



Exposure Draft

June 29, 2017

Comments Due: September 15, 2017

Proposed Statement
of the Governmental Accounting Standards Board

Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements

an amendment of GASB Statements No. 34 and No. 38

This Exposure Draft of a proposed Statement of Governmental Accounting Standards is issued by the Board for public comment. Written comments should be addressed to:

Director of Research and Technical Activities
Project No. 3-30

Governmental Accounting Standards Board

CERTAIN DISCLOSURES RELATED TO DEBT, INCLUDING DIRECT BORROWINGS AND DIRECT PLACEMENTS

WRITTEN COMMENTS

Deadline for submitting written comments: September 15, 2017

Requirements for written comments. Comments should be addressed to the Director of Research and Technical Activities, Project No. 3-30, and emailed to director@gasb.org or mailed to the address below.

OTHER INFORMATION

Public hearing. The Board has not scheduled a public hearing on the issues addressed in this Exposure Draft.

Public files. Written comments will become part of the Board's public file and are posted on the GASB's website.

Orders. This Exposure Draft may be downloaded from the GASB's website at www.gasb.org. For information on prices for printed copies, please contact the Order Department at the following address:

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Notice to Recipients of This Exposure Draft

The Governmental Accounting Standards Board (GASB) is responsible for (1) establishing and improving standards of state and local governmental accounting and financial reporting to provide useful information to users of financial reports and (2) educating stakeholders—including issuers, auditors, and users of those financial reports—on how to most effectively understand and implement those standards.

The due process procedures that we follow before issuing our standards and other communications are designed to encourage broad public participation in the standards-setting process. As part of that due process, we are issuing this Exposure Draft setting forth a proposed Statement that would define debt for purposes of disclosure in notes to financial statements and establish additional disclosure requirements related to debt obligations of governments, including direct borrowings and direct placements.

We invite your comments on all matters in this proposed Statement. Because this proposed Statement may be modified before it is issued as a final Statement, it is important that you comment on any aspects with which you agree as well as any with which you disagree. To facilitate our analysis of comment letters, it would be helpful if you explain the reasons for your views, including alternatives that you believe the GASB should consider.

All responses are distributed to the Board and to staff members assigned to this project, and all comments are considered during the Board's deliberations leading to a final Statement. In deciding on changes in accounting and financial reporting standards, the GASB also takes into consideration the costs of preparing and reporting the information and its benefits to users of financial statements. When the Board is satisfied that all alternatives have adequately been considered, and modifications have been made as considered appropriate, a vote is taken on the Statement. A majority vote is required for adoption.

Summary

The primary objective of this proposed Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also would clarify which liabilities governments should include when disclosing information related to debt.

This proposed Statement would define debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of payment of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This proposed Statement also would require that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; collateral pledged as security for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this proposed Statement also would require that existing and proposed additional information be provided for direct borrowings and direct placements of debt separately from other debt.

Effective Date and Transition

The requirements of this proposed Statement would be effective for reporting periods beginning after June 15, 2018. Earlier application would be encouraged.

How the Changes in This Proposed Statement Would Improve Financial Reporting

The requirements of this proposed Statement would improve financial reporting by providing users of financial statements with essential information that currently is not consistently provided. In addition, information about resources to liquidate debt and the risks associated with changes in terms associated with debt would be disclosed. As a result, users would have better information to understand the effects of debt on a government's future resource flows.

Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including general purpose governments; public benefit corporations and authorities; public employee retirement systems; and public utilities, hospitals and other healthcare providers, and colleges and universities. Paragraph 2 discusses the applicability of this Statement.

Proposed Statement of the Governmental Accounting Standards Board

Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements

June 29, 2017

CONTENTS

	Paragraph Numbers
Introduction.....	1
Standards of Governmental Accounting and Financial Reporting	2–6
Scope and Applicability of This Statement	2–3
Disclosures	4–6
Definition of Debt.....	4
Notes to Financial Statements.....	5–6
Effective Date and Transition	7
Appendix A: Background	A1–A5
Appendix B: Basis for Conclusions.....	B1–B22
Appendix C: Illustration	C1
Appendix D: Codification Instructions.....	D1–D2

Proposed Statement of the Governmental Accounting Standards Board

Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements

June 29, 2017

INTRODUCTION

1. The objective of this Statement is to improve consistency in the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements, and to provide financial statement users with additional essential information about debt.

STANDARDS OF GOVERNMENTAL ACCOUNTING AND FINANCIAL REPORTING

Scope and Applicability of This Statement

2. This Statement defines debt for purposes of disclosure in notes to financial statements and establishes additional financial statement note disclosure requirements related to debt obligations of governments, including direct borrowings (for example, a government entering into a loan agreement with a lender) and direct placements (for example, a government issuing a debt security directly to an investor). The requirements of this Statement apply to the financial statements of all state and local governments.

3. This Statement amends Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, paragraph 119; Statement No. 38, *Certain Financial Statement Note Disclosures*, paragraphs 10 and 12; Interpretation No. 1, *Demand Bonds Issued by State and Local Governmental Entities*, paragraph 11; NCGA Interpretation 6, *Notes to the Financial Statements Disclosure*, paragraphs 4 and 5; and *Implementation Guide No. 2015-1*, Question 7.85.7.

Disclosures

Definition of Debt

4. For purposes of disclosure in notes to financial statements, debt is defined as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of payment of cash) in one or more payments to settle an amount that is fixed

at the date the contractual obligation is established.¹ For disclosure purposes, debt does not include leases or trade accounts payable.

Notes to Financial Statements

5. In addition to other requirements to disclose information related to debt in notes to financial statements, a government should disclose in notes to financial statements summarized information about the following items:

- a. Amount of unused lines of credit
- b. Collateral pledged as security for debt
- c. Terms specified in debt agreements related to significant:
 - (1) Events of default with finance-related consequences
 - (2) Termination events with finance-related consequences
 - (3) Subjective acceleration clauses.

6. In notes to financial statements, a government should separate information in debt disclosures regarding (a) direct borrowings and direct placements of debt from (b) other debt.

EFFECTIVE DATE AND TRANSITION

7. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. This Statement applies to notes to financial statements of all periods presented. If application for prior periods presented is not practicable, the reason for not applying this Statement to prior periods presented should be disclosed.

**The provisions of this Statement need
not be applied to immaterial items.**

¹For purposes of this determination, interest to be accrued and subsequently paid, such as interest on variable-rate debt, or interest to be added to the principal amount of the obligation, such as interest on capital appreciation bonds, do not preclude the amount to be settled from being considered fixed at the date the contractual obligation is established.

Appendix A

BACKGROUND

A1. A variety of stakeholders and stakeholder groups increasingly have expressed concerns to regulators and standards setters, including the GASB, about governments entering into debt arrangements that have the potential to introduce additional risks to a government's credit profile. Those concerns include inconsistencies in disclosures in financial statements provided by such governments and related challenges to the ability to assess those risks without additional information.

A2. In April 2015, the Board initiated pre-agenda research to examine the effectiveness of the disclosures required to be presented by governments related to debt in general. That research consisted of (a) archival research regarding what information governments disclose in financial statements related to debt in relation to current disclosure requirements, (b) interviews with preparers and auditors about issues in practice related to debt disclosure requirements, and (c) a survey of users regarding the perceived value of required disclosures related to debt and additional information related to debt they consider essential for disclosure.

A3. In conducting outreach regarding direct borrowings, the GASB heard concerns about the sufficiency of debt-related disclosures. In particular, some stakeholders expressed concerns about the absence of disclosures regarding provisions of debt agreements that expose governments to financial risk—such as accelerated repayments when certain events occur—which adversely affects the ability to assess the risk in a government's credit profile.

A4. The results of the research were discussed by the Board in July 2016 and by the Governmental Accounting Standards Advisory Council (GASAC) in August 2016. The pre-agenda research indicated that the requirements related to debt disclosures generally provided essential information. However, the research results also indicated some confusion as to whether certain types of long-term liabilities are regarded as debt and, therefore, subject to disclosure requirements for debt. In addition, some stakeholders requested that additional disclosures related to termination events and acceleration clauses that may affect liquidity included in certain direct borrowing agreements and direct placement agreements be required.

A5. In August 2016, the Board added a project related to debt disclosures to the practice-issue portion of the GASB's current technical agenda. Deliberations began in October 2016. Feedback on project issues was provided by GASAC members at their December 2016 and March 2017 meetings.

Appendix B

BASIS FOR CONCLUSIONS

Introduction

B1. This appendix discusses factors considered significant by Board members in reaching the conclusions in this Statement. It includes discussion of the alternatives considered and the Board's reasons for accepting some and rejecting others. Individual Board members may have given greater weight to some factors than to others.

Scope and Applicability of This Statement

B2. In establishing the scope of this Statement, the Board considered certain issues identified through the pre-agenda research discussed in Appendix A. The primary issue identified was that some stakeholders believe that additional information should be disclosed in notes to financial statements related to direct borrowings and direct placements. That research finding led the Board to conclude that additional disclosure requirements should be considered for debt reported by governments to ensure that essential information related to debt is provided in financial statements.

B3. The Board also considered the results of the pre-agenda research that suggested there is inconsistent application of the existing standards requiring information about which liabilities constitute debt, for financial reporting purposes, to be disclosed in notes to financial statements. Information related to long-term debt generally is provided in the schedule of changes in long-term liabilities required by paragraph 119 of Statement 34. Presentation of details of debt service requirements to maturity and terms by which interest rates change for variable rate debt is required by paragraph 10 of Statement 38. Paragraph 12 of Statement 38 requires presentation of a schedule of changes in short-term debt and disclosure of the purpose for which short-term debt was issued.

Definition of Debt for Purposes of Disclosure

B4. To clarify what liabilities should be considered debt for purposes of disclosure, the Board decided to first consider a definition of debt provided for purposes of accounting and financial reporting by debtors and creditors for a troubled debt restructuring, as contained in paragraph 131 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, as amended. That definition contains two characteristics of debt that the Board concluded should be used to identify the liabilities for which information is required to be disclosed in current GASB pronouncements.

B5. The first characteristic of debt included in the definition of debt relative to troubled debt restructuring is that debt is a liability that arises from a contractual obligation that is expected to be settled using cash. However, the Board believes that the ability to substitute other assets for cash should not preclude an obligation from being considered debt.

Therefore, the Board decided to provide in the definition that the ability to use other assets in lieu of cash to settle an obligation should not exclude an obligation from being considered debt for purposes of financial statement note disclosures. The Board also believes that disclosures related to debt should be required for liabilities that are recognized in the financial statements as opposed to contractual obligations in which further action needs to occur before a liability exists and is recognized, such as would occur as a result of a government entering into an executory contract.

B6. The second characteristic of debt the Board considered is that payment of cash to settle the obligation should be required either on demand or on fixed or determinable dates. The Board determined that in contrast to liabilities for which the amounts and the dates of payment are dependent upon future events, such as pollution remediation obligations or defined benefit postemployment benefits, amounts for liabilities related to debt, as defined in this Statement, should be known at the date the obligation is established. The Board also believes that debt for which the amount to be paid to settle the liability is unknown should be excluded from the debt-related disclosure requirements. However, by requiring the amount to settle the liability to be fixed, interest that would accrue, regardless of whether the interest is based on a fixed or variable rate, would not preclude the liability from being considered debt. In addition, the Board believes that if interest is included as part of the fixed amount to be paid (for example, capital appreciation debt), the addition of the accrued interest to the principal balance should not preclude the liability from meeting the definition of debt for disclosure purposes. Footnote 1 provides those clarifications. The Board concluded that whether the debt is due on demand or on fixed or determinable dates need not be a qualifying factor in the definition of debt for disclosure purposes if the amount to settle the obligation is recognized as a liability in the financial statements.

B7. The Board determined that liabilities related to leases meet the definition of debt for purposes of disclosures. However, the Board believes that the disclosures required by Statement No. 87, *Leases*, provide the essential information about lease liabilities. Accordingly, the Board excluded leases from the disclosure requirements of this Statement. Similarly, the Board concluded that although some trade accounts payable may meet the definition of debt in this Statement, information related to that type of liability need not be disclosed because of the short-term nature of those liabilities. However, the Board believes that trade accounts payable that are converted to long-term debt should be subject to the disclosure requirements of this Statement.

Note Disclosure Requirements of This Statement

B8. In the pre-agenda research described in Appendix A, stakeholders identified debt-related information that is not required to be disclosed by generally accepted accounting principles (GAAP). Some stakeholders believe that further information related to direct borrowings and direct placements is essential to understanding a government's liabilities and should be disclosed. In particular, those stakeholders cited their view that information related to direct borrowings and direct placements is more difficult to obtain, both in financial reporting based on GAAP and in other reporting of governments. Those research findings led the Board to conclude that additional debt disclosure requirements should be considered.

B9. The Board initially considered whether additional information should be disclosed in notes to financial statements related to each of the following categories of debt: long-term debt, short-term debt, and direct borrowings and direct placements. After considering the relative importance of the additional disclosures for each of those categories of debt, the Board concluded that the category of debt is not relevant to whether any additional information is essential. Therefore, the Board concluded that the additional information should be required to be disclosed for all debt that meets the definition in paragraph 4 of this Statement.

B10. After considering potential additional disclosures, the Board concluded that financial statement users need information about unused lines of credit and collateral pledged as security for debt. Disclosure of information related to both unused lines of credit and pledged collateral provides users with information about potential sources for principal and interest repayments that could be accessed if cash resources of the indebted government are insufficient. The Board believes that the information in the additional disclosures, in summarized form, is essential to understanding risks incurred and potential remedies available to the government as a result of entering into a debt agreement.

B11. The Board also concluded that summarized information about the terms specified in debt agreements related to significant events of default with finance-related consequences and termination events with finance-related consequences are essential and, therefore, should be disclosed in notes to financial statements. The Board believes that information is essential because it would assist users in assessing the finance-related consequences that may result if a default or termination event occurs. The Board considered whether the disclosure should be for significant (a) *finance-related events* of default or termination or for significant (b) *events* of default or termination with *finance-related consequences*. The Board acknowledges that focusing the disclosure on events with finance-related consequences as opposed to finance-related events could be viewed by some as expanding the intent of this type of disclosure; however, because of the financial risks associated with these potential events, the Board believes that the focus on finance-related consequences is warranted.

B12. The Board also believes the terms specified in debt agreements related to significant subjective acceleration clauses may pose similar risks as those posed by events of default or termination; however, the acceleration of the debt can result from a circumstance that is not objectively determinable. If a government is obligated under a debt arrangement with a subjective acceleration clause, the other party in the debt agreement can change the terms of the repayment of the debt due to a circumstance that is not specifically defined in the debt arrangement, such as a material adverse change in the government's credit profile. Therefore, the Board concluded that governments should provide disclosures of summarized information related to terms specified in debt agreements related to significant subjective acceleration clauses.

Separation within Debt Disclosures

B13. As discussed in paragraph B9, the Board concluded that the disclosures required by this Statement should be presented in notes to financial statements for all types of liabilities

that meet the definition of debt in this Statement. However, the Board concluded that separate disclosure of information related specifically to direct borrowings and direct placements of debt is essential because these types of debt generally are different from other debt as a result of the process by which the government incurs the debt. Therefore, the Board determined that disclosures of summarized information related to direct borrowings and direct placements of debt should be presented separately from information presented related to other types of debt.

Other Disclosures Considered

B14. In addition to the information required to be disclosed in notes to financial statements by this Statement, the Board also considered potential disclosures covering other aspects of debt, such as issuance and maturity dates; the name of the lender, if a direct borrowing; the amount borrowed; interest rates; borrowing costs; and premiums paid. The Board concluded that this information is not essential to a user's understanding of debt recognized in a government's statement of net position, noting that similar information is not required to be disclosed for transactions related to many other liabilities. Therefore, the Board determined that such information should not be required to be disclosed in notes to financial statements.

Considerations Related to Benefits and Costs

B15. The overall objective of financial reporting by governments is to provide information to assist users (the citizenry, legislative and oversight bodies, and investors and creditors) in assessing the accountability of governments and in making economic, social, and political decisions. One of the principles guiding the Board's setting of standards for financial reporting is the assessment of the expected benefits and perceived costs. The Board strives to determine that its standards (including disclosure requirements) address a significant user need and that the costs incurred through the application of its standards, compared with possible alternatives, are justified when compared to the expected overall public benefit.

B16. Present and potential users are the primary beneficiaries of improvements in financial reporting. Persons within governments who are responsible for keeping accounting records and preparing financial statements, as well as managers of public services, also benefit from the information that is collected and reported in accordance with GASB standards. The costs to implement the standards are borne primarily by governments and, by extension, their citizens and taxpayers. Users also incur costs associated with the time and effort required to obtain and analyze new information to meaningfully inform their assessments and decisions.

B17. The Board's assessment of the expected benefits and perceived costs of issuing new standards is unavoidably more qualitative than quantitative because no reliable and objective method has been identified for quantifying the value of improved information in financial statements. Furthermore, it is difficult to accurately measure the costs of implementing new standards until implementation has taken place. Nonetheless, the Board undertakes this assessment based on the available evidence regarding expected benefits and perceived costs with the objective of achieving an appropriate balance between maximizing benefits and minimizing costs.

B18. The primary source of information on the expected benefits of this Statement is the pre-agenda research, which showed diversity in practice as to which disclosures related to debt were applicable. Additionally, the research identified certain disclosures related to debt, particularly direct borrowings and direct placements, that users believe are needed in their assessment of the accountability of a government and its decision-making process. This Statement will reduce diversity in practice by providing uniform guidance. Financial statement users will benefit through (a) increased comparability of the disclosures in financial statements related to debt and (b) the disclosure of additional essential information.

B19. Although the Board recognizes that it is difficult to accurately measure the costs of implementing new standards, the Board believes that implementation costs for the additional disclosures related to debt will be minimal. Although this Statement increases the note disclosure requirements related to debt, the Board believes the information needed for the disclosures is readily accessible to governments.

B20. Considering the benefits of the increased comparability of financial statements and additional essential information, and the anticipated minimal incremental implementation costs, the Board believes that the expected benefits of this Statement justify the perceived costs.

Effective Date and Transition

B21. The provisions of this Statement are effective for reporting periods beginning after June 15, 2018. The Board concluded that this effective date is appropriate because, as previously noted, governments implementing the guidance in this Statement will have ready access to information required to be disclosed. The Board believes the effective date of this Statement will provide sufficient lead time to allow governments to prepare for implementation. Some governments may wish to implement the guidance earlier than the effective date, which this Statement encourages.

B22. With respect to transition, the Board concluded that it is appropriate to require retroactive application of the provisions of this Statement, if practicable. The phrase *if practicable* has been used in other GASB standards in a similar context as used in this Statement with respect to transition provisions that require restating the financial statements for all prior periods presented. The Board believes that reasonable efforts should be deployed before a government determines that restatement of all prior periods presented is not practicable. In other words, *inconvenient* should not be considered equivalent to *not practicable*.

Appendix C

ILLUSTRATION

C1. This appendix illustrates certain requirements of this Statement. The facts assumed in these examples are illustrative only and are not intended to modify or limit the requirements of this Statement or to indicate the Board's endorsement of the policies or practices shown. Disclosures set forth in this Statement and in other GASB pronouncements, in addition to those shown in Illustration 1, are required, if applicable.

Note Disclosures Related to Debt

[Note: This illustration includes note disclosures required, or amended, by this Statement.]

Assumptions

The County government has outstanding general obligation bonds and notes from direct borrowings and direct placements related to governmental activities totaling \$12,530,000 and \$941,918, respectively, and notes from direct borrowings related to business-type activities totaling \$70,400. The County has pledged collateral of an undeveloped lot zoned for commercial use against the notes from direct borrowings related to business-type activities.

The County also has an outstanding line of credit in the amount of \$1,500,000. The notes from direct borrowings related to business-type activities have provisions that change the timing of repayment of outstanding amounts to become immediately due if the County terminates its line of credit. The County's notes from direct borrowings related to business-type activities also contain subjective acceleration clauses that allow the lender to accelerate payment of the entire principal amount to due immediately if the lender determines that a material adverse change occurs. All notes from direct borrowings and direct placements have provisions that change the schedule of repayment of outstanding amounts to due immediately if the County is unable to make payment.

Disclosure

Changes in long-term obligations for the year ended June 30, 20X2, are as follows:

	Balance at July 1, 20X1	Increases	Decreases	Balance at June 30, 20X2	Due within One Year
Governmental activities:					
General obligation bonds	\$ 21,500,000	\$ -	\$ 8,970,000	\$ 12,530,000	\$ 7,050,000
Notes from direct borrowings and direct placements	1,412,877	-	470,959	941,918	470,959
Total	<u>\$ 22,912,877</u>	<u>\$ -</u>	<u>\$ 9,440,959</u>	<u>\$ 13,471,918</u>	<u>\$ 7,520,959</u>
Business-type activities					
Notes from direct borrowings	<u>\$ 76,800</u>	<u>\$ -</u>	<u>\$ 6,400</u>	<u>\$ 70,400</u>	<u>\$ 6,400</u>

The County's notes from direct borrowings related to business-type activities of \$70,400 are secured with collateral of an undeveloped lot zoned for commercial use. The County also has an unused line of credit in the amount of \$1,500,000. The notes from direct borrowings related to business-type activities of \$70,400 have provisions that change the timing of repayment of outstanding amounts to become immediately due if the County terminates its line of credit. Notes from direct borrowings and direct placements related to governmental activities of \$941,918 and notes from direct borrowings related to business-type activities of \$70,400 have provisions that change the timing of repayment of outstanding amounts to become immediately due if the County is unable to make payment.

The County's notes from direct borrowings related to business-type activities of \$70,400 contain subjective acceleration clauses that allow the lender to accelerate payment of the entire principal amount to become immediately due if the lender determines that a material adverse change occurs.

Debt service requirements on long-term debt at June 30, 20X2, are as follows:

Year Ending June 30,	Governmental Activities				Business-Type Activities	
	Bonds		Notes from Direct Borrowings and Direct Placements		Notes from Direct Borrowings	
	Principal	Interest	Principal	Interest	Principal	Interest
20X3	\$ 7,050,000	\$ 497,700	\$ 470,959	\$ 30,024	\$ 6,400	\$ 2,640
20X4	4,880,000	215,950	470,959	10,008	6,400	2,400
20X5	50,000	21,000	-	-	6,400	2,160
20X6	50,000	19,250	-	-	6,400	1,920
20X7	50,000	17,500	-	-	6,400	1,680
20X8-20Y2	250,000	52,500	-	-	32,000	4,800
20Y3-20Y7	200,000	17,500	-	-	6,400	240
	<u>\$ 12,530,000</u>	<u>\$ 841,400</u>	<u>\$ 941,918</u>	<u>\$ 40,032</u>	<u>\$ 70,400</u>	<u>\$ 15,840</u>

Appendix D

CODIFICATION INSTRUCTIONS

D1. The instructions that follow update the June 30, 2016 *Codification of Governmental Accounting and Financial Reporting Standards* (Codification) for the effects of the provisions of this Statement. Only the paragraph number of the Statement is listed if the paragraph will be cited in full in the Codification.

* * *

[Update cross-references throughout.]

* * *

REPORTING LIABILITIES

SECTION 1500

Sources: [Add GASB Statement XX.]

.129 [Replace current paragraph .129 with the following:] Governments should disclose the following details in notes to financial statements about debt service requirements to maturity. For this purpose, debt is defined as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of payment of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.¹⁶ For this purpose, debt does not include leases or trade accounts payable. A government should separate information in debt disclosures regarding (a) direct borrowings and direct placements of debt from (b) other debt. Details should include:

- a. Principal and interest requirements to maturity, presented separately, for each of the five subsequent fiscal years and in five-year increments thereafter. Interest requirements for variable-rate debt should be determined using the rate in effect at the financial statement date.
- b. The terms by which interest rates change for variable-rate debt.

[GASBS 38, ¶10, as amended by GASBS XX, ¶4 and ¶6]

¹⁶[GASBS XX, fn1]

[Insert new paragraph .130 as follows; renumber subsequent paragraphs.]

.130 A government should disclose in its notes to financial statements summarized information about the following items, separating information regarding (a) direct borrowings and direct placements of debt from (b) other debt.

- a. Amount of unused lines of credit

- b. Collateral pledged as security for the debt
- c. Terms specified in debt agreements related to significant:
 - (1) Events of default with finance-related consequences
 - (2) Termination events with finance-related consequences
 - (3) Subjective acceleration clauses.

[GASBS XX, ¶5 and ¶6]

* * *

NOTES TO FINANCIAL STATEMENTS

SECTION 2300

Sources: [Add GASB Statement XX.]

.106 [In the sources of the paragraph, revise the references to the GASBS 34 sources as follows:] GASBS 34, ¶113, ¶114, ¶117, ¶118, ¶120, and ¶123, as amended by GASBS 62, ¶4; GASBS 34, ¶115, ¶116, ¶121, and ¶122, as amended by GASBS 62, ¶4 and GASBS 63, ¶8; GASBS 34, ¶119, as amended by GASBS 62, ¶4 and GASBS XX, ¶4

[Also in the sources of the paragraph, revise the references to the GASBS 38 sources as follows:] GASBS 38, ¶6, ¶7, ¶9, ¶14, and ¶15; GASBS 38, ¶10, as amended by GASBS XX, ¶4 and ¶6

.120 [Replace *loans, and leases payable* with *and loans*. Replace *compensated absences and claims and judgments* with *compensated absences, leases payable, and claims and judgments*] [GASBS 34, ¶119, as amended by GASBS XX, ¶4]

.124 [Insert new second and third sentences as follows; renumber subsequent footnotes.] For this purpose, debt is defined as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of payment of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.⁶ For this purpose, debt does not include leases or trade accounts payable. A government should separate information in debt disclosures regarding (a) direct borrowings and direct placements of debt from (b) other debt.

- a. Principal and interest requirements to maturity, presented separately, for each of the five subsequent fiscal years and in five-year increments thereafter. Interest requirements for variable-rate debt should be determined using the rate in effect at the financial statement date.
- b. The terms by which interest rates change for variable-rate debt.

[GASBS 38, ¶12, as amended by GASBS XX, ¶4 and ¶6]

⁶ [GASBS XX, fn1]

[Revise Question .703-7 as follows:]

.703-7 Q—Paragraph .129 of Section 1500 requires debt service requirements to be shown separately. Does the word *separately* refer to (a) the separate presentations for each of the five subsequent years and in five-year increments thereafter, (b) the separation of principal from interest, (c) the separate presentation of direct borrowings and direct placements of debt from other debt, or (d) separation of debt service requirements for each debt issue?

A—The word *separately* refers to (a) the separate presentations for each of the five subsequent years and in five-year increments thereafter, (b) the separation of principal from interest, and (c) the separate presentation of direct borrowings and direct placements of debt from other debt. Section 1500 does not require disclosure of debt service requirements for each debt issue.

[GASBIG 2015-1, Q7.85.7, as amended by GASBS XX, ¶6]

[Revise Question .706-6 as follows:]

.706-6 Q—Paragraph .129 of Section 1500 requires debt service requirements to be shown separately. Does the word *separately* refer to (a) the separate presentations for each of the five subsequent years and in five-year increments thereafter, (b) the separation of principal from interest, (c) the separate presentation of direct borrowings and direct placements of debt from other debt, or (d) separation of debt service requirements for each debt issue?

A—The word *separately* refers to (a) the separate presentations for each of the five subsequent years and in five-year increments thereafter, (b) the separation of principal from interest, and (c) the separate presentation of direct borrowings and direct placements of debt from other debt. Section 1500 does not require disclosure of debt service requirements for each debt issue.

[GASBIG 2015-1, Q7.85.7, as amended by GASBS XX, ¶6]

* * *

DEMAND BONDS

SECTION D30

.111 [Insert new third sentence as follows:] A government should separate information in debt disclosures regarding (a) direct borrowings and direct placements of debt from (b) other debt. [GASBI 1, ¶11, as amended by GASBS XX, ¶6]

* * *

D2. The instructions that follow update the June 30, 2016 *Comprehensive Implementation Guide* for the effects of this Statement.

* * *

[Revise Question 7.85.7 as follows:]

7.85.7. Q—Paragraph 10a of Statement 38, as amended, requires debt service requirements to be shown separately. Does the word *separately* refer to (a) the separate presentations for each of the five subsequent years and in five-year increments thereafter, (b) the separation of principal from interest, (c) the separate presentation of direct borrowings and direct placements of debt from other debt, or (d) separation of debt service requirements for each debt issue?

A—The word *separately* refers to (a) the separate presentations for each of the five subsequent years and in five-year increments thereafter, (b) the separation of principal from interest, and (c) the separate presentation of direct borrowings and direct placements of debt from other debt. Statement 38 does not require disclosure of debt service requirements for each debt issue.

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