

FASB In Focus

Proposed Accounting Standards Update—*Definition of a Public Business Entity: An Amendment to the Master Glossary*

Background

The Financial Accounting Standards Board (FASB) on August 7, 2013, issued for public comment a proposal that defines a *public business entity*.

The purposes of the proposal are to (a) amend the Master Glossary of the *FASB Accounting Standards Codification*[®] to include one definition of a public business entity for use in U.S. generally accepted accounting principles (GAAP) and (b) identify the types of organizations that would be excluded from the scope of the draft *Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies* (guide) once it is finalized. The proposal would not affect existing requirements.

The definition of a public business entity would be used by the FASB, the Private Company Council (PCC), and the Emerging Issues Task Force (EITF) in specifying the scope of future accounting and reporting guidance.

Public business entities, as well as not-for-profit organizations (NFPs) and employee benefit plans within the scope of Accounting Standards Codification Topics 960 through 965 on plan accounting, would be excluded from the scope of the guide.

Organizations that are within the scope of the guide are those for which the PCC and the Board would consider potential accounting and reporting alternatives within U.S. GAAP.

Stakeholders are asked to provide comments by September 20, 2013.

Why Is the FASB Issuing This Exposure Draft?

The FASB received inquiries from stakeholders about which types of organizations should be within the scope of the draft guide once it is finalized. The guide outlines criteria for the FASB and the PCC to determine whether and in what circumstances it is appropriate to adjust financial reporting requirements for private companies following U.S. GAAP.

Stakeholders also provided feedback about the inconsistency and complexity of having multiple definitions of a nonpublic entity and public entity within U.S. GAAP. Specifically, stakeholders asked that the Board clarify which nonpublic entities would potentially qualify for alternative accounting and reporting guidance.

The proposed Update would help address those issues by proposing a definition of a public business entity.

Definition of a Public Business Entity

The proposed amendments would define a public business entity as an organization that meets any one of the following criteria:

- 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, with the SEC (including other entities whose financial statements or financial information are required to be or are included in a filing).
- It is required by the Securities Exchange Act of 1934, as amended, or rules or regulations promulgated under the Act, to file or furnish financial statements with a regulatory agency.
- It is required to file or furnish financial statements with a regulatory agency in preparation for the sale of securities or for purposes of issuing securities.
- It has (or is a conduit bond obligor for) unrestricted securities that are traded or can be traded on an exchange or an over-the-counter market.
- Its securities are unrestricted, and it is required to provide U.S. GAAP financial statements to be made publicly available on a periodic basis pursuant to a legal or regulatory requirement.

This excludes NFPs or employee benefit plans within the scope of Topics 960 through 965 on plan accounting.

How Would the Board's Proposal Improve Financial Reporting?

The proposed definition of a public business entity would differ from some of the existing definitions of a public entity in the Accounting Standards Codification

The proposed amendments would specify that:

- An organization that is required by the U.S. Securities and Exchange Commission (SEC) to file or furnish financial statements with the SEC, or does file or furnish financial statements with the SEC is considered a public business entity. Some of the existing definitions of a public entity in the Accounting Standards Codification do not include this criterion to define a public entity.
- A consolidated subsidiary of a public company would not be considered a public business entity for purposes of its standalone financial statements other than those included in an SEC filing by its parent or by other registrants. Some of the existing definitions of a public entity in the Accounting Standards Codification consider a consolidated subsidiary of a public company to be public.
- A business entity that has securities that are unrestricted and that is required to provide U.S. GAAP financial statements to be made publicly available on a periodic

The Accounting Standards Codification includes multiple definitions of the terms *non-public entity* and *public entity*. The amendments in this proposed Update would improve U.S. GAAP by providing a single definition of a public business entity for use in future accounting and reporting standards. The proposed amendments would not affect existing requirements.

basis pursuant to a legal or regulatory requirement would be considered a public business entity. The existing definitions of a public entity in the Accounting Standards Codification do not include this criterion and would not consider an entity to be public unless it meets one of the other criteria included in the definition. For example, if it has debt or equity securities that trade either on a stock exchange or an over-the-counter market.

Generally, most NFPs have received the same accounting and reporting alternatives within U.S. GAAP that have been available to private companies. Distinctions about which NFPs would receive accounting and reporting alternatives within U.S. GAAP typically have been made on the basis of whether an NFP has public debt securities, including conduit debt.

The proposed amendments would exclude NFPs and employee benefit plans from the definition of a public business entity so that a public versus nonpublic distinction would no longer be made between NFPs in future standard setting.

Instead, the FASB would consider factors such as user needs and NFP resources, on a standard-by-standard basis, when determining whether all, none, or only some NFPs will be eligible to apply accounting and reporting alternatives for private companies within U.S. GAAP.

How Do the Proposed Provisions Compare with International Financial Reporting Standards (IFRS)?

The amendments in the proposed Update are not expected to create any new differences between U.S. GAAP and IFRS, as IFRS provides accounting and reporting alternatives for organizations that do not have public accountability through the use of a separate set of standards for small and medium-sized entities.

The term *small and medium-sized entities* as used by the International Accounting Standards Board (IASB) is defined as entities that (1) do not have public accountability and (2) publish general purpose financial statements for external users. An entity has public accountability if:

1. It files, or it is in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market, or
2. It holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance companies,

securities brokers/dealers, mutual funds and investment banks.

In contrast, the FASB and the PCC aim to achieve an appropriate cost-benefit balance by providing accounting and reporting alternatives to organizations that are within the scope of the guide. The guide is not based on the notion of public accountability and does not exclude financial institutions, unless they meet one or more of the criteria in the proposed definition of a public

business entity. In addition, accounting and reporting alternatives are provided within a single set of U.S. GAAP standards.

When Would the Proposed Amendments Be Effective?

The Board would not finalize the amendments in the proposed Update until the new term *public business entity* is used in an amendment to a Topic in the Accounting Standards Codification. Therefore, the effective date of the proposed amendments would

be established concurrently with the first standard that uses the definition of a public business entity.

What Are the Next Steps in the Process?

Stakeholders are encouraged to review and provide comment on the proposal by September 20, 2013. The proposal, as well as instructions on how to provide comments, is available at www.fasb.org.

For more information about the project, please visit the FASB's website at www.fasb.org.