



Memo No. 2

**MEMO**Issue Date **September 11, 2025**Meeting Date **PCC Meeting September 26, 2025**


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Project	<b>PCC Research Project—Subjective Acceleration Clauses</b>		
Project Stage	<b>Private Company Pre-Agenda Research</b>		
Issue	<b>Subjective Acceleration Clauses</b>		

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**Memo Purpose**

1. The purpose of this memo is to provide (a) an update on the FASB staff's research conducted on the Private Company Council (PCC) research project on subjective acceleration clauses since the June 2025 PCC meeting and (b) preliminary observations from the FASB staff related to potential private company accounting differences. PCC members are not expected to make any decisions during this meeting and will be asked to provide input on the various issues included in this memo.
2. This memo is organized as follows:
  - (a) Background
  - (b) Overview of the Guidance in GAAP
  - (c) Previously Proposed Amendments
  - (d) Issue 1: Probability Assessment
  - (e) Issue 2: Intent and Ability to Refinance on a Long-Term Basis
  - (f) Issue 3: Revolving Credit Agreements
  - (g) Issue 4: Disclosures
  - (h) Preliminary Staff Analysis—Agenda Decision Criteria
  - (i) Preliminary Staff Analysis—Private Company Decision-Making Framework (PCDMF)
  - (j) Next Steps
  - (k) Appendix A: Relevant Paragraphs from GAAP

(I) Appendix B: Relevant Excerpts from the PCDMF.

**Questions for the PCC**

**Probability Assessment**

1. Do PCC members preliminarily think that the probability assessment guidance in paragraph 470-10-45-2 should be removed and instead, a subjective acceleration clause would affect debt classification only when it is triggered?
2. Do PCC members preliminarily agree with the description of *trigger* or do any members have suggestions on how that description should change?
3. Do PCC members preliminarily think that once a subjective acceleration clause is triggered, the debt should be classified as a current liability?

**Intent and Ability to Refinance on a Long-Term Basis**

4. **(Users)** Do financing agreements (that is, a contractual agreement between a creditor and a borrower to refinance short-term debt) with private companies commonly include subjective acceleration clauses?
5. Do PCC members want to address the condition in paragraph 470-10-45-14(b)(1) that precludes noncurrent liability classification when a subjective acceleration clause exists in a financing agreement?
6. If the answer to Question 5 is yes, do PCC members preliminarily think that the condition in paragraph 470-10-45-14(b)(1) should be amended so that a subjective acceleration clause would affect debt classification only when a subjective acceleration clause is triggered?
7. Do PCC members think that additional outreach is needed in this area? If so, with what types of stakeholders?

**Revolving Credit Agreements with Subjective Acceleration Clauses**

8. If the answer to Question 1 is yes, do PCC members preliminarily think that the guidance in paragraph 470-10-45-4 on revolving credit agreements that are considered long-term obligations should be amended in a consistent manner?
9. If the answer to Question 6 is yes, do PCC members preliminarily think that the guidance in paragraph 470-10-45-4 on revolving credit agreements that are considered short-term obligations should be amended in a consistent manner?
10. If the answer to Question 6 is yes, do PCC members preliminarily think that the guidance in paragraph 470-10-45-5 on revolving credit agreements that contain both a subjective acceleration clause and a lockbox requirement should be amended in a consistent manner?

11. If the answer to Question 1 is yes, do PCC members preliminarily think that the guidance in paragraph 470-10-45-6 on revolving credit agreements that contain both a subjective acceleration clause and a springing lockbox arrangement should be amended in a consistent manner?

12. Do PCC members think that additional outreach is needed in this area? If so, with what types of stakeholders?

#### **Disclosures**

13. **(Users)** Do user PCC members think that enhanced private company debt disclosures are needed? If so, what additional disclosures are needed and how would that information affect PCC members' financial statement analysis?

14. Do PCC members think that additional outreach is needed in this area? If so, which potential disclosures do PCC members want the staff to conduct outreach on and with what types of private company stakeholders?

#### **Applicability to Private Companies**

15. Are the issues in the memo unique to private companies? What are PCC members' views on whether the areas being explored should only be applicable to private companies?

#### **Next Steps**

16. What additional information is needed for the PCC to make an agenda decision in the future?

## **Background**

3. At the March 2025 PCC meeting, in connection with its agenda priorities reassessment, PCC members requested that the FASB staff research the guidance on subjective acceleration clauses in determining the classification of debt as a current or noncurrent liability in a classified balance sheet.
4. At the June 2025 PCC meeting, members discussed [PCC memo 1](#), which summarizes the research and outreach conducted by the FASB staff on the guidance on subjective acceleration clauses. During that meeting, the PCC supported moving forward with this research project, on the basis that:
  - (a) Subjective acceleration clauses are pervasive in private company debt agreements.
  - (b) Certain guidance on subjective acceleration clauses is complex to apply and is sometimes overlooked.
  - (c) Diversity in practice exists in applying the guidance on subjective acceleration clauses.
  - (d) There is a need to better align the accounting for those clauses with the reality that subjective acceleration clauses are rarely enforced.

- (e) Private company financial statement users with whom outreach was performed supported potential changes to the guidance.
5. At the June 2025 meeting, PCC members also indicated that debt disclosures should be considered as part of this research project. Further details about the PCC's June 2025 discussion can be found in the [meeting minutes](#).
  6. During the September 2025 meeting, the FASB staff is seeking input from the PCC on several areas:
    - (a) Probability assessment
    - (b) Intent and ability to refinance on a long-term basis
    - (c) Revolving credit agreements
    - (d) Disclosures.
  7. The FASB staff used the following sources of information, where available, in providing preliminary observations:
    - (a) Previously proposed amendments
    - (b) Basis for previously proposed amendments
    - (c) Previous comment letter and other stakeholder feedback
    - (d) Recent stakeholder feedback
    - (e) Recent PCC discussions.

## Overview of the Guidance in GAAP

8. The Master Glossary of the Accounting Standards Codification defines *subjective acceleration clause* as a provision in a debt agreement that states that the creditor may accelerate the scheduled maturities of the obligation under conditions that are not objectively determinable (for example, if the debtor fails to maintain satisfactory operations or if a material adverse change occurs).
9. The term *material adverse change clause* is not defined in GAAP but is a term that is often used synonymously with the term *subjective acceleration clause*.
10. Topic 470, Debt, includes the guidance on subjective acceleration clauses, as summarized below. Appendix A provides the entire paragraphs from GAAP.

Area	Summary of Guidance
Debt Arrangements with Subjective Acceleration Clauses	GAAP requires that an entity consider the likelihood of acceleration of the due date when determining noncurrent or current classification when a subjective acceleration clause exists in a debt arrangement.

Area	Summary of Guidance
	<p>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.</p> <p>(That guidance is referred to as the “probability assessment”).</p>
<p>Classification of Revolving Credit Agreements Subject to Lock-Box Arrangements and Subjective Acceleration Clauses</p>	<p>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). Some agreements require that the borrower maintain a <i>lock-box arrangement</i>.<sup>1</sup></p> <p>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 likelihood of acceleration of the due date (see Debt Arrangements with Subjective Acceleration Clauses above for further information).</p> <p>If borrowings outstanding are considered short-term obligations, and the borrower intends to refinance the obligation on a long-term basis, the guidance below (Intent and Ability to Refinance on a Long-Term Basis) should be applied. If a subjective acceleration clause exists, the conditions in that guidance would not be met, and the debt would be classified as a current liability.</p> <p>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.</p> <p>Because of the subjective acceleration clause, the debt is classified as a current liability unless the entity has the intent and ability to refinance on a long-term basis and meets certain conditions. If an entity enters into a refinancing agreement and that agreement includes a subjective acceleration clause, the conditions are not met, and the debt cannot be classified as a noncurrent liability (see Intent and Ability to Refinance on a Long-Term Basis below for further information).</p> <p>Borrowings outstanding under a revolving credit agreement that includes both a subjective acceleration clause and a requirement to</p>

<sup>1</sup> The Master Glossary of the Accounting Standards Codification defines a *lockbox arrangement* as 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.

Area	Summary of Guidance
	maintain a <i>springing lock-box arrangement</i> <sup>2</sup> shall be considered long-term debt since the remittances do not automatically reduce the debt outstanding without another event occurring. However, the effect of a subjective acceleration clause on balance sheet classification should be determined based on the likelihood of acceleration of the due date (see Debt Arrangements with Subjective Acceleration Clauses above for further information).
Due on Demand Loan Arrangements	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.  The demand provision is not a subjective acceleration clause.
Intent and Ability to Refinance on a Long-Term Basis	A short-term obligation is excluded from current liabilities if the entity intends to refinance the obligation on a long-term basis 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 or (b) financing agreement.  When an entity has entered into a financing agreement before the balance sheet is issued or available to be issued, certain conditions must be met to classify the debt as noncurrent. If the financing agreement can be canceled for a 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), the financing agreement does not comply with the conditions. In other words, if the financing agreement includes a subjective acceleration clause or a material adverse change clause, the conditions are not met. Therefore, the debt cannot be classified as a noncurrent liability.
Disclosure	In some situations, long-term debt subject to a subjective acceleration clause shall be reclassified. Other situations would indicate only disclosure of the existence of such clauses. 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.

## Previously Proposed Amendments

- In 2015, the Board added a project to its technical agenda—Simplifying the Classification of Debt in a Classified Balance Sheet (Current versus Noncurrent). Two proposed Accounting Standards

<sup>2</sup> The Master Glossary of the Accounting Standards Codification defines a *springing lockbox* as: “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.”

Updates were issued in 2017<sup>3</sup> and 2019.<sup>4</sup> The proposed amendments would have been applicable to all entities and were intended to replace the existing narrow-scope, fact-specific guidance in Topic 470, Debt, with an overarching, cohesive principle for debt classification. Subjective acceleration clauses were addressed in the proposed amendments.

12. The project was later removed from the Board's technical agenda in April 2021 due to a lack of support for issues unrelated to the proposed amendments on subjective acceleration clauses.<sup>5</sup> Therefore, the proposed amendments were not finalized.
13. Pertaining to subjective acceleration clauses, the amendments in the proposed Update would have:
  - (a) Removed the probability assessment guidance. Instead, a subjective acceleration clause would have affected the classification of debt only when it was triggered.
  - (b) Superseded all other debt classification guidance involving subjective acceleration clauses described in the table in paragraph 10 of this memo and instead, the proposed debt classification principle would have been applied.
  - (c) Superseded the Master Glossary definitions of *lock-box arrangement* and *springing lock-box arrangement*.
  - (d) Replaced the existing disclosures on subjective acceleration clauses with more comprehensive disclosures.
  - (e) Included implementation guidance on subjective acceleration clauses and short-term debt refinanced on a long-term basis after the balance sheet date.

## **Issue 1: Probability Assessment**

14. Paragraph 470-10-45-2 requires that an entity consider the likelihood of acceleration of the due date when determining noncurrent or current classification when a subjective acceleration clause exists in a debt arrangement. The outcome of that assessment determines whether reclassification and/or disclosures are required.

## **Previously Proposed Amendments and Basis for Conclusions**

15. The previously proposed amendments would have removed the probability assessment guidance in paragraph 470-10-45-2 and instead, a subjective acceleration clause would have affected the

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<sup>3</sup> Proposed Accounting Standards Update, *Debt (Topic 470): Simplifying the Classification of Debt in a Classified Balance Sheet (Current versus Noncurrent)*.

<sup>4</sup> Proposed Accounting Standards Update (Revised), *Debt (Topic 470): Simplifying the Classification of Debt in a Classified Balance Sheet (Current versus Noncurrent)*. Subsequent reference is "the 2019 Proposed Update."

<sup>5</sup> In response to the 2025 Invitation to Comment, *Agenda Consultation (ITC)*, one respondent (a practitioner) requested that the Board revise Topic 470 to provide a consistent principle for classifying debt as either current or noncurrent.

classification of debt only when it was triggered. The Board described *triggered* as when a borrower is notified by a lender of noncompliance, including notification that occurs when the lender demands payment.

16. The Board's basis for proposing those amendments was as follows:
  - (a) Subjective acceleration clauses are by definition subjective; therefore, an entity may be unable to identify when a subjective acceleration clause has been triggered until the borrower is notified by the lender of noncompliance.
  - (b) Subjective acceleration clauses do not provide a lender with an unfettered right to call the debt, and those clauses are rarely enforced in practice. That is because when a lender tries to enforce its right to exercise a subjective acceleration clause, U.S. courts often will not uphold that right.

### **Previous Comment Letter and Stakeholder Feedback**

17. As noted in June 2025 PCC [memo 1](#), most stakeholders who provided feedback on the previously proposed amendments to the guidance on subjective acceleration clauses supported removing the probability assessment guidance, noting that its removal would reduce the cost and complexity of applying the guidance.
18. During prior outreach performed in the prior Board project, lenders consistently shared that it is difficult to enforce a subjective acceleration clause in court and that it is rare that those clauses are used by lenders to call the debt. In their opinion, the existence of such a clause should have no bearing on the classification. Rather, when the subjective acceleration clause is triggered, the debt should be reclassified as a current liability.
19. At a 2015 PCC meeting, the PCC recommended that long-term debt with subjective acceleration clauses should not be classified as current unless clauses are triggered. The PCC supported that view throughout the duration of the Board project.

### **Recent Stakeholder Feedback**

20. During outreach with lenders and a surety in early 2025, they supported the PCC in revisiting the prior proposed amendments on subjective acceleration clauses and indicated that their analyses would not change if debt classification was unaffected until a subjective acceleration clause was triggered.
21. In outreach with the AICPA's Technical Issues Committee (TIC) in May 2025, TIC members stated that they do not place much focus in this area because it is rare for debt to be called by a lender unless there is an objective debt covenant violation. TIC members indicated that while they do not think that this is the highest priority area, they did not have concerns about the PCC revisiting the

prior proposed amendments on subjective acceleration clauses if users would support changes being made.

### Recent PCC Discussions

22. At its June 2025 meeting, the PCC supported moving forward with the previously proposed amendments as a starting point; that is, removing the guidance that requires entities to evaluate the likelihood of acceleration of the due date of the debt and instead, a subjective acceleration clause would affect the classification of debt only when it is triggered. User PCC members noted that it is important for users to know once a subjective acceleration clause has been triggered.
23. In connection with what constitutes a *trigger* of a subjective acceleration clause, during the June 2025 PCC meeting, a user member (a lender) expressed the view that a denial of available funding of an existing long-term revolving credit agreement because of a subjective acceleration clause also should be considered a trigger. In other words, if a borrower has a long-term revolving credit agreement and a lender denies the borrower from drawing down funds because of noncompliance with a subjective acceleration clause and those funds would otherwise be available in that agreement, that denial should be considered a trigger.

### Other FASB Staff Research—If the PCC Does Not Remove the Probability Assessment

24. If the PCC does not support removing the probability assessment guidance, then the PCC may want to consider whether clarifications to the existing guidance are needed.
25. Paragraph 470-10-45-2 is clear that when the likelihood of the acceleration of the due date is *remote*,<sup>6</sup> reclassification nor disclosure is required. That paragraph also states the following:
  - (a) 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.
  - (b) Other situations would indicate only the disclosure of the existence of such clauses.
26. The FASB staff notes that GAAP is unclear about what thresholds should be used to determine when reclassification to a current liability should occur or when only the existence of such clauses should be disclosed. The FASB staff found nonauthoritative guidance in several large accounting firm publications that states that if the acceleration of the due date is *probable*,<sup>7</sup> the long-term debt subject to a subjective acceleration clause should be classified as a current liability. That nonauthoritative

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<sup>6</sup> The Master Glossary of the Accounting Standards Codification defines *remote* as the chance of the future event or events occurring is slight.

<sup>7</sup> The Master Glossary of the Accounting Standards Codification defines *probable* as the future event or events are likely to occur.

guidance also states that if acceleration of the due date is *reasonably possible*,<sup>8</sup> disclosure of the existence of the subjective acceleration clause is generally sufficient and the debt may be classified as a noncurrent liability.

27. During recent outreach with practitioners from smaller to medium-sized firms, they noted that diversity in practice exists with the thresholds being used to determine when reclassification to a current liability should occur and when disclosures should be provided. Those practitioners reiterated that while diversity may exist, it is rare for debt to be called by a lender due to a subjective acceleration clause.
28. If the PCC does not want to remove the probability assessment guidance, they may want to research the extent to which diversity in practice exists in the thresholds being used and consider amendments to the guidance. However, the FASB staff thinks that because lenders do not commonly accelerate the due date of debt because of a subjective acceleration clause, it may not be worthwhile for the PCC to pursue clarifications. Additionally, removing the probability assessment guidance would alleviate the need to address the diversity in practice on thresholds.

#### **FASB Staff Preliminary Observations—Probability Assessment Guidance**

29. Based on feedback obtained in connection with the Board's prior project and current research and outreach (including the June 2025 PCC discussion), the FASB staff's preliminary observation is to remove the probability assessment in paragraph 470-10-45-2, and, instead, a subjective acceleration clause will affect the classification of debt when it is *triggered*.
30. In the prior proposed amendments, a subjective acceleration clause was considered to be *triggered* when a borrower is notified by a lender of noncompliance, including notification that occurs when the lender demands payment. The FASB staff thinks that stakeholders will need clarity on what constitutes a *trigger* of a subjective acceleration clause so that the guidance is operable.
31. The FASB staff acknowledges the feedback received from a user PCC member in June 2025 that a lender's denial of a borrower's access to funds in an existing long-term revolving credit agreement due to noncompliance with a subjective acceleration clause should be considered a trigger. The FASB staff notes that if there are no outstanding borrowings on the long-term revolving credit arrangement at the point of noncompliance, the lender's denial of funds would not affect the classification of that long-term debt. However, if there are outstanding borrowings on a long-term revolving credit agreement and access to additional available funds is denied because of noncompliance with a subjective acceleration clause, debt classification should be affected.

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<sup>8</sup> The Master Glossary of the Accounting Standards Codification defines *reasonably possible* as the chance of the future event or events occurring is more than remote but less than likely.

32. The FASB staff thinks that the PCC could describe *triggered* as when a borrower is notified by a lender of noncompliance, including notification that occurs when the lender demands payment or when a lender denies access to available funds under an existing debt agreement.
33. Another follow-on issue for the PCC to consider is whether a private company should apply the guidance in Topic 855, Subsequent Events, to situations in which a lender notifies the borrower after the balance sheet date of noncompliance with a subjective acceleration clause (that is, when the subjective acceleration clause is triggered) related to events occurring before the balance sheet date.
34. In response to the 2017 proposed Update, several comment letter respondents indicated that the proposed amendments were unclear on whether the subsequent events guidance should be applied. In response to that feedback, the Board clarified its intended application of the subsequent events guidance when the trigger of a subjective acceleration clause occurs after the balance sheet date. Paragraph BC42 of the 2019 proposed Update stated in part that:

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 occurrence of the trigger ... of the subjective acceleration clause.

35. In response to the 2019 proposed Update, two accounting firms continued to raise concerns about how to consider the subsequent events guidance when classifying a debt agreement that includes a subjective acceleration clause in circumstances in which the entity receives notice of noncompliance after the balance sheet date. One of those respondents suggested including an example to illustrate the view in paragraph BC42.
36. The FASB staff thinks that the language in BC42 from the 2019 proposed Update resolves this issue and that the PCC could use that language to assist stakeholders in applying the guidance.

#### **FASB Staff Preliminary Observations—Once a Subjective Acceleration Clause Has Been Triggered**

37. The next decision point for the PCC to consider is, after a subjective acceleration clause is triggered, how the trigger should affect debt classification and what guidance is needed for an entity to determine debt classification. During the June 2025 meeting, the PCC discussed three potential paths (see paragraphs 53 to 65 in [memo 1](#)) and expressed preliminary support for classifying debt as a current liability once a subjective acceleration clause is triggered.
38. Classifying debt as a current liability once a subjective acceleration clause is triggered would not introduce cost and complexity in applying the guidance. Additionally, that solution aligns with feedback from recent private company users who indicated that subjective acceleration clauses should not affect debt classification until triggered.

39. The FASB staff researched Topic 210, Balance Sheet, which provides general guidance on the classification of current assets and current liabilities, as a basis for further supporting current liability classification. The FASB staff notes that paragraph 210-10-45-7 refers to Topic 470 for guidance on various debt transactions that may result in a current liability transaction, such as due on demand loans, callable debt obligations, and short-term obligations expected to be refinanced.
40. As mentioned in PCC memo 1 (paragraph 59), a debt agreement in which a subjective acceleration clause has been triggered could be viewed as being similar to a callable debt obligation<sup>9</sup> because the lender has given notice of its intention to demand repayment or has demanded repayment.
41. Furthermore, the FASB staff thinks that if a subjective acceleration clause has been triggered, then the liability is contractually due to be settled, and the borrower cannot defer settlement of the liability in accordance with the regular payment terms of the debt agreement.

### Draft Amendments

42. Taking into consideration the FASB staff observations on Issue 1, below is draft wording on how the guidance might be amended:

~~**Paragraph 470-10-45-2** 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.~~

**Paragraph 470-10-45-2A** Long-term debt subject to a subjective acceleration clause should be classified as a current liability when the subjective acceleration clause is triggered. 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 or denies access to funds of an existing long-term debt agreement.

### Issue 2: Intent and Ability to Refinance on a Long-Term Basis

43. Paragraph 470-10-45-14 provides debt classification guidance when there is an intent and ability to refinance short-term debt on a long-term basis after the balance sheet date but before the financial statements are issued (or available to be issued). That guidance states that a short-term obligation is excluded from current liabilities if the entity intends to refinance the obligation on a long-term basis 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 (paragraph 470-10-45-14(a))

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<sup>9</sup> The Master Glossary definition of a *callable obligation* is an obligation that 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.

- (b) Financing agreement that meets certain conditions (paragraph 470-10-45-14(b)).
44. One of the conditions in paragraph 470-10-45-14(b) involves subjective acceleration clauses. Specifically, paragraph 470-10-45-14(b) states that when an entity has entered into a financing agreement to refinance short-term debt on a long-term basis, certain conditions must be met in order to classify that short term debt as a noncurrent liability. Pertaining to subjective acceleration clauses, paragraph 470-10-45-14(b)(1) states in part that 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.
45. In other words, the guidance precludes noncurrent classification of short-term debt that is intended to be refinanced on a long-term basis after the balance sheet date but before the financial statements are issued (or available to be issued) in scenarios in which the refinancing agreement includes a subjective acceleration clause. That short-term debt must continue to be classified as a current liability.
46. The PCC should consider whether and how to amend the guidance in paragraph 470-10-45-14(b)(1), taking into consideration its preliminary views on the probability assessment guidance in paragraph 470-10-45-2.
47. As background, the guidance in paragraph 470-10-45-14 originates from FASB Statement No. 6, *Classification of Short-Term Obligations Expected to be Refinanced* (issued 1975). The Basis for Conclusions indicates that, in the Board's view, an inability to objectively determine or measure compliance, or the existence of a violation of a provision for which a waiver has not been obtained, raises a serious doubt about the enterprise's ability to consummate an intended refinancing to avoid the use of working capital and, consequently, requires classification of the short-term obligation as a current liability.

### **Previously Proposed Amendments**

48. The previously proposed amendments would have superseded (removed) the entire paragraph in 470-10-45-14. Instead, the proposed debt classification principle (which was based on determining classification at the balance sheet date and which is not part of the PCC research project) would have been applied to short-term debt being refinanced on a long-term basis after the balance sheet date. Therefore, the proposed amendments would have prohibited an entity from considering a subsequent refinancing when determining the classification of debt as of the balance sheet date. When applying the proposed debt classification principle, short-term debt that was intended to be refinanced on a long-term basis after the balance sheet date but before the financial statements are issued (or available to be issued) would have been classified as a current liability. Because the Board removed the project from its technical agenda, paragraph 470-10-45-14 was not superseded, and the proposed debt classification principle was not finalized.

49. While the starting point for the PCC to consider amending the guidance in paragraph 470-10-45-14 is significantly different from the prior proposed amendments, the FASB staff thought it might be helpful to inform the PCC what the Board previously proposed.

#### **Previous Comment Letter and Other Stakeholder Feedback**

50. Based on discussions with preparers and practitioners from 2015 to 2017 (including discussions with the PCC), the FASB staff learned that the existing guidance in paragraph 470-10-45-14 may not be applied appropriately by private companies. For example, several PCC members indicated that diversity in practice likely exists in applying the condition in paragraph 470-10-45-14(b)(1). Those members noted that because subjective acceleration clauses are commonly included in private company debt arrangements, it is questionable how private companies can classify that debt as noncurrent.
51. During outreach conducted in early 2018, a couple of large accounting firms stated that it is rare in practice for a short-term obligation to be classified as a noncurrent liability when a financing agreement is in place at the balance sheet date because the condition in paragraph 470-10-45-14(b)(1) is difficult to meet. Those firms noted that most financing arrangements contain subjective acceleration clauses that would prevent the short-term obligation from being classified as a noncurrent liability. Therefore, those firms stated that to classify a short-term obligation as a noncurrent liability (in accordance with paragraph 470-10-45-14(a)), entities typically consummate the refinancing through a post-balance-sheet date issuance of a long-term obligation.

#### **Recent Stakeholder Feedback**

52. In May 2025, TIC members stated that there is likely some diversity in the application of the guidance in paragraph 470-10-45-14(b)(1); that is, some private companies may not be appropriately considering subjective acceleration clauses included in refinancing agreements when determining debt classification. TIC members stated that this is the guidance that is most affected by subjective acceleration clauses.
53. In August 2025, two private company lenders stated that financing agreements frequently contain subjective acceleration clauses. Those lenders also stated that regional and smaller banks rarely enter into legally binding financing agreements; rather, they are more likely to issue commitment letters that outline general terms and indicate an approval of credit but are not legally binding and leave options for the bank to cancel. They stated that regional and smaller banks typically lean towards finalizing and executing a post-balance-sheet debt agreement that would allow entities to reclassify the short-term debt as a noncurrent liability in accordance with paragraph 470-10-45-14(a). The staff notes that this feedback is consistent with 2018 feedback obtained from a couple of large accounting firms.

54. Additionally, those two private company lenders noted that traditional bank lenders or asset-based lenders would not typically enter into a financing agreement if there were an anticipated forthcoming default of any type (subjective or objective). Those lenders stated that financing agreements typically include conditions that outline how the lender expects there to be no defaults or material adverse changes between the commitment-to-lend date and the closing date.

### **Recent PCC Discussions**

55. During the June 2025 PCC meeting, members did not provide feedback specifically about the application of paragraph 470-10-45-14(b), but more generally indicated that the debt classification guidance involving subjective acceleration clauses can be difficult to apply, is sometimes overlooked, and results in diversity in practice.

### **Potential Alternatives**

56. The FASB staff has provided the following two potential alternatives, which are preliminary, for the PCC's consideration related to the condition in paragraph 470-10-45-14(b)(1) on subjective acceleration clauses:
- (a) Alternative A: Amend the condition—trigger-based.
  - (b) Alternative B: Do not amend the condition.

### ***Alternative A: Amend the Condition—Trigger-Based***

57. In Alternative A, the condition in paragraph 470-10-45-14(b)(1) would be amended such that the condition would be met unless a subjective acceleration clause has been triggered. If a trigger does not exist, the short-term debt subject to the refinancing arrangement would be reclassified to a noncurrent liability, assuming the other conditions in paragraph 470-10-45-14(b) that are unrelated to subjective acceleration clauses are met. If a trigger exists, the condition would not be met, and the short-term debt would continue to be classified as a current liability. Under Alternative A, the mere existence of a subjective acceleration clause would no longer automatically result in a failed condition.
58. Alternative A is predicated on the PCC removing the probability assessment in paragraph 470-10-45-2 and instead, classifying the debt as a current liability when a subjective acceleration clause has been triggered. The staff does not think Alternative A should be considered unless the PCC removes the probability assessment in paragraph 470-10-45-2 to maintain consistency.
59. If the PCC wants to pursue Alternative A, the FASB staff thinks that there could be a shift in classifying more debt as a noncurrent liability. Prior feedback and recent feedback (albeit limited) from stakeholders noted that subjective acceleration clauses are frequently included in financing agreements. Therefore, when applying the existing guidance in paragraph 470-10-45-14(b)(1), many

private companies should be classifying their debt as a current liability. That classification would likely change under Alternative A because feedback has indicated that lenders do not commonly enforce subjective acceleration clauses. Therefore, if triggers of subjective acceleration clauses are not common, the condition under Alternative A would be met and the short-term debt that is being refinanced would be classified as a noncurrent liability. That said, some stakeholders asserted that private companies may not be appropriately applying the existing guidance; therefore, they may be classifying short-term debt as a noncurrent liability even though subjective acceleration clauses are included in a financing agreement.

60. The staff notes that this is an area in which the PCC may want the FASB staff to conduct additional outreach with private company stakeholders to get input on the potential solution and to more fully evaluate the expected change in debt classification. The PCC also may benefit from additional information about the prevalence of subjective acceleration clauses in financing agreements and current accounting practices.

#### ***Alternative B—Do Not Amend the Condition***

61. In Alternative B, no changes would be made to the condition in paragraph 470-10-45-14(b)(1). That is, the mere existence of a subjective acceleration clause in a refinancing agreement would preclude noncurrent classification.
62. Retaining that existing condition may be inconsistent with removing the probability assessment guidance in paragraph 470-10-45-2 and considering subjective acceleration clauses only when triggered.
63. As noted in paragraph 16 of this memo, one of the reasons for the Board's proposal that subjective acceleration clauses would affect the classification of debt when triggered was that subjective acceleration clauses do not provide a lender with an unfettered right to call the debt. Therefore, the FASB staff does not think that the mere existence of the subjective acceleration clause makes an obligation callable and should not cause the condition to automatically fail, resulting in current liability classification.

#### ***Alternative Considered, but Dismissed***

64. One potential solution that the FASB staff considered but dismissed is to remove any consideration of subjective acceleration clauses from the condition in paragraph 470-10-45-14(b)(1). Therefore, subjective acceleration clauses and events associated with those clauses would be ignored when determining debt classification even when there is a trigger. Lenders with whom the FASB staff performed outreach indicated that the due date of debt is rarely accelerated for events associated with subjective acceleration clauses and that a U.S. court of law rarely upholds those clauses.

Therefore, there may be no practical need to consider the status of subjective acceleration clauses in determining debt classification.

65. While this approach would reduce the cost and complexity in determining debt classification, the FASB staff has concerns that classifying debt as a noncurrent liability when a material event occurs and the lender notifies the borrower of noncompliance (even if the occurrence is uncommon), would reduce the decision-usefulness of financial information. As such, the FASB staff dismissed this potential path as a feasible solution.

### **FASB Staff Preliminary Observations—Intent and Ability to Refinance on a Long-Term Basis**

66. While Alternative A is consistent with the FASB staff preliminary observations on the probability assessment guidance, limited outreach has been performed on the potential alternatives provided in this area. The FASB staff thinks that additional research and outreach could be performed to help inform the PCC in its future decision-making.

### **Issue 3: Revolving Credit Agreements**

67. Paragraphs 470-10-45-4 through 45-6 provide debt classification guidance on revolving credit agreements with features such as lock-box arrangements and subjective acceleration clauses. Those paragraphs intersect with the probability assessment guidance in paragraph 470-10-45-2 and the intent and ability to refinance guidance in paragraph 470-10-45-14. Therefore, the FASB staff has provided preliminary observations for paragraphs 470-10-45-4 to 45-6 to assist the PCC in considering what changes are needed to maintain consistency with the potential changes being contemplated in Issue 1: Probability Assessment, and Issue 2: Intent and Ability to Refinance on a Long-Term Basis. If the PCC explores paths in Issue 1 or Issue 2 that are different from the FASB staff's preliminary observations, then additional research may be needed.

#### **Paragraph 470-10-45-4**

68. Under the current guidance in paragraph 470-10-45-4, borrowings outstanding under certain revolving credit agreements are considered long-term debt because the borrowings are due at the end of a specified period (example, 3 years) rather than when short-term notes roll over (for example, every 90 days). 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 probability assessment guidance 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, paragraphs 470-10-45-13 through 45-14 apply, and the debt is classified as a current liability because of the existence of the subjective acceleration clause in a financing arrangement.

69. The PCC should consider whether to amend that guidance. The PCC's considerations would be twofold: (a) how changes to the probability assessment guidance in paragraph 470-10-45-2 would affect the guidance in paragraph 470-10-45-4 and (b) how changes to the intent and ability to refinance guidance in paragraph 470-10-45-14 would affect the guidance in paragraph 470-10-45-4.

#### **Paragraph 470-10-45-5**

70. Under the current guidance in paragraph 470-10-45-5, borrowings outstanding under a revolving credit agreement that includes both a subjective acceleration clause and a requirement to maintain a lock-box arrangement are considered short-term obligations. Because of the subjective acceleration clause, the debt is classified as a current liability unless the entity has the intent and ability to refinance the debt on a long-term basis and meets the conditions in paragraph 470-10-45-14.
71. The PCC should consider how changes to the intent and ability to refinance guidance in paragraph 470-10-45-14 would affect the guidance in paragraph 470-10-45-5.

#### **Paragraph 470-10-45-6**

72. Under the current guidance in paragraph 470-10-45-6, borrowings outstanding under a revolving credit agreement that includes both a subjective acceleration clause and a requirement to maintain a springing lock-box arrangement are considered long-term obligations. The effect of the agreement's subjective acceleration clause is determined based on the provisions of paragraph 470-10-45-2 (the probability assessment guidance).
73. The PCC should consider how changes to the probability assessment guidance in paragraph 470-10-45-2 would affect the guidance in paragraph 470-10-45-6.

#### **Previously Proposed Amendments**

74. The previously proposed amendments would have superseded (removed) paragraphs 470-10-45-4 through 45-6 and instead, the proposed debt classification principle (which is not part of the PCC's research project) would have been applied. The previously proposed amendments also would have superseded the Master Glossary definitions of *lock-box arrangement* and *springing lock-box arrangement*. Because the Board removed the project from its technical agenda, those paragraphs and Master Glossary definitions were not superseded, and the proposed debt classification principle was not finalized.
75. While the starting point for the PCC to consider amending the guidance in paragraphs 470-10-45-4 through 45-6 is different from the prior proposed amendments, the FASB staff thought it might be helpful to inform the PCC about what the Board previously proposed.

### **Previous Comment Letter and Other Stakeholder Feedback**

76. No specific questions for respondents were included in the two proposed Updates about revolving credit agreements with lock-box arrangements and subjective acceleration clauses. Comment letter feedback was limited to one comment letter respondent who specifically indicated that removing the guidance pertaining to lock-boxes (and applying the debt classification principle to specific fact patterns) would reduce accounting complexity.

### **Recent Stakeholder Feedback**

77. Recent feedback in this area is limited to the TIC and several users (lenders and a surety).
78. Users had mixed views on the prevalence of lock-boxes and springing lock-boxes included in private company debt agreements. A lender PCC member stated that lock-boxes are common in commercial real estate for term and construction loans, many of which are springing lock-boxes. A lender and surety PCC member stated that springing lock-boxes are common for loans secured by receivables. Another lender stated that community and smaller regional banks are less likely to include lock-box arrangements in a private company debt agreement in scenarios in which they are lending based on future projected cash flows (cash flow lenders). That lender explained that if they executed a loan based on an analysis of a private company's projected future cash flows but then have to require a lock-box so that the borrower's cash receipts automatically pay down the debt, the loan would exceed their risk tolerance. The lender also stated that springing lock-boxes are required less than 10 percent of the time.
79. TIC members noted that in their experience, private company debt agreements do not commonly include a lock-box arrangement and rarely include a springing lock-box arrangement. One TIC member stated that about 20 to 30 percent of their private company clients' debt agreements with subjective acceleration clauses have a lock-box arrangement while approximately 1 percent contain a springing lock-box arrangement.

### **Recent PCC Discussions**

80. During the June 2025 PCC meeting, PCC members noted that the guidance on the classification of debt containing a subjective acceleration clause, for example, guidance on classification of debt with a springing lock box, is often overlooked and incorrectly applied leading to diversity in practice and affecting comparability.

### **FASB Staff Preliminary Observations—Revolving Credit Agreements**

81. Because of the interconnectedness between paragraphs 470-10-45-4 to 45-6, the staff has analyzed and provided its preliminary observations below on how the PCC could consider amending the guidance for all three paragraphs.
82. Outreach on the potential solutions provided in this area is limited. Accordingly, the FASB staff thinks that additional research and outreach could be conducted to assist the PCC in making informed decisions moving forward.

### **FASB Staff Preliminary Observations—Paragraph 470-10-45-4**

#### *Long-term obligations*

83. If the PCC decides to remove the probability assessment guidance from paragraph 470-10-45-2 and subjective acceleration clauses only affect the classification of debt when triggered, the PCC could consider amending the guidance in paragraph 470-10-45-4 on long-term obligations to be consistent with that guidance. That is, for borrowings outstanding under revolving credit agreements that are considered long-term obligations, an entity would not be required to assess the probability that the subjective acceleration clause will be exercised, and, instead, debt classification for those borrowings would only be affected when a subjective acceleration clause is triggered. The FASB staff's considerations in Issue 1 would be consistent with this potential amendment.

#### *Short-term obligations*

84. If the PCC decides to amend the guidance in paragraph 470-10-45-14(b)(1) (see paragraphs 57 – 60 of this memo) under Alternative A such that the condition would not be met only when a subjective acceleration clause is triggered, the PCC could amend the guidance in paragraph 470-10-45-4 on short-term obligations to be consistent with that guidance.
85. Under the existing guidance, a revolving credit agreement that is considered a short-term obligation could be classified as a noncurrent liability if the borrower has the intent and ability to refinance the obligation on a long-term basis. Some revolving credit agreements include terms such that they provide means to refinance the obligation on a long-term basis. For example, as highlighted in paragraph 470-10-45-21, some revolving credit agreements may include terms that provide for the renewal or extension of the short-term obligation for an uninterrupted period extending beyond one year (or operating cycle) from the balance sheet date. That guidance states that such a replacement of a short-term obligation is not, by itself, sufficient to demonstrate an entity's ability to refinance the short-term obligation on a long-term basis, and that the revolving credit agreement must meet the conditions in paragraph 470-10-45-14(b) to justify classifying as a noncurrent liability. Therefore, the existence of a subjective acceleration clause in the revolving credit agreement precludes noncurrent classification and the outstanding borrowings could only be classified as a noncurrent liability if the

conditions in 470-10-45-14 are met based on a financing agreement other than the revolving credit agreement.

86. If that guidance were changed to be consistent with changes to paragraph 470-10-45-14(b)(1), the mere existence of a subjective acceleration clause in the revolving credit agreement or in a financing agreement other than the revolving credit agreement would not preclude noncurrent classification of a revolving credit agreement. Rather, the subjective acceleration clause only would cause the condition to not be met when it has been triggered. However, the other conditions in paragraph 470-10-45-14(b) also would have to be met to exclude a short-term obligation from current liabilities.

***FASB Staff Preliminary Observations—Paragraph 470-10-45-5***

87. If the PCC decides to amend the guidance in paragraph 470-10-45-14(b)(1) (see paragraphs 57 – 60 of this memo) under Alternative A, such that the condition of a financing agreement would be met unless a subjective acceleration clause has been triggered, the PCC could amend the guidance in paragraph 470-10-45-5 to be consistent with that guidance. Obligations under revolving credit agreements that include both subjective acceleration clauses and a requirement to maintain a lock-box arrangement would still be considered short-term obligations since remittances are applied to reduce the debt outstanding and the borrower does not have the ability to avoid using working capital to repay the amounts outstanding. However, if the borrower intends to refinance the short-term obligation on a long-term basis, the existence of the subjective acceleration clause would no longer preclude the short-term obligation from being classified as noncurrent and would only cause the condition in paragraph 470-10-45-14(b)(1) to not be met if it has been triggered. If the conditions in paragraph 470-10-45-14 are met based on the terms of the revolving credit agreement or an agreement other than the revolving credit agreement, the short-term obligation could be excluded from current liabilities. This would be consistent with the potential changes to paragraph 470-10-45-4 for short-term obligations.

***FASB Staff Preliminary Observations—Paragraph 470-10-45-6***

88. Assuming the probability assessment guidance is removed and debt classification is affected only when a subjective acceleration clause is triggered, the PCC could consider amending the guidance in paragraph 470-10-45-6 to be consistent with that guidance. Under a revolving credit agreement that includes both a subjective acceleration clause and a requirement to maintain a springing lock-box, the outstanding borrowings would be a noncurrent liability unless a subjective acceleration clause is triggered. Once a subjective acceleration clause is triggered, the debt would be classified as a current liability.

## Issue 4: Disclosures

89. During the June 2025 PCC meeting, members indicated that debt disclosures would be considered as part of this research project.

### Overview of Current Guidance

90. The current debt disclosure requirements (paraphrased) applicable to all entities include:
- (a) Disclosure of long-term obligations. 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. (paragraph 470-10-50-1)
  - (b) Long-term liabilities. 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. (paragraph 470-10-50-2)
  - (c) Subjective acceleration clauses. In some situations, 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 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. (paragraph 470-10-50-3)
  - (d) Short-term obligations expected to be refinanced. 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. (paragraph 470-10-50-4)
  - (e) Summary disclosure of securities outstanding. In summary form, the pertinent rights and privileges of various securities outstanding. (paragraph 470-10-50-5)
  - (f) Commitments related to debt arrangements. Commitments, including an obligation to reduce debts (paragraph 440-10-50-1)
  - (g) Effective interest rate and the face amount. The description of the note shall include the effective interest rate. The face amount of the note also shall be presented in the financial statements or disclosed in the notes to financial statements. (paragraph 835-30-45-2)

## Previously Proposed Amendments

91. The Board previously proposed more comprehensive disclosure requirements (which would have been required for all entities) 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, as follows:

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).

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.

## Previous Comment Letter Feedback

92. The majority of all types of comment letter respondents supported those previously proposed disclosures, noting that the disclosures would provide financial statement users with decision-useful information.

## Recent Stakeholder Feedback

93. During the October 2023 PCC liaison meeting with ProSight Financial Association (PFA) Accounting Working Group (comprising lenders to private companies), PFA members expressed a need for enhanced debt disclosures (for example, information on violated covenants, waived covenants, amended covenants, covenants added, and additional credit being extended). PFA members also indicated that there are scenarios in which debt covenants have been violated at year-end and entities may delay issuing the financial statements until after a debt covenant waiver has been received to avoid the potential inclusion of going concern disclosures and a going concern audit opinion. In those scenarios, PFA members expressed a need for some minimum level of disclosures about the challenges that private companies are facing that led to a debt covenant violation, even when that covenant was subsequently waived.

94. During the October 2024 PCC liaison meeting with the PFA Accounting Working Group, members expressed a continued need for enhanced debt disclosures stating that lenders do not always have knowledge of all the borrower's debt and associated information. PFA members specifically indicated that better disclosures on debt covenants are needed, such as when a borrower was out of compliance with a covenant during a reporting period or whether covenants needed to be rewritten during the year to be in compliance. Those lenders also communicated the need for enhanced debt disclosures in outreach performed in connection with the FASB Agenda Consultation research project.
95. Specifically pertaining to disclosures on subjective acceleration clauses, during recent outreach conducted with several PFA members and user PCC members, all but one indicated that disclosing information when a subjective acceleration clause is triggered would be meaningful, but that it is not necessary to disclose those clauses before a trigger occurs. One user (a lender) preferred an earlier disclosure and suggested that an entity disclose information about subjective acceleration clauses based on the outcome of a probability assessment (using a threshold such as probable or reasonably possible).
96. The 2025 Invitation to Comment, *Agenda Consultation* (ITC), solicited feedback from stakeholders on several debt-related areas. Chapter 7—Presentation and Disclosure of Financial Reporting Information, includes a question asking whether the FASB should consider additional disclosures in a variety of areas, including debt covenants. In response to that question, one stakeholder (an accounting standard-setter) noted a need for enhanced disclosures on debt issued after year-end to provide greater transparency about subsequent financing activities. In response to other areas in the ITC, another stakeholder (a practitioner) stated that Topic 470 should be amended to require disclosures about an entity's financial difficulties, mainly in reference to debt modifications.

### **Recent PCC Discussions**

97. In the last several years, PCC members have discussed debt disclosures several times, either as part of their agenda priority process or when considering the feedback from PFA members. A summary of the PCC discussions is as follows:
  - (a) December 2023: PCC members noted that although private companies may generally disclose covenant violations, the violations are not described in detail.
  - (b) April 2024: In its initial ranking of agenda priorities, five PCC members indicated that they were interested in a research project on debt covenant disclosures, four indicated that they needed more information, and three were not interested in researching debt covenant disclosures.
  - (c) December 2024: In a reassessment of its agenda priorities, six PCC members indicated that they were interested in a research project on debt covenant disclosures, four indicated that they

needed more information, and no members indicated that they were not interested in researching debt covenant disclosures.

- (d) December 2024: A preparer member suggested that the PCC address debt disclosures. A user member cautioned that a project related to debt covenant disclosures may not result in a desired outcome because entities may modify their debt agreements rather than disclose additional information.
- (e) March 2025: PCC members discussed monitoring feedback received from the Agenda Consultation ITC about enhanced debt disclosures, to help inform their future thinking in this area.

### **FASB Staff Research**

- 98. The PCC should consider the scope of potential disclosures to be researched—narrow or broad, or a scope in between narrow and broad. The FASB staff has provided preliminary paths for the PCC’s consideration, for both a narrow and a broad scope. The level of future research and outreach needed by the FASB staff will depend on the scope.

### ***Narrow Scope—Disclosures***

- 99. A narrow scope could include disclosures only about triggers of subjective acceleration clauses. The FASB staff has provided the following potential disclosure as a starting point for the PCC’s consideration:

In the period in which a subjective acceleration clause is triggered, an entity shall disclose the following information:

- a. A description of the event that led to the trigger of a subjective acceleration clause
  - b. An explanation of the trigger (that is, a description of the lender’s notification to the borrower)
  - c. The amount of obligations subject to the trigger
  - d. The terms of a waiver, including the period of the waiver if applicable.<sup>10</sup>
- 100. The FASB staff notes that during deliberations in the prior Board project, the Board considered whether to require disclosures about the existence of a subjective acceleration clause before it is triggered, but decided to require disclosures only when the trigger occurs for the following reasons:
    - (a) Requiring disclosure of all subjective acceleration clauses may result in boilerplate disclosures that would not provide relevant information to financial statement users.

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<sup>10</sup> Based on outreach with lenders to private companies, it is rare to provide a waiver to a borrower related to a subjective acceleration clause. Therefore, the FASB staff would not expect there to be information disclosed about a waiver.

(b) A subjective acceleration clause is generally irrelevant to a financial statement user until it has been triggered.

(c) Subjective acceleration clauses are rarely triggered or enforced in a court of law.

101. The FASB staff thinks that requiring disclosures about subjective acceleration clauses before a trigger occurs would result in management having to assess the probability of whether a trigger will occur. Making an assessment for disclosure purposes would be inconsistent with removing the probability assessment guidance that requires entities to consider the likelihood of acceleration of the due date when determining noncurrent or current classification.

**Broad Scope—Disclosures**

102. A broader set of disclosures could range from (a) requiring disclosures about events of default similar to the previously proposed amendments in paragraph 91 of this memo to (b) requiring certain disclosures that are applicable to public companies.

103. Related to events of default, the previously proposed amendments could be a starting point for the PCC’s consideration. Those proposed amendments included 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. Those previously proposed disclosures are similar to the disclosures on defaults required by the Securities and Exchange Commission (SEC) for public companies, which are included in the table below. Other disclosures that are required by the SEC for public companies but are not required by GAAP for private companies are also included in the table below.

Disclosures <b>only</b> public and SEC registrants are required to provide ( <b>not private</b> companies)	Related Guidance
The amount and terms (including commitment fees and the conditions under which lines may be withdrawn) of unused lines of credit for short-term financing shall be disclosed, if significant	S-X Rule 5-02.19(b) See paragraph 210-10-S99-1.19(b)
Weighted average interest rate on short-term borrowings outstanding as of each balance sheet date	S-X Rule 5-02.19(b) See paragraph 210-10-S99-1.19(b)
Character of each long-term debt, interest rate, maturity date, any payment contingencies, indication of priority, and basis for conversion (if applicable)	S-X Rule 5-02.22(a) See paragraph 210-10-S99-1.22(a)
Amount and terms of unused commitments for long-term financing arrangements that would be disclosed if used	S-X Rule 5-02.22(b) See paragraph 210-10-S99-1.22(b)
Assets subject to lien. Assets mortgaged, pledged, or otherwise subject to lien, and the approximate amounts thereof, shall be designated and the obligations collateralized briefly identified.	S-X Rule 4-08(b) See paragraph 235-10-S99-1(b)

Disclosures <b>only</b> public and SEC registrants are required to provide ( <b>not private</b> companies)	Related Guidance
<p>Defaults. The facts and amounts concerning any default in principal, interest, sinking fund, or redemption provisions with respect to any issue of securities or credit agreements, or any breach of covenant of a related indenture or agreement, which default or breach existed at the date of the most recent balance sheet being filed and which has not been subsequently cured, shall be stated in the notes to the financial statements. If a default or breach exists but acceleration of the obligation has been waived for a stated period of time beyond the date of the most recent balance sheet being filed, state the amount of the obligation and the period of the waiver.</p> <p><i>(The FASB staff notes that this disclosure is similar to the previously proposed disclosures in paragraph 91 of this memo).</i></p>	<p>S-X Rule 4-08(c) See paragraph 235-10-S99-1(c)</p>
<p>Significant changes in bonds, mortgages and similar debt. Any significant changes in the authorized amounts of bonds, mortgages and similar debt since the date of the latest balance sheet being filed for a particular person or group shall be stated.</p>	<p>S-X Rule 4-08(f) See paragraph 235-10-S99-1(f)</p>
<p>Unrelated to the 10% cash flows test, if an entity has a significant change in debt, they must disclose information about the outstanding amount since the last reporting period</p>	<p>S-X Rule 4-08(f) See paragraph 235-10-S99-1(f)</p>

### Staff Preliminary Observations—Debt Disclosures

104. Debt disclosures is an area that the PCC has been considering for prioritization since the commencement of its structured agenda priority process in 2024. In the PCC's assessment of its agenda priorities during its April 2024 and December 2024 meetings, most members either expressed an interest in a debt disclosures research project or were interested in a research project but needed more information.
105. While the PCC has received some recent feedback on enhanced debt disclosures from PFA members, the feedback was primarily about events of default. Broader outreach with other private company stakeholders on debt disclosures has not been conducted. Concurrent with its research on subjective acceleration clauses, the PCC could request the FASB staff to solicit input on debt disclosures. Feedback on debt disclosures could help inform the PCC on whether they want to take on a project in the future, whether concurrent with or separate from a potential project on subjective acceleration clauses.

### Preliminary Staff Analysis—Agenda Decision Criteria

106. While the PCC is not expected to make an agenda decision at its September 2025 meeting, the FASB staff has begun its preliminary analysis of the three agenda decision criteria below to help inform the PCC as it moves toward a future agenda decision and has provided certain observations.
- (a) Is there an identifiable and sufficiently pervasive need to improve GAAP?

- (b) Are there technically feasible solutions and are the perceived benefits of those solutions likely to justify the expected costs of change?
- (c) Does the issue have an identifiable scope?

## **Identifiable and Sufficiently Pervasive Need to Improve GAAP**

### ***What is the Perceived Problem?***

107. Based on stakeholder feedback, the perceived problem is that the guidance on subjective acceleration clauses can be complex to apply, is sometimes overlooked, and results in diversity in practice. Additionally, lenders rarely enforce those clauses and U.S. courts often do not uphold those clauses when lenders attempt to enforce their rights to exercise a subjective acceleration clause. For those reasons, the current guidance appears to be outdated and unnecessarily complex, as further described below.

### ***What is the Significance and Pervasiveness of the Perceived Problem?***

108. Private company financial statement users and practitioners with whom the FASB staff performed outreach noted that subjective acceleration clauses are pervasive in private company debt agreements. User PCC members also confirmed that subjective acceleration clauses are included in nearly all private company debt agreements, with one of those user members adding that some larger, sophisticated private companies sometimes will negotiate with lenders to exclude those clauses from their debt agreements.

109. During recent outreach with practitioners, they stated that the preparation of classified balance sheets by private companies is common in most industries, except for financial institutions. Outside of financial institutions, those practitioners stated that almost all private companies prepare classified balance sheets. This is important information because private companies that prepare classified balance sheets must determine the classification of debt as a current or a noncurrent liability. Said another way, if private companies were not preparing classified balance sheets, then they would not need to evaluate subjective acceleration clauses in determining debt classification, but because they do, they must evaluate those clauses to determine debt classification.

110. Based on past and recent discussions with private company practitioners (and discussions with the PCC), the existing guidance is complex and may not be applied appropriately or may be overlooked in practice by some private companies. For example, some private company stakeholders cited complexity and diversity in applying the following guidance on subjective acceleration clauses:

- (a) *Classification of Revolving Credit Agreements Subject to Lock-Box Arrangements and Subjective Acceleration Clauses*. Specifically, confusion exists in applying the guidance when a

revolving credit agreement includes either a lock-box or springing lock-box arrangement and a subjective acceleration clause.

- (b) *Intent and Ability to Refinance on a Long-Term Basis*. Specifically, the condition in paragraph 470-10-45-14(b)(1) that precludes noncurrent classification when a subjective acceleration clause exists in a financing agreement may not be appropriately applied by some private companies.

111. Additionally, some private company stakeholders asserted that the guidance is outdated because lenders rarely enforce subjective acceleration clauses and U.S. courts do not uphold those clauses. Therefore, it is not necessary for private company preparers to evaluate the probability that a lender will accelerate the due date of the debt because of a subjective acceleration clause and determine whether reclassification to a current liability is needed before it has been triggered.

112. Based on research and analysis performed to date, the FASB staff's preliminary assessment is that an identifiable and sufficiently pervasive need to improve GAAP exists for the following reasons:

- (a) Subjective acceleration clauses are pervasive in private company debt arrangements
- (b) The guidance is complex to apply, is sometimes overlooked, and results in diversity
- (c) The guidance is outdated; therefore, financial reporting outcomes may not always provide decision-useful information.

### **Technically Feasible Solutions and the Perceived Benefits of Those Solutions Are Likely to Justify the Expected Costs of Change**

#### ***Technically Feasible Solutions***

113. While there are several debt classification paragraphs in GAAP involving subjective acceleration clauses, the FASB staff thinks that the gating issue to be solved before addressing those other paragraphs is the probability assessment guidance in paragraph 470-10-45-2. The previously proposed amendments, which were supported by most stakeholders, represent a technically feasible solution. That is, the probability assessment guidance would be removed and instead, a subjective acceleration clause would affect the classification of debt only when it is triggered.

114. If the probability assessment guidance is removed, then guidance should be provided in scenarios in which a trigger occurs. At its June 2025 meeting, PCC members expressed preliminary support for classifying debt as a current liability once a subjective acceleration clause is triggered. The FASB staff thinks that classifying long-term debt as a current liability upon a trigger could be a technically feasible solution. Issue 1 of this memo includes a more in-depth FASB staff preliminary analysis and observations on the probability assessment guidance.

115. Regarding other classification and presentation guidance that involve subjective acceleration clauses (revolving credit agreements, intent and ability to refinance on a long-term basis), the FASB staff thinks that technically feasible solutions can be developed to align with changes made to the probability assessment guidance. In Issues 2 and 3 of this memo, preliminary observations on technically feasible solutions have been provided.
116. Potential changes to private company debt disclosures could be narrower or broader than the previously proposed amendments in paragraph 91 of this memo and those potential paths are explored in greater detail in Issue 4 of this memo. The FASB staff thinks that technically feasible solutions can be developed for debt disclosures, whether narrow or broad.
117. A consideration for the PCC is whether the potential technically feasible solutions would be an option or a requirement for private companies. Typically, GAAP alternatives available for private companies are optional, rather than a requirement. The PCDMF states that even if an alternative within financial reporting is permitted for private companies, a private company could decide not to apply it (for example, a private company planning an initial public offering of stock). Likewise, users may not accept financial statements that reflect alternatives for private companies with U.S. GAAP.

### ***Benefits and Costs***

118. The FASB staff's preliminary observation about the expected costs of change pertaining to the probability assessment guidance in paragraph 470-10-45-2 is that it would be minimal for private company preparers and practitioners because the change would simplify the application of that guidance, which would no longer require analysis and documentation of the assessment. That probability assessment would be replaced by debt classification guidance that is based on a specific event (that is, a notification from a lender that a subjective acceleration clause has been triggered).
119. The FASB staff does not think that there would be a significant shift in the existing debt classification resulting from an amendment to the probability assessment guidance because lenders rarely accelerate the due date of debt based on a subjective acceleration clause. Additionally, users told the FASB staff that their analyses would not change if debt classification was unaffected until a subjective acceleration clause was triggered.
120. On other classification and presentation guidance that involve subjective acceleration clauses, the benefits and costs will need to be assessed, pending the September 2025 discussion by PCC members on potential solutions and further research and outreach that may need to be performed. Likewise, the benefits and costs of debt disclosures cannot be assessed until more information is known about the direction the PCC takes (for example, narrow or broad and the content of the disclosures) and further research and outreach that may need to be performed.

## Identifiable Scope

### **What Types of Entities Should Be Included?**

121. The PCC only has the authority to make decisions pertaining to private companies. Therefore, if the PCC added a project to its technical agenda, the scope of the potential project would only apply to private companies, by using the term **private company**,<sup>11</sup> as defined in the Master Glossary as an entity other than a public business entity, a not-for-profit entity, or an employee benefit plan within the scope of Topics 960 through 965 on plan accounting.
122. The term **public business entity**<sup>12</sup> (as referenced in the definition of private company) is defined in the Master Glossary as:

A public business entity is a business entity meeting any one of the criteria below. Neither a not-for-profit entity nor an employee benefit plan is a business entity.

- (a) It is required by the U.S. Securities and Exchange Commission (SEC) to file or furnish financial statements, or does file or furnish financial statements (including voluntary filers), with the SEC (including other entities whose financial statements or financial information are required to be or are included in a filing).
- (b) It is required by the Securities Exchange Act of 1934 (the Act), as amended, or rules or regulations promulgated under the Act, to file or furnish financial statements with a regulatory agency other than the SEC.
- (c) It is required to file or furnish financial statements with a foreign or domestic regulatory agency in preparation for the sale of or for purposes of issuing securities that are not subject to contractual restrictions on transfer.
- (d) It has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market.
- (e) It has one or more securities that are not subject to contractual restrictions on transfer, and it is required by law, contract, or regulation to prepare U.S. GAAP financial statements (including notes) and make them publicly available on a periodic basis (for example, interim or annual periods). An entity must meet both of these conditions to meet this criterion.

An entity may meet the definition of a public business entity solely because its financial statements or financial information is included in another entity's filing with the SEC. In that case, the entity is only a public business entity for purposes of financial statements that are filed or furnished with the SEC.

123. While the entity scope can be identified, the FASB staff finds merit in considering whether the identified problem and its solutions would result in better accounting for all entities, not just private companies. Expanding the potential solutions on debt classification involving subjective acceleration

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<sup>11</sup> The definition of **private company** in the Master Glossary originated from Update No. 2014-02, *Intangibles—Goodwill and Other (Topic 350), Accounting for Goodwill (a consensus of the Private Company Council)*. That definition also was used in Update No. 2014-18, *Business Combinations (Topic 805), Accounting for Identifiable Intangible Assets in a Business Combination (a consensus of the Private Company Council)*.

<sup>12</sup> The term **public business entity** originated from Update No. 2013-12, *Definition of a Public Business Entity*. The objective of that Update was to proactively determine which entities would be within the scope of the PCDMF and to minimize the inconsistency and complexity of having multiple definitions of the term, or a diversity in practice as to what constitutes a nonpublic entity and a public entity within U.S. GAAP.

clauses to all entities also would be consistent with the scope of the prior Board project and would alleviate potential concerns about noncomparability between private and public company financial statements.

124. If the PCC believes that the identified problem is broader than private companies and that the potential solutions would result in better accounting for all entities, the PCC could consider making a recommendation to the Board at a future PCC meeting to add a project to the FASB's technical agenda. If this is the direction the PCC takes, the PCC could stay involved in advising the Board (similar to the PCC's involvement in the profits interest project, which led to the issuance of Update No. 2024-01, *Compensation—Stock Compensation (Topic 718): Scope Application of Profits Interest and Similar Awards*). In addition, the PCC could provide input and recommendations about improvements to debt disclosures that could be only applicable to private companies, in light of the fact that public entities provide more detailed disclosures about their debt that are required by the SEC (see paragraph 103).

***Can the Transactions or Events to Be Included in the Potential Project Scope Be Sufficiently Defined or Described?***

125. Debt arrangements with subjective acceleration clauses are not a new type of arrangement and would not be any different compared to the type of debt arrangements that are included in the scope of the existing guidance. A trigger of a subjective acceleration clause is a new concept, but the FASB staff thinks that a trigger can be adequately described.

**Preliminary Staff Analysis—PCDMF**

126. The FASB staff has begun its preliminary analysis of the PCDMF to help inform the PCC as it moves toward a future agenda decision. The PCDMF includes an overarching principle that user relevance should be the primary focus before considering cost and complexity. Users with whom the staff performed outreach indicated that lenders rarely enforce subjective acceleration clauses. Therefore, an argument could be made that classifying long-term debt as a current liability based on a probability assessment may not provide relevant information to users.
127. Keeping in mind the overarching principle on user relevance, the staff used the following Chapters in its preliminary analysis:
- (a) Chapter 3: Determining Display Guidance
  - (b) Chapter 1: Determining Recognition and Measurement Guidance

Excerpts from the PCDMF are included in Appendix B.

### Chapter 3: Determining Display Guidance

128. Chapter 3 indicates that generally, both private and public companies should apply the same financial statement display (the term *display* is synonymous with the term *presentation*) guidance because information that is important enough to be presented on the face of the financial statements is relevant to most financial statement users. Chapter 3 also states that there are some circumstances that private companies should be permitted to apply alternative display requirements, such as when the information to be displayed is not relevant to private company financial statement users or the notes to the financial statements sufficiently address the needs of users without affecting the comparability between the financial statements of private companies and public companies.
129. Chapter 3 does not specifically address considerations for private company classification differences, making the evaluation of the PCDMF a bit more challenging. Section 470-10-45, Other Presentation Matters, which is where most of the guidance resides that is being considered in this memo, explains that other presentation matters may include items such as current or long-term balance sheet classification. Therefore, the FASB staff made an effort to evaluate Chapter 3 under the premise that classification guidance is part of presentation guidance.
130. As noted in paragraph 126, the existing classification guidance that requires a probability assessment in determining the debt classification may result in outcomes that do not provide users with relevant information. During outreach, users indicated that lenders rarely accelerate the due date of debt because of a subjective acceleration clause; therefore, the staff thinks that debt classification that is affected before a trigger occurs is not relevant for a user.
131. Paragraph 3.2 and Illustration 3.3 indicate that in determining whether information is not applicable or relevant to typical private company users, the following factors (among others) should be evaluated:
- (a) Step 1: Whether private companies already are permitted an exception from providing related or similar types of information, for example, earnings per share and segment information, under existing guidance.
    - (i) Preliminary staff analysis: No private company debt classification differences are currently available.
  - (b) Step 2: Whether there is a basis to support alternative recognition and measurement or alternative disclosure requirements of the related financial statement components.
    - (i) Preliminary staff analysis: See the preliminary analysis below of Chapter 1: Determining Recognition and Measurement Guidance. The staff will wait to evaluate Chapter 2: Determining Disclosure Requirements, until more information is known about the direction the PCC takes (for example, narrow or broad and the content of the disclosures).

- (c) Step 3: Whether the information affects amounts and metrics on which typical users of private company financial statements focus (see paragraph 2.8 of the PCDMF in Appendix B).
  - (i) Preliminary staff analysis: While there are several areas of focus from paragraph 2.8 pertaining to debt, such as (1) borrowings and credit obligations, (2) leverage, (3) future cash flows, and (4) events and circumstances that could significantly affect future cash flows, the total amount of debt would be unchanged by the changes being considered by the PCC to the debt classification guidance for private companies.

## **Chapter 1: Determining Recognition and Measurement Differences**

- 132. When considering potential recognition and measurement differences, the PCDMF states that the Board and the PCC first should determine whether the recognition or measurement guidance being evaluated provides relevant information to users of private company financial statements at a reasonable cost. That analysis should focus on (a) the relevance of the information in meeting the objective of financial reporting for typical users of private company financial statements, (b) the characteristics that differentiate users of private company financial statements from users of public company financial statements, and (c) the cost and complexity of applying the guidance.
- 133. The PCDMF further notes that, if the Board and the PCC determine that either (a) the information provided by the guidance is not relevant or (b) the information provided by the guidance is relevant but is overly costly or complex to provide and no practical expedient is available, they should proceed to analyzing the benefits and costs of potential alternative recognition or measurement methods for private companies.
- 134. The staff understands that evaluating potential recognition and measurement differences for a PCC research project involving debt classification may not be intuitive. However, Chapter 3 of the PCDMF does not directly address classification differences and it includes a step to evaluate whether there is a basis to support alternative recognition and measurement or alternative disclosure requirements of the related financial statement components. Therefore, the staff evaluated Chapter 1 because some similarity may exist between the debt classification guidance and recognition and measurement.
- 135. The FASB staff observes that determining debt classification based on an assessment as to whether a lender will accelerate the due date of debt based on a subjective acceleration clause may not be relevant to a user because lenders rarely enforce subjective acceleration clauses. Additionally, that assessment adds unnecessary costs and complexities for preparers and practitioners.
- 136. Rather, classifying long-term debt as a current liability when a subjective acceleration clause is triggered (which is the potential solution being explored in Issue 1 of this memo) would provide more relevant information for users, as supported by recent private company users who stated that

subjective acceleration clauses should not affect debt classification until triggered. The staff thinks that a *trigger* could be viewed as a recognition and measurement event, while the reclassification from a noncurrent to a current liability when a trigger occurs could be viewed as a display or presentation event. On balance, the FASB staff thinks that the potential change to probability assessment guidance would provide relevant information to users of private company financial statements and could be applied at a reasonable cost for preparers and therefore would be supported by the PCDMF.

137. Taking the analysis a step further, the staff's understanding is private companies often classify their long-term debt as a noncurrent liability based on the outcome of applying the probability assessment guidance because acceleration of the due date of the debt often is remote. The change being contemplated to that guidance would result in the same noncurrent liability classification unless a subjective acceleration clause is triggered (which is an infrequent occurrence). Therefore, an argument could be made that the contemplated change to the probability assessment is similar to a practical expedient. The PCDMF describes the term *practical expedient* as a more cost-effective way of achieving the same or a similar accounting or reporting objective.
138. One of the potential alternatives being contemplated for private companies on the intent and ability to refinance guidance in Issue 2 of this memo would be an accounting alternative and not a practical expedient. That is, if the PCC wants to amend the condition in paragraph 470-10-45-14(b)(1) to be trigger-based for private companies, short-term debt subject to a financing agreement would be classified as a noncurrent liability unless a subjective acceleration clause has been triggered. All other entities would classify their short-term debt subject to a financing agreement as a noncurrent liability when a subjective acceleration clause is included in the financing arrangement.
139. Potential changes to the revolving credit agreement guidance in Issue 3 of this memo have not yet been fully evaluated under the PCDMF although the staff thinks that any changes that are made should be consistent with those in Issues 1 and 2.
140. The FASB staff also observes that the PCC's views on whether this research project should be expanded to other entities (see paragraph 124) may affect whether and how the PCC considers the PCDMF in proceeding with this research project.

## Next Steps

141. The next steps will include working on research and outreach requests made by the PCC at its September 2025 meeting and the following:
  - (a) Analysis of the FASB agenda decision criteria
  - (b) Analysis of the PCDMF

- (c) Meet with the PCC Technical Agenda Consultation Group
- (d) PCC agenda decision at a future meeting and initial deliberations, if a project is added.

## Appendix A: Relevant Paragraphs from GAAP

Reference	Guidance
<b>470-10-20 (Master Glossary)</b>	<p><i>Lock-Box Arrangement</i></p> <p>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.</p>
<b>470-10-20 (Glossary)</b>	<p><i>Springing Lock-Box Arrangement</i></p> <p>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.</p>
<b>470-10-20 (Glossary)</b>	<p><i>Subjective Acceleration Clause</i></p> <p>A subjective acceleration clause is a provision in a debt agreement that states that the creditor may accelerate the scheduled maturities of the obligation under conditions that are not objectively determinable (for example, if the debtor fails to maintain satisfactory operations or if a material adverse change occurs).</p>
<b>470-10-45-2</b>	<p>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.</p>
<b>470-10-45-4</b>	<p>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.</p>
<b>470-10-45-5</b>	<p>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</p>

Reference	Guidance
	revolving credit agreement, to refinance the obligation after the balance sheet date on a long-term basis.
<b>470-10-45-6</b>	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.
<b>470-10-45-10</b>	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.
<b>470-10-45-13</b>	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 (470-10-45-14) 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.
<b>470-10-45-14</b>	<p>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:</p> <ol style="list-style-type: none"> <li>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.</li> <li>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: <ol style="list-style-type: none"> <li>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.</li> </ol> </li> </ol>

Reference	Guidance
	<p>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.</p> <p>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.</p>
<b>470-10-45-21</b>	<p>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.</p>
<b>470-10-50-3</b>	<p>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.</p>
<b>470-10-55-1</b>	<p>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.</p>

## Appendix B: Relevant Excerpts from the PCDMF

The FASB staff notes that throughout the PCDMF, the primary focus is placed on user relevance and the secondary focus is on cost and complexity considerations. Appendix B contains excerpts from the PCDMF that the PCC may find helpful.

### Chapter 1: Determining Recognition and Measurement Guidance

1.2 In making the assessments in this module, the Board and the PCC first should determine whether the recognition or measurement guidance being evaluated provides relevant information to users of private company financial statements at a reasonable cost. That analysis should focus on (a) the relevance of the information in meeting the objective of financial reporting for typical users of private company financial statements, (b) the characteristics that differentiate users of private company financial statements from users of public company financial statements, and (c) the cost and complexity of applying the guidance.

1.3 If the guidance provides relevant information, the Board and the PCC should then consider whether the use of one or more practical expedients could satisfy the needs of users of private company financial statements while reducing the cost and complexity for preparers of those financial statements. The term *practical expedient* means a more cost-effective way of achieving the same or a similar accounting or reporting objective.

1.4 If the Board and the PCC determine that either (a) the information provided by the guidance is not relevant or (b) the information provided by the guidance is relevant but is overly costly or complex to provide and no practical expedient is available, they should proceed to analyzing the benefits and costs of potential alternative recognition or measurement methods for private companies. If a recognition or measurement difference for private companies increases the relevance of information to the primary users of private company financial statements, then the difference should be considered as long as the benefits justify any increase in costs.

### Chapter 2: Determining Disclosure Requirements

2.3 In deciding whether to provide disclosure alternatives for private companies within U.S. GAAP, the Board and the PCC should consider the following:

- a. The typical needs and areas of focus of lenders, other creditors, and investors that use private company financial statements
- b. The relevance of the measurement attribute required by the current guidance to typical users of private company financial statements
- c. The existing knowledge and familiarity that many users of private company financial statements typically have about the reporting entity
- d. The general ability of users to obtain additional information directly from preparers of private company financial statements throughout the reporting period and afterward
- e. Given the resource constraints of many private companies, the cost of preparing, auditing, reviewing, or compiling the information to be disclosed
- f. Whether the relevance of a disclosure is significantly reduced by the lag between the year-end reporting date and the date that financial statements are issued and made available to users
- g. The concern of preparers of private company financial statements about disclosing proprietary information.

2.4 In assessing the factors in paragraph 2.3, the Board and the PCC should place the most weight on factors related to the relevance of the disclosure to the most common types of users of private company financial statements (factors (a) and (b)). The Board and the PCC generally should not provide disclosure alternatives related to information on which typical users of private company financial statements commonly focus (see paragraph 2.8).

2.8 The following list describes common areas of focus of typical users of private company financial statements. The Board and the PCC generally should not provide disclosure alternatives within U.S. GAAP relating to the following:

- a. Cash balances, current or future cash flows, or adjusted EBITDA

- b. Borrowings and other credit obligations, liquidity, or leverage
- c. Significant contingencies and commitments affecting future cash flows
- d. Significant events and transactions affecting cash flows that are unusual in nature or that occur infrequently
- e. Noncash charges relating to trade receivables, inventories, fixed assets, and other long-term tangible assets
- f. Information about which entities are included in the consolidated financial statements and the reasons for any changes to the company's policy about which entities are included in the consolidated financial statements
- g. Capital, regulatory, or other contractual restrictions that may affect future cash flows or liquidity
- h. Material transactions with related parties
- i. Information about restatements or prior-period errors that have a material effect on the comparability of financial statements
- j. Material subsequent events
- k. Significant changes in accounting principles, policies, and estimates
- l. Information about whether an alternative method of accounting guidance has been applied
- m. Other events and circumstances that could significantly affect future cash flows.

### **Chapter 3: Determining Display Requirements and Other Relevant Excerpts**

3.1 Generally, both private companies and public companies should apply the same financial statement display (the term *display* is synonymous with the term *presentation*) guidance established by the Board because of the presumption 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 Board and the PCC should assess, among other pertinent considerations, whether the information to be displayed is not relevant to typical users of private company financial statements or 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 and public companies.

3.2 In determining whether information is not applicable or relevant to typical private company users, the Board and the PCC should consider, among other factors, the following:

- a. Whether private companies already are permitted an exception from providing related or similar types of information, for example, earnings per share and segment information, under existing guidance
- b. Whether there is a basis to support alternative recognition and measurement or alternative disclosure requirements of the related financial statement components
- c. Whether the information affects amounts and metrics on which typical users of private company financial statements focus (see paragraph 2.8 below).

#### *Illustration—Process Flowchart*

3.3 Generally, there is a presumption that both private companies and public companies should apply the same financial statement display guidance established by the Board, as discussed in paragraph 3.1. The flowchart below illustrates the steps to use when determining whether that presumption should be rebutted.

