused long-term financing arrangements (for example, an unused line of credit) in determining the classification of a debt arrangement.

470-10-45-24 Some long-term loans require compliance with certain covenants that must be met on a periodic or ongoing~~quarterly or semiannual~~ basis. **[Content amended as shown and moved from paragraph 470-10-45-1]** When a debt covenant is violated at the balance sheet date, the debt arrangement may provide a grace period for the borrower to become compliant, in which case the lender cannot demand repayment of the debt at the balance sheet date. That debt shall be classified as a noncurrent liability if either criterion in paragraph 470-10-45-22 is met. See paragraph 470-10-55-3G for an illustration.

470-10-45-25 ~~If a covenant violation occurs that would otherwise give the lender the right to call the debt, a~~A lender may waive its ~~call~~ right to demand payment arising from ~~the current~~a covenant violation as of a specific date for a period greater than one year (or operating cycle, if longer) after the balance sheet date while retaining other future covenant requirements. ~~Unless facts and circumstances indicate otherwise, the~~The borrower shall classify the obligation as a noncurrent~~, unless both~~ liability in a classified balance sheet if all of the following conditions exist:

a. ~~A covenant violation that gives the lender the right to call the debt has occurred at the balance sheet date or would have occurred absent a loan modification.~~One of the criteria in paragraph 470-10-45-22 would have been met absent the covenant violation.
b. ~~It is probable that the borrower will not be able to cure the default (comply with the covenant) at measurement dates that are within the next 12 months.~~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 greater than one year (or operating cycle, if longer) from

the balance sheet date. The use of the term *waiver* refers to either a forbearance agreement or a waiver of a covenant violation.

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

d. The borrower determines that it is not **probable** that any other covenants in the debt arrangement will be violated for 12 months (or operating cycle, if longer) from the balance sheet date (that is, through the date of the next annual balance sheet). Other covenants include all covenants in a debt arrangement that are not included in the waiver. When a violation of a covenant at the balance sheet date has been waived and the covenant has subsequent interim measurement dates within one year (or operating cycle, if longer) after the balance sheet date that are not included in the waiver, the borrower must determine that it is not probable that the covenant will be violated at any of those subsequent interim measurement dates. For purposes of this assessment, the borrower shall consider subjective acceleration clauses.

See ~~Example 1 (paragraph 470-10-55-2)~~paragraphs 470-10-55-2 through 55-3F for ~~an illustration~~illustrations of this ~~classification~~ guidance. **[Content amended as shown and moved from paragraph 470-10-45-1]**

470-10-45-26 An entity shall present separately in a classified balance sheet the amount of debt that is classified as a noncurrent liability because of a waiver or forbearance agreement obtained after the balance sheet date.

8. Supersede paragraphs 470-10-50-2 through 50-4 and the related headings and add paragraphs 470-10-50-8 through 50-9 and their related headings, with a link to transition paragraph 470-10-65-1, as follows:

Disclosure

> Disclosure of Long-Term Obligations

[Note: Paragraph 470-10-50-1 in this revised proposed Accounting Standards Update does not incorporate the amendments in the July 31, 2019 proposed Accounting Standards Update, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible*

***Instruments and Contracts in an Entity's Own Equity*. See that proposed Update for proposed amendments to paragraph 470-10-50-1.]**

470-10-50-1 The combined aggregate amount of maturities and sinking fund requirements for all long-term borrowings shall be disclosed for each of the five years following the date of the latest balance sheet presented. (See Section 505-10-50 for disclosure guidance that applies to securities, including debt securities.) See Example 3 (paragraph 470-10-55-10) for an illustration of this disclosure requirement.

470-10-50-2 Paragraph superseded by Accounting Standards Update No. 2019-XX.If an obligation under paragraph 470-10-45-11(b) is classified as a long-term liability (or, in the case of an unclassified balance sheet, is included as a long-term liability in the disclosure of debt maturities), the circumstances shall be disclosed.

> Subjective Acceleration Clauses

470-10-50-3 Paragraph superseded by Accounting Standards Update No. 2019-XX.As indicated in paragraph 470-10-45-2, in some situations long-term debt subject to a **subjective acceleration clause** shall be reclassified. That paragraph explains that other situations would indicate only disclosure of the existence of such clauses. That paragraph states further that neither reclassification nor disclosure is required if the likelihood of the acceleration of the due date is remote, such as when the lender historically has not accelerated due dates of loans containing similar clauses and the financial condition of the borrower is strong and its prospects are bright.

> Short-Term obligations Expected to Be Refinanced

470-10-50-4 Paragraph superseded by Accounting Standards Update No. 2019-XX.If a short-term obligation is excluded from current liabilities pursuant to the provisions of this Subtopic, the notes to financial statements shall include a general description of the financing agreement and the terms of any new obligation incurred or expected to be incurred or equity securities issued or expected to be issued as a result of a refinancing.

> Defaults

470-10-50-8 For the purposes of this Subtopic, events of default include violations of a loan covenant and triggers of a **subjective acceleration clause.** A subjective acceleration clause is triggered when a borrower is notified by a lender of noncompliance, including notification that occurs when the lender demands payment. In the period in which an event of default occurs, an entity shall disclose the following information:

a. An explanation of the default
b. The amount of obligations subject to the default
c. The terms of a waiver (including period of the waiver, if applicable).

> Grace Periods

470-10-50-9 In the period in which an entity violates a provision of a long-term **debt arrangement** and the debt arrangement provides a grace period that expires after the balance sheet date, an entity shall disclose the following information when that violation has not been cured before the **financial statements are issued** (or the **financial statements are available to be issued**) and the failure to cure the violation would give the lender the right to demand payment of the long-term debt arrangement when the grace period expires:

a. An explanation of the violation
b. The amount of obligations subject to the violation
c. The terms of the grace period.

9. Supersede paragraphs 470-10-55-1 and its related headings, 470-10-55-4 through 55-9 and the related heading, and 470-10-55-13 through 55-36 and their related headings, amend paragraphs 470-10-55-2 through 55-3 and the related heading, and add paragraphs 470-10-55-3A through 55-3G and their related headings and 470-10-55-37 through 55-45 and their related headings, with a link to transition paragraph 470-10-65-1, as follows:

Implementation Guidance and Illustrations

~~**> Implementation Guidance**~~

~~**> > Subjective Acceleration Clauses and Debt Classification**~~

470-10-55-1 Paragraph superseded by Accounting Standards Update No. 2019-XX.~~Under paragraph 470-10-45-2, the lender has already loaned money on a long-term basis. To continue long-term classification requires a judgment about the likelihood of acceleration of the due date. Paragraphs 470-10-45-13 through 45-20 cover circumstances in which the obligation is by its terms short-term. For such an obligation to be excluded from current liabilities, the lender must advance new funds or refinance the short-term obligation on a long-term basis based on conditions existing on the date of the new loan or refinancing. Therefore, to classify an obligation as long-term, paragraphs 470-10-45-13 through 45-20 require a higher standard for a financing agreement that permits an entity to refinance a short-term obligation on a long-term basis than paragraph 470-10-50-2 requires for an existing long-term loan for which early repayment might be requested.~~

> Illustrations

> > Example 1: Classification of Long-Term Debt That Includes Covenants

470-10-55-2 ~~This Example illustrates~~Cases A through E illustrate the guidance in ~~paragraph 470-10-45-1~~paragraphs 470-10-45-22 and 470-10-45-25 through 45-26 for the classification of ~~long-term~~ debt when a debt covenant violation is waived by a lender for a period greater than ~~a~~one year. Case E illustrates the guidance in paragraphs 470-10-45-22 and 470-10-45-24 for the classification of debt when a debt covenant is violated and the debt arrangement provides a grace period.

> > > Case A: Debt Is Classified as Noncurrent

470-10-55-3 A borrower has a long-term loan that requires compliance with certain covenants, such as maintenance of a minimum current ratio, minimum debt-to-equity ratio, or minimum level of shareholders' equity. The borrower must meet the covenants on a periodic or ongoing~~quarterly or semiannual~~ basis. If the borrower does not comply with any one of those covenants, the lender can demand repayment of the loan. At one of the compliance dates, December 31, 20X1, the borrower violates a covenant. The borrower performs the calculation of the December 31, 20X1 covenant compliance in January 20X2. That violation gives the lender the right to ~~call~~demand payment of the debt as of December 31, 20X1. The lender waives ~~that~~its right to demand payment of the debt for this specific violation for a period greater than one year ~~but~~after the balance sheet date and retains the other future covenant requirements. The lender issues the waiver to the borrower after the balance sheet date but before the borrower's **financial statements are issued**. The borrower pays a fee to the lender to receive the waiver. There is no change to the interest rate, duration of the loan, or other terms of the debt agreement.

470-10-55-3A The borrower assesses the criteria in paragraph 470-10-45-25 to determine whether the debt should be classified as a noncurrent liability on its classified balance sheet. The borrower determines that the criteria in paragraph 470-10-45-25(a) and (b) have been met because the debt would have been classified as noncurrent absent the covenant violation, the waiver was obtained before the financial statements were issued, and the waiver is for a period greater than one year after the balance sheet date. In exchange for the waiver, the debtor pays a fee. The amount of the fee changes the present value of cash flows under the terms of the original instrument less than 10 percent, indicating that the payment of the fee does not result in an extinguishment of the debt. The borrower determines that the criterion in paragraph 470-10-45-25(c) has been met because the waiver received did not result in an extinguishment under Subtopic 470-50 or a **troubled debt restructuring** under Subtopic 470-60. The borrower determines that the criterion in paragraph 470-10-45-25(d) has been met because it is not **probable** that the borrower will violate any other covenants for 12 months from the balance sheet date. Other covenants that were assessed for probability include all covenants in the **debt arrangement** that are not included in the waiver (that is, the

covenants that were not violated at December 31, 20X1, and subsequent interim measurement dates of the specific covenant that was violated at December 31, 20X1).

470-10-55-3B The borrower presents in a separate line item on its classified balance sheet the amount of debt that is classified as a noncurrent liability because of the application of guidance in paragraphs 470-10-45-25 through 45-26. The borrower also complies with the disclosure requirements in paragraph 470-10-50-8.

> > > Case B: Debt Is Classified as Noncurrent (Subsequent Event)

470-10-55-3C Assume the same facts as in Case A, except that the borrower violates the covenant at the March 31, 20X2 compliance date (after being in compliance with the covenant at December 31, 20X1). The borrower issues its December 31, 20X1 financial statements in April 20X2.

470-10-55-3D The borrower determines that the violation of the covenant is a nonrecognized subsequent event (as described in paragraph 855-10-25-3) for the December 31, 20X1 financial statements because the event provides evidence about conditions that arose after the balance sheet date. Therefore, the debt is classified as a noncurrent liability on the borrower's classified balance sheet for the period ended December 31, 20X1, on the basis of the guidance in paragraph 470-10-45-22. The borrower provides disclosures about the nonrecognized subsequent event in accordance with the requirements in paragraph 855-10-50-2.

> > > Case C: Debt Is Classified as Current (Extinguishment)

470-10-55-3E Assume the same facts as in Case A (the borrower violates a covenant as of December 31, 20X1), except that in granting the waiver the lender modifies the debt arrangement to increase the borrower's interest rate. The borrower concludes that the modification does not result in a troubled debt restructuring under Subtopic 470-60. However, the borrower concludes that the criterion in paragraph 470-10-45-25(c) has not been met because the modification will be accounted for as an extinguishment under Subtopic 470-50 in 20X2 because the original instrument and the new instrument are not prepayable and the increase in the interest rate changed the present value of cash flows under the terms of the original instrument by at least 10 percent. Thus, the borrower classifies the debt as a current liability as of December 31, 20X1, in its classified balance sheet. The borrower also complies with the disclosure requirements in paragraph 470-10-50-8.

> > > Case D: Debt Is Classified as Current (Probability Assessment)

470-10-55-3F Assume the same facts as in Case A (the borrower violates a covenant as of December 31, 20X1), except that in this case it is probable that another covenant will be violated within 12 months from the balance sheet date.

Because the criterion in paragraph 470-10-45-25(d) has not been met, the borrower classifies the debt as a current liability as of December 31, 20X1, in its classified balance sheet. The borrower also complies with the disclosure requirements in paragraph 470-10-50-8.

> > > Case E: Debt Is Classified as Noncurrent (Grace Period)

470-10-55-3G Assume the same facts as in Case A (the borrower violates a covenant as of December 31, 20X1), except that the lender does not issue a waiver. Instead, the debt arrangement provides a 90-day grace period for the borrower to become compliant, in which case the lender cannot demand repayment of the debt at December 31, 20X1. The borrower's financial statements are issued after the balance sheet date, at which time the violation of the covenant has not been cured. On the basis of the guidance in paragraph 470-10-45-24, the borrower assesses the criteria in paragraph 470-10-45-22 to determine whether the debt should be classified as a noncurrent liability on its classified balance sheet. Because the lender cannot demand payment at the balance sheet date and the liability is contractually due to be settled more than one year after the balance sheet date, the borrower determines that at least one of the criteria in paragraph 470-10-45-22 is met. Therefore, the debt is classified as a noncurrent liability on the borrower's classified balance sheet at December 31, 20X1. The borrower also complies with the disclosure requirements in paragraph 470-10-50-9.

470-10-55-4 Paragraph superseded by Accounting Standards Update No. 2019-XX.~~The issue is whether the waiver of the lender's rights resulting from the violation of the covenant with the retention of the periodic covenant tests represents, in substance, a grace period. If viewed as a grace period, the borrower would classify the debt as current (see paragraph 470-10-45-11) unless it is probable that the borrower can cure the violation (comply with the covenant) within the grace period. Specifically, the balance sheet classification of an obligation is considered in the following situations:~~

~~a. The debt covenants are applicable only after the balance sheet date, and it is probable that the borrower will fail to meet the covenant requirement at the compliance date three months after the balance sheet date.~~

~~b. The borrower meets the current covenant requirement at the balance sheet date, and it is probable that the borrower will fail to meet the same covenant requirement at the compliance date in three months.~~

~~c. The borrower meets the current covenant requirement, and it is probable that the borrower will fail to meet a more restrictive covenant requirement applicable at the compliance date in three months.~~

~~d. The borrower has met the covenant requirement in the prior quarter but before the balance sheet date negotiates a modification of the loan agreement that eliminates the covenant requirements at the balance sheet date or modifies the requirement so that the borrower will comply. Absent the modification, the borrower would have been in violation of the~~

~~covenant at the balance sheet date. The same or a more restrictive covenant must be met at the compliance date in three months, and it is probable that the borrower will fail to meet that requirement at that subsequent date.~~

~~e. The borrower is in violation of the current covenant requirement at the balance sheet date and, after the balance sheet date but before the financial statements are issued or available to be issued (as discussed in Section 855-10-25), obtains a waiver. The same or a more restrictive covenant must be met at the compliance date in three months, and it is probable that the borrower will fail to meet that requirement at that subsequent date.~~

470-10-55-5 Paragraph superseded by Accounting Standards Update No. 2019-XX.~~In the situations described in (a) through (c) of the preceding paragraph, the debt would be classified as noncurrent, in which case the borrower would be required to disclose the adverse consequences of its probable failure to satisfy future covenants.~~

470-10-55-6 Paragraph superseded by Accounting Standards Update No. 2019-XX.~~In the situations described in paragraph 470-10-55-4(d) through (e), the debt would be classified as current. However, if the debt is expected to be refinanced on a long-term basis and the borrower meets the provisions of paragraphs 470-10-45-13 through 45-20, the debt would be classified as noncurrent.~~

~~> > Example 2: Classification by the Issuer of Redeemable Instruments That Are Subject to Remarketing Agreements~~

470-10-55-7 Paragraph superseded by Accounting Standards Update No. 2019-XX.~~This Example illustrates the guidance for the appropriate classification by the issuer of debt if all of the following conditions exist:~~

~~a. The debt has a long-term maturity (for example, 30 to 40 years).~~
~~b. The debt holder may redeem or put the bond on short notice (7 to 30 days).~~
~~c. The issuer has a remarketing agreement that states that the agent will make its best effort to remarket the bond when redeemed.~~
~~d. The debt is secured by a short-term letter of credit that provides protection to the debt holder in the event that the redeemed debt cannot be remarketed. (Amounts drawn against the letter of credit are payable back to the issuer of the letter of credit by the issuer of the redeemable debt instrument on the same day that the drawdown occurs.)~~

470-10-55-8 Paragraph superseded by Accounting Standards Update No. 2019-XX. ~~Debt agreements that allow a debt holder to redeem (or put) a debt instrument on demand (or within one year) should be classified as short-term liabilities despite the existence of a best-efforts remarketing agreement. That is, unless the issuer of the redeemable debt instrument has the ability and intent to refinance the debt~~

~~on a long-term basis as provided for in paragraph 470-10-45-14, the debt should be classified as a current liability.~~

470-10-55-9 Paragraph superseded by Accounting Standards Update No. 2019-XX. ~~In this Example, the obligation would be classified by the issuer as noncurrent only if the letter-of-credit arrangement meets the requirements of paragraph 470-10-45-14(b).~~

~~**> > Example 4: Current Maturity of Long-Term Debt and Notes Payable to Be Refinanced**~~

470-10-55-13 Paragraph superseded by Accounting Standards Update No. 2019-XX.~~The following Cases illustrate various scenarios for refinancing the current portion of long-term debt and notes payable as discussed in paragraphs 470-10-45-13 through 45-20:~~

a. ~~Entity refinances on long-term basis the current maturity of long-term debt and notes payable (Case A).~~
b. ~~Laws prohibit the transfer of funds (Case B).~~
c. ~~Entity issues debentures to liquidate the debt (Case C).~~
d. ~~Entity negotiates a revolving credit agreement (Case D).~~
e. ~~Entity negotiates a revolving credit agreement with borrowing limits (Case E).~~
f. ~~Entity refinances commercial paper (Case F).~~
g. ~~Case illustrates balance sheet presentation (Case G).~~

470-10-55-14 Paragraph superseded by Accounting Standards Update No. 2019-XX.~~The Cases in this Example do not comprehend all possible circumstances and do not include all the disclosures that would typically be made regarding long-term debt or current liabilities.~~

470-10-55-15 Paragraph superseded by Accounting Standards Update No. 2019-XX.~~Cases A through G share all of the following assumptions:~~

a. ~~Entity A's fiscal year-end is December 31, 19X5.~~
b. ~~The date of issuance of the December 31, 19X5, financial statements is March 31, 19X6; the Entity's practice is to issue a classified balance sheet.~~
c. ~~At December 31, 19X5, short-term obligations include $5,000,000 representing the portion of 6 percent long-term debt maturing in February 19X6 and $3,000,000 of 9 percent notes payable issued in November 19X5 and maturing in July 19X6.~~
d. ~~The Entity intends to refinance on a long-term basis both the current maturity of long-term debt and the 9 percent notes payable.~~

~~e. Accounts other than the long-term debt maturing in February 19X6 and the notes payable maturing in July 19X6 are as follows.~~

~~Current assets~~	~~$ 30,000,000~~
~~Other assets~~	~~$ 50,000,000~~
~~Accounts payable and accruals~~	~~$ 10,000,000~~
~~Other long-term debt~~	~~$ 25,000,000~~
~~Shareholders' equity~~	~~$ 37,000,000~~

~~f. Unless otherwise indicated, the Cases also assume that the lender or prospective lender is expected to be capable of honoring the agreement, that there is no evidence of a violation of any provision, and that the terms of borrowings available under the agreement are readily determinable.~~

~~**> > > Case A: Entity Refinances on Long-Term Basis the Current Maturity of Long-Term Debt and Notes Payable**~~

470-10-55-16 Paragraph superseded by Accounting Standards Update No. 2019-XX.~~The Entity negotiates a financing agreement with a commercial bank in December 19X5 for a maximum borrowing of $8,000,000 at any time through 19X7 with the following terms:~~

- ~~a. Borrowings are available at Entity A's request for such purposes as it deems appropriate and will mature three years from the date of borrowing.~~
- ~~b. Amounts borrowed will bear interest at the bank's prime rate.~~
- ~~c. An annual commitment fee of 1/2 of 1 percent is payable on the difference between the amount borrowed and $8,000,000.~~
- ~~d. The agreement is cancelable by the lender only if any of the following occur:~~
  - ~~1. The Entity's **working capital**, excluding borrowings under the agreement, falls below $10,000,000.~~
  - ~~2. The Entity becomes obligated under lease agreements to pay an annual rental in excess of $1,000,000.~~
  - ~~3. Treasury stock is acquired without the prior approval of the prospective lender.~~
  - ~~4. The Entity guarantees indebtedness of unaffiliated persons in excess of $500,000.~~

470-10-55-17 Paragraph superseded by Accounting Standards Update No. 2019-XX.~~The Entity's intention to refinance meets the condition specified by paragraph 470-10-45-14. Compliance with the provisions listed in (d) of the preceding paragraph is objectively determinable or measurable; therefore, the condition specified by paragraph 470-10-45-14(b)(1) is met. The proceeds of borrowings under the agreement are clearly available for the liquidation of the 9 percent notes payable and the long-term debt maturing in February 19X6. Both obligations, therefore, would be classified as other than current liabilities.~~

470-10-55-18 Paragraph superseded by Accounting Standards Update No. 2019-XX.~~Following are the liability section of Entity A's balance sheet at December 31, 19X5, and the related note disclosures required by this Subtopic, based on the information in paragraphs 470-10-55-15 through 55-16. Because the balance sheet is issued subsequent to the February 19X6 maturity of the long-term debt, the note describes the refinancing of that obligation.~~

	December 31, 19X5	
Current Liabilities:		
Accounts payable and accruals	$ 10,000,000	
Total Current Liabilities	10,000,000	
Long-Term Debt:		
9% notes payable (Note A)	3,000,000	(a)
6% debt due February 19X6 (Note A)	5,000,000	(a)
Other long-term debt	25,000,000	
Total Long-Term Debt	33,000,000	
Total Liabilities	$ 43,000,000	

~~(a) These obligations may also be shown in captions distinct from both current liabilities and long-term debt, such as Interim Debt, Short-Term Debt Expected to Be Refinanced, and Intermediate Debt.~~

~~Note A~~

~~The Entity has entered into a financing agreement with a commercial bank that permits the Entity to borrow at any time through 19X7 up to $8,000,000 at the bank's prime rate of interest. The Entity must pay an annual commitment fee of 1/2 of 1 percent of the unused portion of the commitment. Borrowings under the financing agreement mature three years after the date of the loan. Among other things, the agreement prohibits the acquisition of treasury stock without prior approval by the bank, requires maintenance of working capital of $10,000,000 exclusive of borrowings under the agreement, and limits the annual rental under lease agreements to $1,000,000. In February 19X6, the Entity borrowed $5,000,000 at 8 percent and liquidated the 6 percent long-term debt, and it intends to borrow additional funds available under the agreement to refinance the 9 percent notes payable maturing in July 19X6.~~

~~**> > > Case B: Laws Prohibit the Transfer of Funds**~~

470-10-55-19 Paragraph superseded by Accounting Standards Update No. 2019-XX.~~A foreign subsidiary of the Entity negotiates a financing agreement with its local~~

~~bank in December 19X5. Funds are available to the subsidiary for its unrestricted use, including loans to affiliated entities; other terms are identical to those cited in Case A. Local laws prohibit the transfer of funds outside the country.~~

470-10-55-20 Paragraph superseded by Accounting Standards Update No. 2019-XX.~~The requirement of paragraph 470-10-45-14(b)(1) is met because compliance with the provisions of the agreement is objectively determinable or measurable. Because of the laws prohibiting the transfer of funds, however, the proceeds from borrowings under the agreement are not available for liquidation of the debt maturing in February and July 19X6. Accordingly, both the 6 percent debt maturing in February 19X6 and the 9 percent notes payable maturing in July 19X6 would be classified as current liabilities.~~

~~**> > > Case C: Entity Issues Debentures to Liquidate the Debt**~~

470-10-55-21 Paragraph superseded by Accounting Standards Update No. 2019-XX.~~In this Case, the Entity issues $8,000,000 of 10-year debentures to the public in January 19X6. The Entity intends to use the proceeds to liquidate the $5,000,000 debt maturing February 19X6 and the $3,000,000 of 9 percent notes payable maturing July 19X6. In addition, assume the debt maturing February 19X6 is paid before the issuance of the balance sheet, and the remaining proceeds from the sale of debentures are invested in a U.S. Treasury note maturing the same day as the 9 percent notes payable.~~

470-10-55-22 Paragraph superseded by Accounting Standards Update No. 2019-XX.~~Because the Entity refinanced the long-term debt maturing in February 19X6 in a manner that meets the conditions set forth in paragraph 470-10-45-14, that obligation would be excluded from current liabilities. In addition, the 9 percent notes payable maturing in July 19X6 would also be excluded because the Entity has obtained funds expressly intended to be used to liquidate those notes and not intended to be used in current operations. In balance sheets after the date of sale of the debentures and before the maturity date of the notes payable, the Entity would exclude the notes payable from current liabilities if the U.S. Treasury note is excluded from current assets (see paragraph 210-10-45-4).~~

470-10-55-23 Paragraph superseded by Accounting Standards Update No. 2019-XX.~~If the debentures had been sold before January 1, 19X6, the $8,000,000 of obligations to be paid would be excluded from current liabilities in the balance sheet at that date if the $8,000,000 in funds were excluded from current assets.~~

470-10-55-24 Paragraph superseded by Accounting Standards Update No. 2019-XX.~~If, instead of issuing the 10-year debentures, the Entity had issued $8,000,000 of equity securities and all other facts in this Case remained unchanged, both the 6 percent debt due February 19X6 and the 9 percent notes payable due July 19X6 would be classified as liabilities other than current liabilities, such as Indebtedness Due in 19X6 Refinanced in January 19X6.~~

~~**> > > Case D: Revolving Credit Agreement**~~

470-10-55-25 Paragraph superseded by Accounting Standards Update No. 2019-XX.~~In December 19X5 the Entity negotiates a revolving credit agreement providing for unrestricted borrowings up to $10,000,000. Borrowings will bear interest at 1 percent over the prevailing prime rate of the bank with which the agreement is arranged but in any event not less than 8 percent, will have stated maturities of 90 days, and will be continuously renewable for 90-day periods at the Entity's option for 3 years provided there is compliance with the terms of the agreement. Provisions of the agreement are similar to those cited in paragraph 470-10-55-16(d). Further, the Entity intends to renew obligations incurred under the agreement for a period extending beyond one year from the balance sheet date. There are no outstanding borrowings under the agreement at December 31, 19X5.~~ **[Content amended and moved to paragraph 470-10-55-39]**

470-10-55-26 Paragraph superseded by Accounting Standards Update No. 2019-XX.~~In this instance, the long-term debt maturing in February 19X6 and the 9 percent notes payable maturing in July 19X6 would be excluded from current liabilities because the Entity consummated a financing agreement meeting the conditions set forth in paragraph 470-10-45-14(b) before the issuance of the balance sheet.~~

~~**> > > Case E: Revolving Credit Agreement with Borrowing Limits**~~

470-10-55-27 Paragraph superseded by Accounting Standards Update No. 2019-XX.~~Assume that the agreement cited in Case D included an additional provision limiting the amount to be borrowed by the Entity to the amount of its inventory, which is pledged as collateral and is expected to range between a high of $8,000,000 during the second quarter of 19X6 and a low of $4,000,000 during the fourth quarter of 19X6.~~

470-10-55-28 Paragraph superseded by Accounting Standards Update No. 2019-XX.~~The terms of the agreement comply with the conditions required by this Subtopic; however, because the minimum amount expected to be available from February to December 19X6 is $4,000,000, only that amount of short-term obligations can be excluded from current liabilities (see paragraphs 470-10-45-16 through 45-19). Whether the obligation to be excluded is a portion of the currently maturing long-term debt or some portions of both it and the 9 percent notes payable depends on the intended timing of the borrowing.~~

470-10-55-29 Paragraph superseded by Accounting Standards Update No. 2019-XX.~~If the Entity intended to refinance only the 9 percent notes payable due July 19X6 and the amount of its inventory is expected to reach a low of approximately $2,000,000 during the second quarter of 19X6 but be at least $3,000,000 in July 19X6 and thereafter during 19X6, the $3,000,000 9 percent notes payable would be excluded from current liabilities at December 31, 19X5 (see paragraphs 470-10-45-16 through 45-19).~~

~~> > > Case F: Commercial Paper Refinancing~~

470-10-55-30 Paragraph superseded by Accounting Standards Update No. 2019-XX.~~In lieu of the facts given in paragraph 470-10-55-15(c) through (d), assume that during 19X5 the Entity entered into a contract to have a warehouse built. The warehouse is expected to be financed by issuance of the Entity's commercial paper. In addition, the Entity negotiated a standby agreement with a commercial bank that provides for maximum borrowings equal to the expected cost of the warehouse, which will be pledged as collateral. The agreement also requires that the proceeds from the sale of commercial paper be used to pay construction costs. Borrowings may be made under the agreement only if the Entity is unable to issue new commercial paper. The proceeds of borrowings must be used to retire outstanding commercial paper and to liquidate additional liabilities incurred in the construction of the warehouse. At December 31, 19X5, the Entity has $7,000,000 of commercial paper outstanding and $1,000,000 of unpaid construction costs resulting from a progress billing through December 31.~~

470-10-55-31 Paragraph superseded by Accounting Standards Update No. 2019-XX.~~Because the commercial paper will be refinanced on a long-term basis, either by uninterrupted renewal or, failing that, by a borrowing under the agreement, the commercial paper would be excluded from current liabilities. The $1,000,000 liability for the unpaid progress billing results from the construction of a noncurrent asset and will be refinanced on the same basis as the commercial paper and, therefore, it would also be excluded from current liabilities (see paragraph 470-10-45-13).~~

~~> > > Case G: Balance Sheet Presentation~~

470-10-55-32 Paragraph superseded by Accounting Standards Update No. 2019-XX.~~The following are two methods of presenting liabilities in Entity A's balance sheet at December 31, 19X5, assuming the Entity intends to refinance the 6 percent debt maturing in February 19X6 and the 9 percent notes payable maturing in July 19X6 but has not met the conditions required by this Subtopic to exclude those obligations from current liabilities.~~

~~**Alternative 1**~~

	~~**December 31, 19X5**~~
~~Current Liabilities:~~	
~~Accounts payable and accruals~~	~~$ 10,000,000~~
~~Notes payable, due July 19X6~~	~~3,000,000~~
~~6% debt due February 19X6~~	~~5,000,000~~
~~Total Current Liabilities~~	~~18,000,000~~
~~Long-Term Debt~~	~~25,000,000~~
~~Total Liabilities~~	~~$ 43,000,000~~

~~**Alternative 2**~~

		~~**December 31, 19X5**~~
~~Current Liabilities:~~		
~~Accounts payable and accruals~~		~~$ 10,000,000~~
~~Short-term debt expected to be refinanced:~~		
~~Notes payable, due July 19X6~~	~~$ 3,000,000~~	
~~6% debt due February 19X6~~	~~5,000,000~~	~~8,000,000~~
~~Total Current Liabilities~~		~~18,000,000~~
~~Long-Term Debt~~		~~25,000,000~~
~~Total Liabilities~~		~~$ 43,000,000~~

~~> > Example 5: Classification of a Short-Term Obligation Repaid Before Being Replaced by a Long-Term Security~~

470-10-55-33 Paragraph superseded by Accounting Standards Update No. 2019-XX.~~This Example illustrates the guidance in paragraph 470-10-45-15.~~

470-10-55-34 Paragraph superseded by Accounting Standards Update No. 2019-XX.~~This Example has the following assumptions:~~

- ~~a. An Entity has issued $3,000,000 of short-term commercial paper during the year to finance construction of a plant.~~
- ~~b. At June 30, 1976, the Entity's fiscal year end, the Entity intends to refinance the commercial paper by issuing long-term debt. However, because the Entity temporarily has excess cash, in July 1976 it liquidates $1,000,000 of the commercial paper as the paper matures.~~
- ~~c. In August 1976, the Entity completes a $6,000,000 long-term debt offering.~~
- ~~d. Later during the month of August, it issues its June 30, 1976, financial statements.~~
- ~~e. The proceeds of the long-term debt offering are to be used to do all of the following:~~
  - ~~1. Replenish $1,000,000 in working capital~~
  - ~~2. Pay $2,000,000 of commercial paper as it matures in September 1976~~

~~3. Pay $3,000,000 of construction costs expected to be incurred later that year to complete the plant.~~

470-10-55-35 Paragraph superseded by Accounting Standards Update No. 2019-XX.~~The $1,000,000 of commercial paper liquidated in July would be classified as a current liability in the Entity's balance sheet at June 30, 1976. The $2,000,000 of commercial paper liquidated in September 1976 but refinanced by the long-term debt offering in August 1976 would be excluded from current liabilities in balance sheets at the end of June 1976, July 1976, and August 1976. It should be noted that the existence of a financing agreement at the date the financial statements are issued or are available to be issued (as discussed in Section 855-10-25) rather than a completed financing at that date would not change these classifications.~~

470-10-55-36 Paragraph superseded by Accounting Standards Update No. 2019-XX.~~At the end of August 1976, $2,000,000 of cash would be excluded from current assets or, if included in current assets, a like amount of debt would be classified as a current liability.~~

> > Example 6: Short-Term Debt Refinanced on a Long-Term Basis after the Balance Sheet Date

470-10-55-37 As of December 31, 20X1, the borrower has a loan outstanding that is due on June 30, 20X2. In February 20X2, the borrower refinances the debt resulting in a new due date of June 30, 20X4. The borrower issues its December 31, 20X1 financial statements on March 30, 20X2.

470-10-55-38 The borrower assesses the criteria in paragraph 470-10-45-22 and determines that neither criterion has been met because as of December 31, 20X1, the debt is contractually due in six months and the entity does not have a contractual right to defer settlement for a period greater than one year. Therefore, the borrower classifies the debt as current in its December 31, 20X1 financial statements. The borrower also provides disclosures about the refinancing in accordance with the requirements in paragraph 855-10-50-2.

~~> > > Case D:~~> > Example 7: Revolving Credit Agreement

470-10-55-39 In December ~~19X5~~20X5 the ~~Entity~~borrower negotiates a revolving credit agreement providing for unrestricted borrowings up to $10,000,000. Borrowings will bear interest at 1 percent over the prevailing prime rate of the bank with which the agreement is arranged but in any event not less than 8 percent, will have stated maturities of 90 days, and will be continuously renewable for 90-day periods at the ~~Entity's~~borrower's option for 3 years provided there is compliance with the terms of the agreement. As of December 31, 20X5, the borrower has drawn down $500,000 against this revolving credit agreement.~~Provisions of the agreement are similar to those cited in paragraph 470-10-55-16(d). Further, the~~

~~Entity intends to renew obligations incurred under the agreement for a period extending beyond one year from the balance sheet date. There are no outstanding borrowings under the agreement at December 31, 19X5.~~ **[Content amended as shown and moved from paragraph 470-10-55-25]**

470-10-55-40 The borrower considers the criteria in paragraph 470-10-45-22 in determining the classification of the $500,000 of debt outstanding in its classified balance sheet. Although the revolving credit agreement fails to meet the criterion in paragraph 470-10-45-22(a) because of the 90-day maturities, the borrower determines that it has met the criterion in paragraph 470-10-45-22(b) because the borrower was in compliance with the terms of the agreement as of the balance sheet date and, thus, has the contractual right to defer settlement for 3 years. Therefore, the borrower classifies the debt as a noncurrent liability in its classified balance sheet.

> > Example 8: Subjective Acceleration Clause

> > > Case A: Debt Is Classified as a Noncurrent Liability

470-10-55-41 The borrower has a loan outstanding that is due in five years. The loan agreement stipulates that if a circumstance has occurred that would reasonably be expected to have a material adverse effect on the business, operations, properties, assets, or condition of the borrower, then the loan is in default. As of the end of the reporting period, the borrower has not received any notification from the lender that it is not in compliance with that clause. The borrower determines that both criteria in paragraph 470-10-45-22 have been met. Therefore, the borrower classifies the debt as a noncurrent liability on its classified balance sheet.

> > > Case B: Debt Is Classified as Current with Disclosures

470-10-55-42 Assume the same facts as in Case A. In addition, assume that in the fourth quarter of the reporting period, the borrower has lost a significant customer that accounts for more than 10 percent of its sales. In December of that reporting year, the lender notifies the borrower of noncompliance with the material adverse change clause of its debt arrangement.

470-10-55-43 Because the lender has notified the borrower of an event of default before the end of the reporting period, the debt fails to meet the criteria in paragraph 470-10-45-22. Therefore, the borrower classifies the debt as a current liability in its classified balance sheet. The borrower provides the disclosures required in paragraph 470-10-50-8.

> > Example 9: Objectively Determinable Clause—Borrowing Base

470-10-55-44 A borrower enters into a debt arrangement for $2 million due in 3 years. The debt arrangement stipulates that if the amount outstanding on the debt exceeds the borrowing base (the calculation of which is prescribed in the debt arrangement), the amount in excess of the borrowing base is due and payable within five months of the borrowing base redetermination date (that is, the date at which the borrowing base calculation is performed).

470-10-55-45 Assume that at December 31, 20X1, the amount of outstanding debt does not exceed the borrowing base. In that case, the borrower would meet the criteria in paragraph 470-10-45-22 because the debt is due in three years. The borrower would classify the debt as a noncurrent liability in its classified balance sheet. However, if the outstanding debt as of the balance sheet date exceeds the borrowing base at the balance sheet date, the borrower would classify the amount in excess of the borrowing base that would be due in less than one year as a current liability. The remainder of the debt would be classified as a noncurrent liability in the borrower's classified balance sheet because it would meet the criteria in paragraph 470-10-45-22.

10. Add paragraph 470-10-65-1 and its related headings as follows:

Transition and Open Effective Date Information

General

> Transition Related to Accounting Standards Update No. 2019-XX, *Debt (Topic 470): Simplifying the Classification of Debt in a Classified Balance Sheet (Current versus Noncurrent)*

470-10-65-1 The following represents the transition and effective date information related to Accounting Standards Update No. 2019-XX, *Debt (Topic 470): Simplifying the Classification of Debt in a Classified Balance Sheet (Current versus Noncurrent)*:

- a. The pending content that links to this paragraph shall be effective as follows:
  1. For **public business entities**, for fiscal years beginning after [date to be inserted after exposure], including interim periods within those fiscal years
  2. For all other entities, for fiscal years beginning after [date to be inserted after exposure], and interim periods within fiscal years beginning after [date to be inserted after exposure].
- b. Early adoption of the pending content that links to this paragraph is permitted, including adoption in any interim period, for:
  1. Public business entities for periods for which financial statements have not yet been issued
  2. All other entities for periods for which financial statements have not yet been made available for issuance.

c. An entity shall apply the pending content that links to this paragraph prospectively to all **debt arrangements**, **mandatorily redeemable financial instruments** within the scope of Subtopic 480-10 on distinguishing liabilities from equity, debt with conversion and other options within the scope of Subtopic 470-20, and lease liabilities within the scope of Topic 842 that exist as of the balance sheet date in the period in which the pending content that links to this paragraph is adopted.
d. An entity that elects early adoption of the pending content that links to this paragraph and that has not yet applied the pending content that links to paragraph 842-10-65-1 also shall apply the pending content that links to this paragraph prospectively to capital leases within the scope of Topic 840 that exist as of the balance sheet date in the period in which the pending content that links to this paragraph is adopted.
e. An entity is required to disclose the following in the first interim and annual period of adoption:
    1. The nature of and reason for the change in accounting principle
    2. The effect of the change on the affected financial statement line items in the current period.

Amendments to Subtopic 210-10

11. Amend paragraphs 210-10-45-7 and 210-10-45-12, with a link to transition paragraph 470-10-65-1, as follows:

Balance Sheet—Overall

Other Presentation Matters

> Classification of Current Liabilities

210-10-45-5 A total of **current liabilities** shall be presented in classified balance sheets.

210-10-45-6 The concept of current liabilities includes estimated or accrued amounts that are expected to be required to cover expenditures within the year for known obligations the amount of which can be determined only approximately (as in the case of provisions for accruing bonus payments) or where the specific person or persons to whom payment will be made cannot as yet be designated (as in the case of estimated costs to be incurred in connection with guaranteed servicing or repair of products already sold).

210-10-45-7 Section 470-10-45 ~~includes~~provides guidance on the balance sheet classification of ~~various debt transactions that may result in current liability classification. These transactions are~~ the following:

a. A **debt arrangement** (see paragraph 470-10-15-3)~~Due-on-demand loan agreements~~
b. A liability-classified **mandatorily redeemable financial instrument** within the scope of Subtopic 480-10 on distinguishing liabilities from equity~~Callable debt agreements~~
c. Lease liabilities within the scope of Topic 842.~~**Short-term obligations** expected to be refinanced.~~

> > Other Liabilities

210-10-45-12 The current liability classification is not intended to include ~~debts~~liabilities to be liquidated by funds that have been accumulated in accounts of a type not properly classified as current assets, or long-term obligations incurred to provide increased amounts of **working capital** for long periods.

Amendments to Subtopic 470-20

[Note: The amendments to Subtopic 470-20 in this revised proposed Update do not incorporate the amendments in the July 31, 2019 proposed Update, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*. See that proposed Update for other proposed amendments to Subtopic 470-20.]

12. Add paragraph 470-20-45-2B and its related heading and amend paragraph 470-20-45-3, with a link to transition paragraph 470-10-65-1, as follows:

Debt—Debt with Conversion and Other Options

Other Presentation Matters

General

> Balance Sheet Classification

470-20-45-2B See Subtopic 470-10 for guidance on classifying instruments within the scope of this Subtopic as current liabilities or noncurrent liabilities.

Cash Conversion

> Balance Sheet Classification of Liability Component

470-20-45-3 The guidance in the Cash Conversion Subsections does not affect an issuer's determination of whether the liability component should be classified as a current liability or a ~~long-term~~noncurrent liability (see paragraph 470-20-45-2B). ~~For purposes of applying other applicable U.S. GAAP to~~To make that determination, an entity shall consider all terms of the convertible debt instrument ~~(including the equity component) shall be considered~~. Additionally, the balance sheet classification of the liability component does not affect the measurement of that component under paragraphs 470-20-35-12 through 35-16.

Amendments to Subtopic 480-10

13. Add paragraph 480-10-45-5 and its related heading, with a link to transition paragraph 470-10-65-1, as follows:

Distinguishing Liabilities from Equity—Overall

Other Presentation Matters

> Balance Sheet Classification (Current Liabilities or Noncurrent Liabilities)

480-10-45-5 See Subtopic 470-10 on debt for guidance on classifying liability-classified mandatorily redeemable financial instruments within the scope of this Subtopic as current liabilities or noncurrent liabilities.

Amendments to Subtopic 842-20

14. Amend paragraph 842-20-45-1, with a link to transition paragraph 470-10-65-1, as follows:

Leases—Lessee

Other Presentation Matters

> Statement of Financial Position

842-20-45-1 A **lessee** shall either present in the statement of financial position or disclose in the notes all of the following:

a. **Finance lease right-of-use assets** and **operating lease** right-of-use assets separately from each other and from other assets
b. Finance **lease liabilities** and operating lease liabilities separately from each other and from other liabilities.

Right-of-use assets and lease liabilities shall be subject to the same considerations as other nonfinancial assets and financial liabilities in classifying them as current and noncurrent in classified statements of financial position. See Subtopic 470-10 on debt for guidance on classifying lease liabilities within the scope of this Subtopic as current liabilities or noncurrent liabilities.

Amendments to Subtopic 852-10

15. Amend paragraph 852-10-45-8, with a link to transition paragraph 470-10-65-1, as follows:

Reorganizations—Overall

Other Presentation Matters

> Financial Reporting during Reorganization Proceedings

> > Balance Sheet

852-10-45-8 Paragraph 470-10-45-22~~Section 470-10-45~~ requires current liabilities classification in a classified balance sheet for long-term liabilities that, by their terms, are due on demand or will be due on demand within one year, or the operating cycle, if longer. Current liabilities classification is required because those liabilities do not meet the criteria in paragraph 470-10-45-22. This classification requirement also applies to long-term liabilities that are ~~or will be~~ callable by the creditor as of the balance sheet date because of a **{add glossary link}**violation of a provision**{add glossary link}** of the debt agreement, unless the conditions in paragraph 470-10-45-25 are met. ~~The~~However, the **automatic stay provisions** of Chapter 11 make it unnecessary to reclassify prepetition long-term liabilities even though prepetition creditors might demand payment or there is a violation of a covenant in the debt agreement.

Amendments to Subtopic 855-10

16. Amend paragraph 855-10-15-5, with a link to transition paragraph 470-10-65-1, as follows:

Subsequent Events—Overall

Scope and Scope Exceptions

> Transactions

855-10-15-5 The following are examples (not collectively exhaustive) of other subsequent events guidance that is not consistent with the principles in this Topic

for the recognition and disclosure of events or transactions that occur after the balance sheet date.

a. Income Taxes—See paragraph 740-10-25-15 for guidance on changes in judgment after the balance sheet date that results in subsequent recognition, derecognition, or change in measurement of a tax position taken in a prior annual period.
b. Earnings per Share—See paragraph 260-10-55-12 for guidance on the effect on earnings per share of changes in the number of common shares as a result of a stock dividend or stock split that occurs after the balance sheet date but before the financial statements are issued or are available to be issued.
c. Gain Contingencies—See paragraph 450-30-25-1 for guidance on gain contingencies that are rarely recognized after the balance sheet date but before the financial statements are issued or are available to be issued.
d. Debt Presentation—See paragraph 470-10-45-25 for guidance on a waiver of a debt covenant violation obtained by a borrower after the reporting date but before the financial statements are issued (or are available to be issued).

The amendments in this proposed Update were approved for publication by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Russell G. Golden, *Chairman*
James L. Kroeker, *Vice Chairman*
Christine A. Botosan
Gary R. Buesser
Susan M. Cosper
Marsha L. Hunt
R. Harold Schroeder

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this proposed Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

BC2. The Board is issuing this revised proposed Update as part of its Simplification Initiative. The objective of the Simplification Initiative is to identify, evaluate, and improve areas of GAAP for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to financial statement users.

Background Information

BC3. Current guidance includes a variety of rules that apply to different types of debt arrangements to determine whether amounts should be classified as current liabilities or noncurrent liabilities in a classified balance sheet. For example, separate guidance exists for callable debt, debt due on demand, debt with covenant violations, short-term debt refinanced on a long-term basis, debt with lock boxes, debt with springing lock boxes, and so forth. That guidance is disparate and at times inconsistent because the separate guidance was developed individually in response to specific facts and circumstances over a long period of time. The objective of the amendments in this proposed Update is to introduce an overarching, cohesive principle for determining whether debt should be classified as current or noncurrent that will reduce the cost and complexity of applying the guidance and improve the usefulness of the information reported to financial statement users.

BC4. In addition to using the classification guidance in Topic 470, entities also currently refer to the definition of the term *current liabilities* in the Codification's Master Glossary and presentation guidance in Topic 210, Balance Sheet. The term *noncurrent liability* is not explicitly defined in the Master Glossary, but in practice a noncurrent liability is a liability that does not meet the definition of current liabilities.

BC5. The FASB issued a proposed Accounting Standards Update, *Debt (Topic 470): Simplifying the Classification of Debt in a Classified Balance Sheet (Current versus Noncurrent)*, for public comment on January 10, 2017, with comments due on May 5, 2017. During redeliberations, the Board considered the 29 comment letters on that proposed Update and conducted additional outreach with public

accounting firms, financial statement preparers, and FASB advisory groups comprising financial statement users, preparers, and auditors. After considering that input, the Board added the proposed requirements related to unused long-term financing arrangements and grace periods. The Board retained other aspects of the 2017 proposed amendments (with clarifications), including the principle for classifying debt as a noncurrent liability in a classified balance sheet, the scope of those amendments, the exception to the classification principle for waivers of debt covenant violations, the requirements for refinancings of debt, and the disclosure requirements. The basis for conclusions for those decisions, as well as the decisions related to unused long-term financing arrangements and grace periods, is included in this revised proposed Update.

Basis for Conclusions

Benefits and Costs

BC6. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Board's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC7. After considering the input received from stakeholders, the Board believes that the expected benefits of the amendments in this proposed Update would justify the expected costs. The current guidance on determining when debt should be classified as a current liability or a noncurrent liability in the balance sheet can be difficult for preparers and auditors to navigate and for financial statement users to understand. During outreach, many financial statement users said that they were unaware of the labyrinth of rules that exists today.

BC8. The Board also observed that a classified balance sheet prepared under current GAAP does not sufficiently depict liquidity when an entity has (a) violated a debt covenant and received a subsequent waiver or (b) subsequently refinanced short-term debt on a long-term basis. In both of those cases, debt is presented as a noncurrent liability under current guidance. The accounting under current GAAP and the amendments in this proposed Update would be similar when an entity has violated a debt covenant and received a subsequent waiver. However, the proposed amendments would require separate presentation or specific disclosures that would highlight those circumstances for financial statement users.

BC9. The Board expects that the amendments in this proposed Update would result in the following benefits:

a. Reduced cost and complexity associated with determining whether debt should be classified as current or noncurrent in a classified balance sheet
b. Financial statements that provide greater transparency and consistency about the nature and types of debt that are classified as noncurrent liabilities in a classified balance sheet
c. Financial statements that better reflect the economics at the balance sheet date
d. Financial statements that provide more understandable and comparable information for financial statement users
e. Improved disclosures that provide transparency into events of default occurring as of the balance sheet date and grace periods existing as of the balance sheet date.

BC10. The Board understands that certain reporting entities will incur additional costs because of the amendments in this proposed Update. The expected costs of the proposed amendments might include the following:

a. Initial costs for preparers and auditors to apply the proposed amendments
b. Initial costs for entities to evaluate and potentially renegotiate debt arrangements with lenders
c. Initial costs for financial statement users such as creditors, regulators, and licensing agencies to reconfigure application and compliance processes.

BC11. During this project, the staff discussed the amendments in this proposed Update and alternatives with advisory members at meetings of the Private Company Council (PCC), the FASB's Small Business Advisory Committee (SBAC), the FASB's Investor Advisory Committee (IAC), and the FASB's Not-for-Profit Advisory Committee (NAC). The staff also conducted outreach with other stakeholders, including private and public company financial statement users, the American Institute of Certified Public Accountants' (AICPA) Technical Issues Committee (TIC), the AICPA's Health Care Expert Panel, vendors making credit decisions, and financial statement preparers.

BC12. The majority of PCC members support issuing the amendments in this proposed Update. However, some stakeholders (including some members of the PCC, the SBAC, the NAC, and the AICPA's TIC) raised concerns about the effect of the Board's decisions in cases in which the principle would result in an increase in current liabilities, as compared with a classified balance sheet prepared using current guidance. In those cases, the stakeholders raised concerns about a change in the amount of current liabilities triggering a debt covenant violation. Private company stakeholders indicated that a debt covenant violation could affect an entity's ability to obtain future financing or its ability to meet other licensing requirements, such as the requirements for construction contractors. The Board observed that the proposed amendments would not affect an entity's total debt position. Rather, the proposed amendments would provide increased

transparency about an entity's debt arrangements and its economic position at the balance sheet date. Therefore, the Board expects that an entity would not incur significant costs solely because it implements the proposed amendments.

Scope

BC13. The Board decided that the amendments in this proposed Update would apply to all debt arrangements as well as convertible debt and liability-classified mandatorily redeemable financial instruments that are classified as liabilities. The Board also clarified that the proposed amendments would apply to lease liabilities under Topic 842. The proposed amendments also include the following definition of the new Master Glossary term *debt arrangement*:

> An arrangement that provides a lender with a contractual right to receive consideration and a borrower with a contractual obligation to pay consideration on demand or on fixed or determinable dates.

BC14. The Master Glossary had included a definition of the term *debt*. The Board removed that glossary term in Accounting Standards Update No. 2016-19, *Technical Corrections and Improvements*. That term had originated in FASB Statement No. 15, *Accounting by Debtors and Creditors for Troubled Debt Restructurings*. That definition was developed specifically for the guidance on troubled debt restructurings. The new Master Glossary term *debt arrangement* in this proposed Update is modeled after the previous definition of debt but is modified to remove references to restructuring.

BC15. Mandatorily redeemable financial instruments that are classified as liabilities are similar to debt arrangements. Although those instruments are recorded as liabilities, they are not debt instruments because they are issued in the form of equity. However, the Board decided that the amendments in this proposed Update also should apply to liability-classified mandatorily redeemable financial instruments because of their similarities with debt arrangements, as well as the lack of specific guidance for determining whether those instruments should be classified as current liabilities or noncurrent liabilities.

BC16. Convertible debt generally would meet the proposed definition of a debt arrangement. However, because convertible debt may be share settled, the Board decided to highlight the inclusion of those instruments within the scope of the amendments in this proposed Update to alleviate questions that might develop in practice on this topic.

BC17. Most respondents to the 2017 proposed Update agreed with the scope of those amendments. One respondent asked the Board to clarify whether those proposed amendments apply to lease liabilities. Subtopic 842-20 states that for a lessee, right-of-use assets and lease liabilities are subject to the same considerations as nonfinancial assets and financial liabilities in classifying them as current or noncurrent in a classified balance sheet. The Board decided to explicitly

clarify that lease liabilities are within the scope of the amendments in this proposed Update to alleviate questions that might develop in practice.

Classification of Debt in a Classified Balance Sheet

BC18. The Board observed inconsistencies in the current guidance in Topic 470 on determining whether to classify debt as a current liability or a noncurrent liability. Some guidance revolves around management expectations of when debt might be settled, whereas other guidance focuses on the terms and conditions of the contract. The Board decided to align the guidance under a single principle that is centered on the terms and conditions of the contract.

BC19. The Board decided that a principle based on the terms and conditions of the contract ("a contractual approach") would be more operable because the evidence is more objective than the evidence provided by management expectations. Therefore, the Board expects that a contractual approach would be simpler for preparers to apply and for auditors to audit, as compared with current GAAP. During the staff's outreach on this project, financial statement users were more supportive of a contractual approach than an approach based on management expectations. Financial statement users expressed concerns that a principle based on management expectations would be a subjective approach and could introduce noncomparability between companies and within a company over time. For example, if two entities have the same underlying terms and conditions within a debt arrangement, each entity's management could have different expectations about when the debt might be settled. If the classification of debt is based on management expectations, the debt could be classified as a current liability for one entity and a noncurrent liability for the other entity.

BC20. In choosing an alternative, the Board considered the consistency of its approach as compared with the definition of the term *current liabilities* in the Master Glossary, which is defined as "obligations whose liquidation is *reasonably expected* to require the use of existing resources properly classifiable as current assets, or the creation of other current liabilities" (emphasis added). Therefore, the definition of *current liabilities* includes consideration of management expectations. In the Board's view, an entity would be unable to reasonably expect debt to be a noncurrent liability unless it has contractual rights that would support that expectation. For example, if an entity has debt due in six months, it would be unreasonable for management to assert that the debt is a noncurrent liability on the basis of its expectation. If management intends to refinance the debt in a subsequent period, the entity would need the lender to agree to the refinancing. Additionally, debt that is due on demand or puttable would not meet the criteria for noncurrent classification because the lender has the contractual right to require settlement of the liability in less than one year.

BC21. Several respondents (accounting firms) to the 2017 proposed Update questioned whether the issuance of equity securities would constitute settlement

of a liability under the debt classification principle. In applying the debt classification principle to convertible debt, an entity would classify that debt on the basis of when the liability is contractually due to be settled (that is, when there is a required use of current assets) rather than on the timing of the conversion of debt to equity. The Board acknowledged that some debt arrangements could include contractual terms that require settlement entirely in shares. In those scenarios the Board would expect that in applying the classification principle, an entity would determine the classification of that debt on the basis of when the liability is contractually due regardless of the form of settlement.

BC22. Throughout the project, PCC members provided the Board with feedback on the debt classification principle. There were mixed views during different stages of the project on the debt classification principle, including whether:

a. To retain current GAAP in its entirety
b. To adjust the scope of the project to focus on targeted areas
c. To holistically reexamine classification in the balance sheet for all assets and liabilities.

BC23. Ultimately, most of the PCC members, including all the PCC members who are financial statement users, agreed with and recommended that the Board move forward with issuing the guidance on debt classification. Those PCC members asserted that the guidance would:

a. Improve GAAP
b. Align the guidance under a single principle
c. Remove a variety of complex existing rules
d. Remove an existing exception to accounting for subsequent events.

BC24. The Board considered the *Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies* in determining whether the requirements for private companies should be the same as those for other entities. According to the Private Company Decision-Making Framework, generally, both private companies and public entities should apply the same financial statement display (the term *display* is synonymous with the term *presentation*) guidance established by the Board. There is a presumption in the Private Company Decision-Making Framework that information that is important enough to be presented on the face of financial statements is relevant to most financial statement users. However, in some circumstances, the Board and the PCC may conclude that private companies should be permitted to apply alternative display requirements. In determining whether to permit a display alternative, the Private Company Decision-Making Framework describes some of the pertinent considerations that the Board and the PCC should assess. Those considerations include whether the information to be displayed is not relevant to typical users of private company financial statements, whether the information does not apply to private companies, or whether disclosing the disaggregated or supplemental information about financial statement line items in the accompanying notes would sufficiently address the needs of typical users without fundamentally affecting the

comparison of financial statements of private companies with those of public entities. The Board determined that the classification of debt in a classified balance sheet is just as relevant to users of private company financial statements as it is to users of public company financial statements and, therefore, that a private company alternative would be inappropriate.

Unused Long-Term Financing Arrangements

BC25. Several stakeholders (accounting firms, regulators, and an association group) that responded to the 2017 proposed Update requested that the Board clarify how a borrower should evaluate the terms of a debt arrangement and unused long-term financing arrangements (for example, a term debt arrangement and a long-term letter of credit) when applying the debt classification principle. The stakeholders' request stems from Example 2 (see paragraphs 470-10-55-7 through 55-9) in the 2017 proposed Update. In that example, the borrower would classify bonds for which the debt holder can demand repayment on short notice as a noncurrent liability when a letter-of-credit arrangement allows the borrower to defer payment for a period greater than one year. Stakeholders indicated that it is unclear how applying the debt classification principle to the fact pattern in Example 2 would result in a noncurrent liability classification. In other words, in the 2017 proposed Update there is a disconnect between the conclusion in paragraph 470-10-55-9 in Example 2 and the debt classification principle.

BC26. Several accounting firms that responded to the 2017 proposed Update also asked whether an entity would be required to consider financing arrangements other than those described in Example 2 in determining the classification of a debt arrangement. An example would be two arrangements that are entered into separately, rather than in concert with each other. Another example is a line of credit that is available for general purposes.

BC27. In response, the Board clarified that an entity should classify debt on the basis of the terms of the debt arrangement itself. Therefore, an entity would be precluded from considering the contractual and legal terms of unused long-term financing arrangements on the basis of its view that:

a. Precluding consideration of unused long-term financing arrangements when classifying debt would increase the transparency and relevance of financial information for users because debt classification would better reflect the contractual maturities of the debt arrangement.
b. Debt classification would be consistent with criterion (a) of the classification principle in paragraph 470-10-45-22 in this proposed Update because principal payments of debt that are contractually due within 12 months from the balance sheet date would be classified as a current liability.
c. Precluding consideration of unused long-term financing arrangements would simplify the guidance on determining the classification of debt,

which would meet the project's objective to reduce the cost and complexity for preparers and auditors when determining the classification of debt while providing financial statement users with more consistent and transparent information.

d. The classification of a debt arrangement would be more appropriately determined on the basis of its contractual terms, not on the basis of the contractual terms of another financing arrangement. In other words, the classification of a debt arrangement should not be influenced by the terms of another financing arrangement. Precluding consideration of unused long-term financing arrangements in determining the classification of debt also would decrease the potential for manipulation of the debt classification guidance.

BC28. Members of the PCC, the SBAC, the IAC, and the NAC provided feedback on the Board's decision that an entity should be precluded from considering the contractual and legal terms of unused long-term financing arrangements in determining the classification of debt, as follows:

a. The PCC members unanimously supported the Board's decision because it would increase transparency for financial statement users, decrease the potential for manipulation of the debt classification guidance, and decrease the cost and complexity in applying the guidance.
b. The IAC members agreed with the Board's decision, noting that an unused long-term financing arrangement should not affect the classification of debt because:
    1. A line of credit represents an option to borrow.
    2. The ability to borrow on a line of credit to pay down other debt may not exist when needed.
    3. The guidance would be simpler to apply.
    4. The Board's decision would result in increased transparency for financial statement users.
c. Some SBAC members expressed mixed views on the Board's decision. Certain SBAC members (a preparer and a financial statement user) opposed the decision. The preparer stated that it would result in a pervasive change in practice for certain health care entities. The user noted that it would be difficult to explain to an investor why the terms of an associated financing arrangement would be precluded in determining the classification of debt. Conversely, another SBAC member (a financial statement user) supported the decision, stating that current classification of redeemable debt would better reflect its contractual terms, which includes a demand feature in which bond holders can demand repayment on short notice, regardless of whether a financing arrangement is in place at the balance sheet date.
d. Some NAC members opposed the Board's decision, noting that it would result in a pervasive change in practice for health care entities because the contractual terms of a financing arrangement currently are evaluated

in determining the classification of redeemable debt. Those NAC members were concerned that the decision would reduce the relevant information available to users and affect certain ratios that some users analyze, such as the current ratio. Additionally, those NAC members preferred retaining the existing guidance or a contractual linkage approach as described in paragraphs BC31–BC33.

BC29. The Board also considered and rejected two alternative approaches on unused long-term financing arrangements. One approach was to combine all debt arrangements with all long-term financing arrangements for classification purposes. Under that approach, in determining classification, an entity would have been required to reduce the amount of current maturities for its debt arrangements by the unused amount of any long-term financing arrangements. The majority of the Board rejected that approach on the basis of its view that:

a. A noncurrent liability classification would have been inconsistent with criterion (a) of the classification principle in paragraph 470-10-45-22 in this proposed Update. That is, when current maturities are reduced by the amount of an unused long-term financing arrangement and classified as a noncurrent liability, the amount of debt that is classified as a noncurrent liability would have included amounts that are contractually due to be settled within one year after the balance sheet date. Classifying current maturities of debt as a noncurrent liability would have provided financial statement users with less transparent information compared with a current liability classification.
b. Limitations or restrictions often exist in a debt arrangement that would have precluded an entity from satisfying other debt obligations as they mature. Therefore, it would have been inappropriate to classify current debt as a noncurrent liability when contractually scheduled principal payments due within 12 months from the balance sheet could not be satisfied by an unused long-term financing arrangement.
c. While amounts might be available under a long-term financing arrangement, an entity may intend or have a financial need to use the proceeds from the financing arrangement for purposes other than repaying other debt. For example, an entity may need to utilize the financing arrangement to cover operating expenses in the next period. Consistent with the debt classification principle, management's intent would have been ignored. Therefore, even in situations in which an entity has no intent to borrow on an unused long-term financing arrangement to pay down other debt, the entity would have still classified the current maturities of debt as a noncurrent liability.
d. Evaluating all unused long-term financing arrangements would have introduced more cost and complexity when applying the guidance and would have resulted in implementation questions. For example, it would have been unclear about how an entity under common control would have

allocated an available line of credit across its multiple entities that prepare standalone financial statements.

e. This approach was broad and would have allowed for any unused long-term financing arrangement to reduce current maturities of debt. For example, an entity could enter into a long-term financing arrangement with a related party or a creditor that may be financially incapable of honoring the agreement, yet this approach would have still resulted in a shift in the classification of current maturities of debt to a noncurrent liability.

BC30. One Board member supported the approach to classify debt as a noncurrent liability by the unused amount of a long-term financing arrangement. In that Board member's view:

a. A noncurrent liability classification would be consistent with criterion (b) of the classification principle in paragraph 470-10-45-22 in this proposed Update. That is, if an unused long-term financing arrangement is in place as of the balance sheet date that would result in an entity having the potential to avoid the transfer of current assets, any other debt arrangement should be classified as a noncurrent liability because the entity has a contractual right to defer settlement for a period greater than one year from the balance sheet date.
b. It would result in consistent classification for debt arrangements with the same economics. For example, under this approach, there would be no difference in how debt is classified in scenarios in which (1) a debt arrangement includes a provision to extend the debt on a long-term basis and (2) a short-term obligation could be refinanced as long-term debt by the amount of an unused long-term financing arrangement.
c. It would provide financial statement users with information about an entity's liquidity position. That is, short-term debt would be classified as a noncurrent liability when an unused long-term financing arrangement is in place because the entity could avoid a draw on cash for more than one year after the balance sheet date. Conversely, short-term debt would appropriately be classified as a current liability when there is no unused long-term financing arrangement in place because a draw on cash would occur within 12 months from the balance sheet date.

BC31. The Board also considered and rejected a second alternative approach, which was referred to as the *contractual linkage approach*. Under that approach, an entity would have evaluated the contractual linkage between debt arrangements and other financing arrangements in determining the classification of debt. An entity would have been required to assess the terms of the financing arrangement (for example, a letter of credit). If the terms met certain conditions, an entity would have been required to classify a debt arrangement as a noncurrent liability.

BC32. In developing the contractual linkage approach, the Board discussed requiring the following conditions:

a. The financing arrangement includes:
   1. An explicit reference that it provides liquidity support to the debt arrangement
   2. A provision in which its proceeds can only be used for purposes of payment of the associated debt arrangement.
b. The lender or prospective lender or investor with which the entity has entered into the financing arrangement is expected to be financially capable of honoring the agreement.

BC33. The Board noted that under this alternative, an entity also would be required to apply the following proposed guidance:

a. The financing arrangement must be in place as of the balance sheet date and does not expire within one year from the date of an entity's balance sheet date, consistent with the proposed debt classification principle in paragraph 470-10-45-22.
b. No violation of any provision in the financing arrangement exists at the balance sheet date or if one exists at the balance sheet date, all the conditions in the waiver exception guidance have been met (proposed paragraph 470-10-45-25).
c. An entity should present separately, 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 (proposed paragraph 470-10-45-26).

BC34. The majority of Board members rejected the contractual linkage approach on the basis of their view that:

a. It would have increased the cost and complexity in determining how to classify debt, which is contrary to the project's objective.
b. Classifying redeemable debt as a noncurrent liability in situations in which an entity has an unused long-term financing arrangement would have provided financial statement users with less straightforward balance sheet information because the debt holder can demand repayment on short notice.
c. The terms of a financing arrangement should not influence the classification of debt.
d. Under the contractual linkage approach, an entity would not have the unilateral ability to defer payment. The ability to defer payment would have depended on the financial capability of the liquidity facility provider to honor its arrangement. It would have been costly and complex for an entity to determine that the liquidity provider is financially capable of honoring the arrangement. It also would have been unclear what the definition of *capable* was and how that assessment would be completed.

BC35. One Board member supported the contractual linkage approach. In that Board member's view:

a. It is consistent with the proposed debt classification principle because an entity would have a contractual right to defer settlement (criterion (b) in paragraph 470-10-45-22 of this proposed Update) if certain conditions are met.
b. It responds to the concerns raised by certain stakeholders in which classifying redeemable debt as a current liability when a long-term financing arrangement is in place that secures the redeemable debt would result in less useful information for financial statement users.
c. It would not require debt to be reclassified from a current liability to a noncurrent liability upon a failed remarketing and utilization of a contractually linked long-term financing arrangement.
d. The potential required conditions are operable and understandable for financial statement preparers and auditors.
e. It is a cost-effective solution.

Grace Periods and Debt Arrangements with Unknown Principle Cash Flows

BC36. Some respondents from accounting firms noted that the amendments in the 2017 proposed Update would remove the guidance on a grace period. That guidance gives an entity time to cure a covenant that was violated at the balance sheet date. Therefore, those respondents commented that the proposed guidance would be unclear when a debt arrangement provides a contractual grace period.

BC37. The Board clarified that an entity would be required to apply the classification principle in circumstances in which (a) a covenant was violated at the balance sheet date and (b) a debt arrangement provides a contractual grace period. When there is a contractual grace period that extends beyond the balance sheet date, the lender would not be able to demand payment of the obligation at the balance sheet date. Therefore, the debt arrangement would be classified as a noncurrent liability if one of the criteria in paragraph 470-10-45-22 in this proposed Update is met. The Board further clarified that an entity would be precluded from changing the classification of debt at the balance sheet date for a violation that is subsequently cured or not cured. The Board viewed the resulting curing as a nonrecognized subsequent event because (1) the long-term debt arrangement is a noncurrent liability at the balance sheet date and (2) the lender cannot demand payment until the grace period expires.

BC38. Some accounting firms and an association group raised an issue in their response to the 2017 proposed Update about how to apply the classification principle to debt arrangements with unknown principal cash flows (for example, debt arrangements involving a sale of future revenues). The due dates of the debt

and the calculation of the principal payment are objectively determinable, but the revenue input to that calculation is variable. Respondents noted that in current practice, a borrower who has a debt arrangement with variable payments and a determinable due date would estimate one year of payments to calculate the amount that should be classified as a current liability. Because the classification principle focuses on contractual maturity and not on management expectations, those respondents indicated that it is unclear whether forecasting payments would continue to be appropriate when applying the classification principle. Excluding management expectations when classifying debt does not mean that estimates also are excluded because the terms *expectations* and *estimates* are not synonymous. Therefore, the Board would expect current practice to continue under the debt classification principle.

Subsequent Events

BC39. The amendments in this proposed Update would eliminate most scenarios in which an entity classifies debt on the basis of facts and circumstances that arise after the reporting date. Current GAAP is inconsistent in this area because at times an entity may consider events that occur after the reporting date but before the financial statements are issued (or are available to be issued) when determining whether debt should be classified as a current liability or a noncurrent liability. Topic 855 provides guidance on recognized and nonrecognized subsequent events. The Board observed that current guidance on the classification of debt (as current liabilities or noncurrent liabilities) allows for certain nonrecognized subsequent events (for example, refinancings of debt) to be treated as recognized subsequent events. The proposed amendments would eliminate that inconsistency, except for certain waivers of violations of debt covenants.

BC40. One of the most significant changes within the amendments in this proposed Update is the exclusion of nonrecognized subsequent events in the classification of debt, specifically the changes relating to subsequent refinancings of debt. Topic 470 currently requires that a short-term obligation be *excluded* from current liabilities if an entity intends to refinance the obligation on a long-term basis after the balance sheet date and can consummate the refinancing before its financial statements are issued. The proposed amendments would require a short-term obligation that is refinanced after the reporting date but before its financial statements are issued to be classified as a current liability. A short-term obligation would be a current liability because at the reporting date an entity would not have the right to defer settlement of the debt. The debt would be contractually due in less than 12 months.

BC41. The Board noted that the refinancing of debt after the reporting period is a new transaction and should not be retroactively reflected in the balance sheet classification of debt. The Board views subsequent refinancings of debt differently from subsequent waivers of violations of debt covenants because an entity has the discretion to renegotiate and refinance its debt before the reporting date or enter into a longer term arrangement. In contrast, an entity typically cannot obtain a

waiver of violations of debt covenants before the reporting date. During outreach with financial statement users, some users corroborated this approach. Those financial statement users observed that information about events or changes that occur after the balance sheet date is important to their analyses; however, they view the information as two different sets of data—information at the balance sheet date versus information about subsequent events. Respondents' feedback to the 2017 proposed Update on refinancing of debt after the reporting period and waivers of violations of debt covenants obtained after the reporting date is included in paragraphs BC53–BC55 and BC45, respectively.

BC42. Respondents to the 2017 proposed Update commented about the application of the subsequent events guidance when the debt arrangement includes a subjective acceleration clause. Respondents supported the Board's decision to remove the guidance that requires an entity to consider the likelihood of acceleration of the due date when a subjective acceleration clause exists in determining how to classify debt, noting that its removal would reduce the cost and complexity of applying the guidance. However, several respondents (accounting firms and an association group) commented that it was unclear whether an entity should apply the subsequent events guidance in Topic 855 to situations in which a lender notifies the borrower after the balance sheet date of noncompliance of a subjective acceleration clause (that is, when the subjective acceleration clause is triggered) related to events occurring before the balance sheet date. The Board noted that there could be a variety of scenarios that might result in a lender notifying the borrower after the balance sheet date of its intent to exercise its right to accelerate payment of the debt. Those scenarios could include events that take place before the balance sheet date or an accumulation of events that take place both before and after the balance sheet date. The Board clarified that an entity would consider those events in determining the classification of debt by applying the guidance in Topic 855 only upon the trigger (that is, when the borrower is notified by the lender of noncompliance) of the subjective acceleration clause.

Waivers of Violations of Debt Covenants

BC43. The amendments to paragraph 470-10-45-25 in this proposed Update would provide an exception to the debt classification principle for certain waivers of violations of debt covenants obtained after the reporting date but before financial statements are issued (or are available to be issued). Current GAAP includes a similar requirement in paragraph 470-10-45-1. The Board initially preferred an approach that would result in an entity classifying debt with a covenant violation (and with no waiver granted by the lender as of the reporting date) as a current liability. The debt is in default at the reporting date, and the Board noted that classifying the debt as a current liability provides financial statement users with decision-useful information and more transparency on liquidity than is provided under the current classification requirements. The approach that would result in an entity classifying debt with a covenant violation (and with no waiver granted by the lender as of the reporting date) as a current liability would have been consistent with guidance in International Financial Reporting Standards (IFRS Standards).

BC44. However, PCC and SBAC members (before the shift of the SBAC to small public companies) observed that requiring debt with covenant violations at the reporting date to be classified as a current liability could have a significant effect on private companies. PCC members advised the Board that it may be impractical for an entity to obtain a waiver of a violation of a debt covenant before the reporting date. Those stakeholders explained to the Board that, generally, lenders will not issue waivers before the reporting date. General practice for violations of debt covenants is that an entity provides the lender with draft financial statements for the year-end period, the lender provides a waiver after year-end, and the entity later issues its financial statements with the debt classified as a noncurrent liability.

BC45. The Board decided to include an exception to the debt classification principle, similar to current GAAP, because of the practical difficulties. Certain conditions must exist for an entity to qualify for that exception. Some of those conditions are similar to requirements that exist in GAAP for waivers of violations of debt covenants obtained after the reporting date but before financial statements are issued. The amendments in this proposed Update also include some changes to the current debt classification guidance for waivers of violations of debt covenants. Most respondents to the 2017 proposed Update broadly supported the Board's decision to include that exception to the debt classification principle, noting that it is a continuation of current practice and that it addresses the practical difficulties about the timing of obtaining a waiver. A couple of respondents to the 2017 proposed Update did not support an exception to the debt classification principle, noting that an exception would create unnecessary cost and complexity in applying the guidance and that a current liability classification would better reflect an entity's financial position at the balance sheet date.

BC46. The Board decided to clarify how to apply the existing guidance that requires an entity to consider the probability of other covenant violations. That clarification was added in response to several respondents to the 2017 proposed Update (preparers and auditors) who indicated that diversity in practice exists. The Board has provided three clarifications to that guidance in this proposed Update. First, the Board clarified that the time period in which probability must be assessed is through the next balance sheet date. For example, an entity with a December 31 year-end would assess whether it is probable that any other covenants would be violated through December 31 of the next year-end. Second, the Board clarified that the term *other covenants* includes all covenants in a debt arrangement that are not included in the waiver, including covenants that were violated at the balance sheet date with subsequent interim measurement dates. On the basis of outreach performed, the Board understands that many entities interpret the current guidance in this manner; therefore, the Board expects that any effect of this proposed amendment would be limited. And, third, while subjective acceleration clauses do not have an objective measure, the Board clarified that for purposes of this assessment subjective acceleration clauses would be subject to that probability assessment because they are a type of covenant.

BC47. The Board considered whether to require a probability assessment for all covenants in all debt arrangements but decided that the probability assessment would apply only to debt arrangements in which a covenant has been violated. Debt with a covenant violation is more likely to have subsequent violations, and, therefore, the information would be relevant to financial statement users. The Board also considered whether to require a probability assessment only for subsequent interim measurement dates for violated covenants. However, the Board rejected that alternative because once an entity violates a covenant, there is a higher probability that the entity is in a different class of risk compared with an entity that had no debt covenant violations.

BC48. The Board also discussed the condition about the period of the waiver. An accounting association respondent to the 2017 proposed Update suggested that the waiver should be for a period of one year instead of a period greater than one year. The Board noted that a time period of greater than one year is consistent with current guidance and originates from ARB No. 43, Chapter 3A, "Working Capital—Current Assets and Current Liabilities," which was issued in June 1953. Additionally, the guidance is consistent with the Master Glossary definition of the term *long-term obligations* that states that "long-term obligations are those scheduled to mature beyond one year (or the operating cycle, if applicable) from the date of an entity's balance sheet." Therefore, consistent with current guidance, the Board decided to retain this condition. An accounting firm respondent to the 2017 proposed Update and some PCC members requested that the Board clarify whether the time period of greater than one year is applicable to both a waiver and forbearance agreement obtained from a lender, noting that there are differences between those types of relief for the borrower. Those stakeholders noted that a waiver permanently waives specific covenant violations and restores the borrower to its predefault position, whereas in a forbearance agreement the lender agrees to refrain from demanding payment during a specified time period (that is, the forbearance period) and the default is preserved by the lender. In this proposed Update, the Board clarified that the use of the term *waiver* refers to either a forbearance agreement or a waiver of a covenant violation.

BC49. The most significant change to the guidance for waivers of debt covenant violations compared with current GAAP is the requirement for separate-line-item presentation in a classified balance sheet for debt that is classified as a noncurrent liability because of a waiver of a debt covenant violation received after the reporting date but before the financial statements are issued. While the Board considered the proposed FASB Concepts Statement No. 8, *Conceptual Framework for Financial Reporting—Chapter 7,* Presentation, it ultimately emphasized that its decision to provide an exception for those waivers was contingent upon separate-line-item presentation. The Board observed that the exception to the principle signifies that the receipt of a waiver, after the reporting date but before financial statements are issued, is an event that is important enough to affect the classification of debt as current or noncurrent. Furthermore, some private company stakeholders told the Board that some financial statement users place greater

importance on the balance sheet information and may not use the information in the notes to financial statements. Therefore, the Board observed that debt that is classified as a noncurrent liability because of a waiver of a debt covenant violation (received after the reporting date but before the financial statements are issued) should be prominently displayed on the balance sheet to provide users with a clearer picture of an entity's liquidity at the reporting date. Many respondents to the 2017 proposed Update disagreed with separate-line-item presentation stating that it would not provide decision-useful information and would add unnecessary complexity to the balance sheet. Those respondents also noted that those proposed disclosures on events of default would provide financial statement users with adequate information about an entity's debt covenant violations. Therefore, separate-line-item presentation is unnecessary. Other respondents to the 2017 proposed Update agreed with separate-line-item presentation stating that it would provide decision-useful information directly on the balance sheet that a waiver was obtained (as opposed to obscuring that information in the notes to financial statements).

BC50. Another proposed change to current GAAP relates to waivers that result in a troubled debt restructuring or an extinguishment of debt. The amendments in this proposed Update would add new cross-references to the guidance for troubled debt restructurings in Subtopic 470-60 and extinguishments of debt in Subtopic 470-50. The Board included those proposed amendments to distinguish when there is no change to the terms of the debt arrangement and the granting of a waiver results in merely continuing the terms that were in effect as of the reporting date. However, if, in granting the waiver, the modifications to the debt arrangement (for example, interest rate, duration, or amount available under a line of credit) are significant enough to result in a debt extinguishment or troubled debt restructuring, the waiver should not affect the debt classification at the balance sheet date. Therefore, the entity would not qualify for the exception and its debt would be classified as a current liability. Several respondents (accounting firms) to the 2017 proposed Update suggested that this condition should be removed from those proposed amendments because it would increase the cost and complexity in applying the guidance. The PCC expressed its support of those proposed amendments for waivers that result in a troubled debt restructuring or an extinguishment of debt.

BC51. The Board also discussed whether to require the accrual of fees paid in conjunction with waivers of debt covenant violations. The Board decided not to amend GAAP to require accrual of those fees.

Refinancings of Debt

BC52. The Board decided that classifying short-term debt that is refinanced on a long-term basis after the reporting date but before financial statements are issued (or are available to be issued) as a current liability would benefit financial statement users by providing greater transparency and consistency in financial reporting. The

Board noted that classification that is determined at the balance sheet date is consistent with the classification principle, should be the simplest approach to apply, is most consistent with other areas in GAAP, and is the most accurate reflection of an entity's economic position at the balance sheet date. Additionally, as previously stated in paragraph BC41, the Board views a subsequent refinancing of debt differently than a subsequent waiver of debt covenant violations. An entity has the discretion to renegotiate and refinance its debt before the reporting date or enter into a longer arrangement. In contrast, an entity typically cannot obtain a waiver of debt covenant violations before the reporting date.

BC53. Some respondents (several accounting firms, an accounting association, and a preparer) to the 2017 proposed Update supported the proposed amendments on the refinancing of debt, noting that the refinancing of a short-term obligation after the balance sheet date but before the financial statements are issued (or are available to be issued) is a nonrecognized subsequent event and, therefore, should be classified as a current liability. During outreach conducted by the staff, most financial statement users supported those proposed amendments for refinancing after the balance sheet date because classification as a current liability results in information that is more transparent, more understandable, and more consistent than current GAAP.

BC54. Some respondents (several accounting firms, several accounting associations, and a couple of preparers) to the 2017 proposed Update suggested that short-term debt should be classified as a noncurrent liability when an entity refinances that debt on a long-term basis after the reporting date but before financial statements are issued (or are available to be issued). The rationale provided by those respondents was that classifying that debt as a current liability:

a. Would require classification on the basis of contractual terms in a debt arrangement that no longer are relevant to the entity's actual debt arrangement at the time the financial statements are issued
b. Is inconsistent with the guidance for waivers of debt covenant violations
c. Could cause unintended consequences for entities whose financing depends on certain balance sheet ratios.

BC55. Some PCC members also provided similar feedback to that of the respondents to the 2017 proposed Update. However, on balance, although those PCC members expressed a desire to retain the guidance for refinanced debt, they concluded that retaining the existing debt classification guidance in its entirety was not a preferred approach.

BC56. Some PCC members had previously suggested an approach that would have allowed for debt to be classified as a noncurrent liability when an entity refinances with the same lender (or lenders that are part of the same consolidated group). Under that approach, if the refinancing was with a different lender, the debt would have been classified as a current liability. The Board rejected that approach because of the complexity and noncomparability that would have been created for

financial statement users if current liabilities were different amounts solely based on the identity of the lender. The Board observed that an entity is in the same financial position both at the balance sheet date and after the balance sheet date, regardless of whether the refinancing is consummated with a new lender or the same lender. Accordingly, the Board observed that, on the basis of the amendments in this proposed Update, if a refinancing is consummated before the balance sheet date and that refinancing allows the debt to be due in more than 12 months (or operating cycle, if longer), it is not relevant whether the refinancing agreement is with the same lender or a new lender.

BC57. The Board also had concerns that requiring an entity to analyze whether it is refinancing with the same lender could introduce complexity in practice. While that would have been a simple assessment when the entity is dealing with a single lender, it would have become complicated when dealing with a syndication of lenders. For example, preparers or auditors might have requested that the Board provide detailed implementation guidance on how to interpret the meaning of the term *same lender,* including whether the lead agent is the same, whether the lead agent is the same but one underlying lender changes, or whether half of the lenders change. That difficulty with the identification of lenders exists today under the guidance in Subtopic 470-50 on determining whether a debt modification is considered an extinguishment. Finally, the Board observed that if post-balance-sheet events are considered in relation to subsequent refinances of debt, the Board also would have needed to consider other post-balance-sheet events (for example, subsequent prepayments of debt).

Disclosures

BC58. In relation to classification of debt as a current liability or a noncurrent liability, one of the most useful disclosures consists of events affecting classification that occur between the balance sheet date and the financial statement issuance date. That is because that information assists resource providers in assessing the prospects for net cash inflows to (or outflows from) the reporting entity. Because the amendments in this proposed Update would prohibit those subsequent events from affecting whether to classify debt as a current liability or a noncurrent liability (with the exception of debt covenant waivers), those disclosures would now be the primary source of that information in the financial statements. The Board observed that paragraph 855-10-50-2 currently requires disclosures related to subsequent events. For nonrecognized subsequent events, that guidance requires the disclosures of (a) the nature of the event and (b) an estimate of the event's financial effect or a statement that such an estimate cannot be made.

BC59. The Board observed that there are limited disclosure requirements in GAAP related to the classification of debt other than the requirements related to subsequent events. The amendments in this proposed Update would replace

existing disclosure requirements (that are primarily related to subjective acceleration clauses) with more comprehensive disclosure requirements about defaults resulting from violations of a loan covenant and triggers of a subjective acceleration clause. The Board determined that those disclosures would provide relevant information to financial statement users for events that occurred as of the balance sheet date. The majority of respondents to the 2017 proposed Update supported those proposed disclosures, noting that the disclosures would provide financial statement users with decision-useful information.

BC60. Additionally, the amendments in this proposed Update would require that an entity disclose information when a loan covenant is violated at the balance sheet date and the debt arrangement provides a grace period for the borrower to return to compliance. That disclosure would be required when both (a) the violation has not been cured before the financial statements are issued (or are available to be issued) and (b) the failure to cure the violation would give the lender the right to demand payment of the long-term debt arrangement when the grace period expires. The Board added this disclosure to provide financial statement users with relevant information about when there is a potential risk of a default of the long-term obligation.

Comparison with IFRS Standards

BC61. The amendments in this proposed Update should make GAAP more consistent with IFRS Standards. Specifically, IAS 1, *Presentation of Financial Statements,* includes guidance on the classification of liabilities. The Board leveraged IAS 1 guidance when developing its proposal for the classification of debt. Furthermore, the Board's decision on applying the debt classification principle to post-balance-sheet refinancings of debt is consistent with the guidance in IAS 1. However, differences would still remain between GAAP and IFRS Standards for classifying debt arrangements with covenant violations. Those differences relate to classifying debt in situations in which a debt covenant waiver is obtained after the balance sheet date but before the financial statements are issued (or are available to be issued) and when a debt covenant has been violated at the balance sheet date and the debt arrangement provides a grace period.

BC62. The International Accounting Standards Board (IASB) currently has a project on its agenda to amend IAS 1 that is specifically related to the classification of liabilities. The IASB issued its Exposure Draft, *Classification of Liabilities,* in February 2015, and in December 2015 discussed an analysis of the comment letters received on that proposal. The IASB has resumed its discussion now that its revised *Conceptual Framework for Financial Reporting* was issued in March 2018, and redeliberations are ongoing. The Board considered the IASB's 2015 proposed amendments in developing the amendments in this proposed Update. Future decisions made by the IASB and the FASB could ultimately affect the consistency between GAAP and IFRS Standards.

Effective Date and Transition

BC63. The Board decided that the amendments in this proposed Update would be applied prospectively. Although retrospective application would increase comparability with prior years, the Board decided that the expected benefits of retrospective application would not justify the expected costs. An entity would apply the proposed amendments to all debt arrangements, liability-classified mandatorily redeemable financial instruments that are within the scope of Subtopic 480-10, debt with conversion and other options that are within the scope of Subtopic 470-20, and lease liabilities that are within the scope of Topic 842 that exist as of the balance sheet date in the period in which the proposed amendments are adopted. The Board noted that prospective application would provide financial statement users with the information needed in a cost-effective manner through the mix of information provided in the balance sheet and notes.

BC64. The effective date will be determined after the Board considers all stakeholder feedback on the amendments in this proposed Update. The Board decided to permit early adoption of the proposed amendments.

Amendments to the XBRL Taxonomy

The provisions of this Exposure Draft, if finalized as proposed, would require improvements to the U.S. GAAP Financial Reporting Taxonomy (Taxonomy). We welcome comments on these proposed improvements to the Taxonomy through Proposed Taxonomy Improvements provided at www.fasb.org. After the FASB has completed its deliberations and issued a final Accounting Standards Update, the proposed improvements to the Taxonomy will be finalized as part of the annual release process.