

JULY 31, 2012



# In Focus

## Invitation to Comment—*Private Company Decision-Making Framework: A Framework for Evaluating Financial Accounting and Reporting Guidance for Private Companies*

The Financial Accounting Standards Board (FASB) on July 31, 2012, issued an Invitation to Comment on a staff paper that outlines an approach for deciding whether and when to modify U.S. Generally Accepted Accounting Principles (GAAP) for private companies. The paper, *Private Company Decision-Making Framework: A Framework for Evaluating Financial Accounting and Reporting Guidance for Private Companies*, contains initial FASB staff recommendations of criteria to determine whether and in what circumstances it is appropriate to adjust financial reporting requirements for private companies following U.S. GAAP.

The purpose of the Invitation to Comment is to gather input from interested stakeholders about the appropriateness, completeness, and cost-effectiveness of the initial draft framework. Stakeholders are asked to provide input on the document by October 31, 2012.

### Why Is the FASB Proposing the Creation of a Private Company Decision-Making Framework?

The initial FASB staff recommendations relating to a decision-making framework for making private company financial reporting decisions is part of the FASB's ongoing commitment to better serve the needs

of private company stakeholders, including users, preparers, and auditors of private company financial statements, without sacrificing the quality or fundamental comparability of U.S. GAAP financial statement reporting.

### What Would the Private Company Decision-Making Framework Do?

The decision-making framework when finalized will help the FASB and the newly created Private Company Council (PCC) identify the unique needs of users of private company financial statements as well as opportunities to reduce the cost and complexity of preparing private company financial statements in accordance

with U.S. GAAP. It would also help them improve the relevance of those statements to users.

The decision-making framework is **not** intended to be an entirely new conceptual framework that would lead to fundamentally different reporting between private and public companies.

### What Is the Private Company Council (PCC), and What Role Will It Play in the Creation of the Decision-Making Framework?

The PCC is a new body created by the FAF to identify issues in U.S. GAAP related to private companies and work with the FASB on ongoing private company issues. The PCC and the FASB will deliberate on feedback

Creation of the differential framework was one of the key recommendations of a report issued by the Blue-Ribbon Panel on Standard Setting for Private Companies released in January 2011 to the Board of Trustees of the Financial Accounting Foundation (FAF), the FASB's parent organization.

In July 2011, the FASB staff completed an initial assessment of the differences in the way that private company financial statements are used by lenders, investors, and others. Based on comments gathered over the previous two years from dozens of interested stakeholders, the assessment by FASB staff examined how and why the needs of those who use private company financial statements differ from those who use public company financial statements and how the cost-benefit considerations of financial reporting vary between private companies and public companies.

received on the Invitation to Comment, and together will determine the criteria the decision-making framework will contain. *(At this writing, the FAF Board of Trustees is in the process of selecting a chairman and members of the PCC. The selection process is expected to be completed by the 4th quarter of 2012.)*

The PCC would then identify, deliberate, and vote on any proposed changes, which will be subject to endorsement by the FASB and submitted for public comment before being incorporated into U.S. GAAP. The PCC also will advise the FASB on the appropriate treatment for private companies for items under active consideration on the FASB's technical agenda. (More information about the PCC is available at [www.accountingfoundation.org](http://www.accountingfoundation.org)).

### What's In the Invitation to Comment?

The Invitation to Comment contains preliminary FASB staff recommendations that reflect what stakeholders have told the staff about their experiences using, preparing, auditing, reviewing, and compiling private company financial statements. The Board decided not to deliberate the topics in the Invitation to Comment until stakeholders have provided input on the staff's preliminary recommendations, and the chairman and all members of the PCC have been appointed. At that time, the Board and the PCC will jointly reach tentative conclusions about the criteria to be included in the framework.

Individuals and organizations are asked to provide feedback on

the six significant factors—originally identified in the July 2011 staff assessment—that differentiate the financial reporting considerations of private companies from public companies. They are:

- Types and number of financial statement users
- Access to management
- Investment strategies
- Ownership and capital structures
- Accounting resources
- Learning about new financial reporting guidance.

The Invitation to Comment also seeks stakeholder feedback on five areas where financial accounting and reporting guidance might differ for private and public companies:

- Recognition and measurement
- Disclosures
- Display (presentation)
- Effective dates
- Transition methods.

Key questions that stakeholders are asked to consider include:

- *Has the staff identified and focused on the appropriate differential factors between private and public companies?*
- *Overall, do the staff recommendations result in a framework that would lead to decisions that provide relevant information to users of private company financial statements in a more cost-effective way?*
- *Do the different areas of the framework appropriately describe and consider the*

*primary information needs of users of private company financial statements and the ability of those users to access management?*

- *Has the staff identified the appropriate questions for the Board and the PCC to consider in the recognition and measurement area of the framework?*
- *Has the staff identified the appropriate areas of disclosure focus by private company financial statement users for the Board and the PCC to consider?*

The Invitation to Comment also seeks initial insights from stakeholders about whether or not a private company that elects to apply any difference in recognition or measurement guidance developed by the PCC and the FASB be required to apply all existing and future differences in recognition and measurement guidance.

### How Does the Decision-Making Framework Project Relate to the Definition of a Nonpublic Entity Project?

In a separate but related project to define a "nonpublic entity," the Board is deliberating which types of companies would be included in the scope of the private company decision-making framework. The Board's tentative decisions reached to date about the types of companies and organizations in the scope of the framework are included in an appendix to the Invitation to Comment. However, the Board expects that not

all types of entities that would be included in the scope of the framework would be eligible to apply every exception and modification provided by the Board and the PCC. For example, the specialized accounting practices followed by companies in certain industries. The Board plans to expose the proposed definition of a nonpublic entity for public comment and discuss the stakeholder input received with the PCC before finalizing its decisions.

### What Are the Next Steps in the Process?

Stakeholders are encouraged to review and provide feedback on the Invitation to Comment by October 31, 2012. (The document is available at [www.fasb.org](http://www.fasb.org).) After the comment period has ended, the FASB and the PCC will jointly deliberate the criteria to be included in the framework.

### How Does the FASB Decision-Making Framework Project Relate to the AICPA's Project on OCBOA for Small-and Medium-Sized Entities?

The AICPA is developing a self-contained other comprehensive basis of accounting (OCBOA) intended for use by privately held small- to medium-sized entities where GAAP financial statements are not required. The AICPA's approach will draw upon a blend of accrual income tax methods and other traditional methods of accounting. In contrast, the FASB and the PCC will seek to identify simplifications and modifications of U.S. GAAP, based on an evaluation of the unique needs and characteristics of private company stakeholders. More information about the AICPA project is available on their website.

**For more information about the project, please visit the FASB's website at [www.fasb.org](http://www.fasb.org).**

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