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Like the initial framework, the updated framework identifies five areas in which alternative guidance for private companies might be considered.

Continuing Down the Private Path

FASB and PCC Update Private-Company Decision-Making Framework

by Stuart Moss and Tim Kolber, Deloitte & Touche LLP

On April 15, 2013, the FASB and Private Company Council (PCC)[1] jointly issued an invitation to comment (ITC)[2] on an updated version of the private-company decision-making framework (the "guide" or the "decision-making framework") that was initially proposed in a discussion paper (DP)[3] issued by the FASB staff in July 2012. Comments on the ITC are due by June 21, 2013.

Like the initial framework, the updated framework identifies the following five areas in which alternative guidance for private companies might be considered because the financial accounting and reporting needs of such companies might differ from those of public companies: (1) recognition and measurement, (2) disclosures, (3) presentation,[4] (4) effective date, and (5) transition.

This *Heads Up* highlights notable differences between the July 2012 DP and the ITC, revisits key aspects of the proposed framework, and contains two appendixes:

- Appendix A — Six Factors Differentiating Financial Reporting Implications for Public Companies and Those for Private Companies.
- Appendix B — The Private-Company Decision-Making Framework Process.

Background

Last July, after several reports, studies, and formal recommendations designed to identify and address the concerns of preparers and users of private-company financial statements, the FASB staff released a DP proposing a framework for the FASB and the then newly formed PCC to use in determining whether alternatives to existing and proposed U.S. GAAP are warranted for private companies. In addition, the DP summarizes six factors differentiating the reporting considerations for private companies and those for public companies, as well as the impact of these factors on private-company financial reporting.

Editor's Note: See Deloitte's August 7, 2012, *Heads Up* for additional background on the private-company decision-making framework. Also see Appendix A for further discussion of the six significant differentiating factors and their implications.

[1] Formed on May 23, 2012, the PCC is tasked with improving the accounting standard-setting process for private companies. For more information, see Deloitte's June 5, 2012, *Heads Up* on the establishment of the PCC.

[2] FASB Invitation to Comment, *Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies.*

[3] FASB Discussion Paper, *Private Company Decision-Making Framework: A Framework for Evaluating Financial Accounting and Reporting Guidance for Private Companies.* See Deloitte's August 7, 2012, *Heads Up* for more information.

[4] This publication uses the term "presentation," rather than "display," to refer to the amounts and information included on the face of the financial statements, since the former term is more commonly used in practice.

The FASB and PCC received more than 50 comment letters on the July 2012 DP. After considering these comments as well as feedback obtained through other outreach initiatives, the FASB and PCC refined the private-company decision-making framework and issued the ITC to obtain additional feedback from various stakeholders.

Editor's Note: At the February 12, 2013, PCC meeting, the FASB and PCC tentatively agreed on the criteria in the decision-making framework and the five areas in which alternatives to U.S. GAAP should be considered for private companies. Nevertheless, they thought it prudent to reexpose the document because neither group deliberated the original DP when it was issued. The ITC emphasizes that the framework was not reexposed because of any concerns raised during the deliberations.

What Has Changed?

The updated private-company decision-making framework is generally consistent with the original framework discussed in the July 2012 DP. There are two notable differences, however: (1) changes in how industry-specific guidance is considered and (2) new guidance on how a private company would apply the available U.S. GAAP alternatives.

Considerations Related to Industry-Specific Guidance

The initial DP included a presumption that industry-specific recognition and measurement guidance would be just as relevant for users of public-company financial statements as it is for users of private-company financial statements. Therefore, any industry-specific guidance would generally be outside the scope of the framework, eliminating the potential for alternatives to industry-specific U.S. GAAP. This presumption has been removed from the updated draft of the framework; thus, if the FASB and PCC determine that certain industry-specific guidance is not relevant to users of private-company financial statements, they can consider whether to make alternatives available and, if so, what types of alternatives.

Application of U.S. GAAP Alternatives

The initial DP did not provide any guidance on how a private company should consider applying the permitted recognition and measurement alternatives. As a result, a number of questions were raised during the FASB's and PCC's outreach on the initial DP. Specifically, constituents asked for clarification on whether the alternatives would be provided on an "all or none" basis. That is, they wanted to know whether a private company (1) would be required to elect all available alternatives (and if such election is not made, whether the entity would be required to use the same U.S. GAAP as a public company) or (2) could "pick and choose" the alternatives on the basis of the nature of its operations and the specific needs of financial statement users.

The updated framework clarifies that private companies would generally be able to pick and choose alternatives but may be required to consistently apply the recognition and measurement guidance to all "linked" U.S. GAAP.

The updated framework clarifies that private companies would generally be able to pick and choose alternatives but may be required to consistently apply the recognition and measurement guidance to all "linked" U.S. GAAP. For example, to the extent that the PCC and FASB designate guidance as "linked," the private company would have to apply it consistently. So if the company elects to apply the private-company alternative for Standard X, it would be required to do the same for Standard Y.

Other Nonsubstantive Changes

Certain terminology has also changed. For instance, the updated framework draft uses "alternatives to U.S. GAAP" instead of "exceptions or modifications to U.S. GAAP." In addition, a tentative list of entity types that would be outside the guide's scope has been incorporated into the updated draft. In the initial DP, this information was included in an appendix rather than in the body of the document.

> **Editor's Note:** Concurrently with developing the private-company decision-making framework, the FASB has been working on a separate project to identify the types of companies that would be considered private companies (nonpublic business entities) and subject to the scope of the framework. At the time of this publication, the FASB has "tentatively decided that a business entity is not within the scope of this guide if it (a) files or furnishes financial statements with a regulatory agency for purposes of issuing securities in a public market or issuing securities that trade in a public market or (b) is a conduit bond obligor for conduit debt securities that are traded in a public market." Also, as it currently stands, a nonpublic business entity that is consolidated by a public entity would not necessarily be outside the scope of the framework when it is preparing stand-alone financial statements.

Proposed Framework Revisited

Like the July 2012 DP, the ITC proposes criteria for deciding whether alternatives to U.S. GAAP are warranted for private companies. Areas of U.S. GAAP in which alternatives might be considered include (1) recognition and measurement, (2) disclosure, (3) presentation, (4) effective date, and (5) transition guidance.

Recognition and Measurement

The FASB and PCC will assess whether the recognition and measurement guidance for private companies should differ from that for public companies. This assessment would begin with determining "whether the recognition or measurement guidance being evaluated provides relevant information to users of private company financial statements at a reasonable cost." The analysis would take into account a number of factors, including (1) relevance of guidance compared with typical information employed by private-company financial statement users, (2) characteristics differentiating private-company and public-company financial statement users, and (3) costs and complexity associated with applying standards. The analysis would also consider whether one or more practical expedients could potentially reduce the burden and complexity of preparing the financial statements while providing the appropriate benefit to financial statement users.

Upon concluding that the recognition and measurement guidance is not relevant or that it may be relevant but overly costly or complex, the FASB and PCC would consider the potential benefits and costs for private companies on the basis of responses to specific questions regarding "relevance to users" and "cost and complexity." The "relevance to users" responses would be weighted more heavily than those related to "cost and complexity." If a private company elects to apply a recognition and measurement alternative, it must prominently disclose this fact in its financial statements.

See Appendix B for the list of "relevance to users" and "cost and complexity" questions that the FASB and PCC will consider when determining whether recognition and measurement alternatives are warranted for private companies.

Disclosures

In a manner consistent with its discussion of recognition and measurement, the decision-making framework clarifies that the FASB and PCC should not consider alternatives to U.S. GAAP when disclosures provide relevant information to the most common financial statement users at a reasonable cost. Further, if industry-specific disclosure guidance is determined to be relevant to both public and private financial statement users, it is expected that private companies would be subject to the same disclosure guidance.

The decision-making framework clarifies that the FASB and PCC should not consider alternatives to U.S. GAAP when disclosures provide relevant information to the most common financial statement users at a reasonable cost.

The guide does contain, however, a number of factors that should be considered in the determination of whether disclosure alternatives may be warranted for private companies. These factors are divided into the following three broad categories:

- Relevance of disclosures to the most common financial statement users.
- Knowledge that financial statement users have about the company and the ability of users to access management for additional information.
- Other factors, including private-company resource constraints, timing of financial statement availability, and potential risk that disclosures may include proprietary information.

The guide emphasizes that the FASB and PCC should place more weight on disclosure relevance but does specify certain common areas of focus[5] that are off limits for disclosure alternatives because these areas are inherently relevant to private-company financial statement users.

In addition, the guide highlights that in evaluating potential disclosure alternatives, "the [FASB] and the PCC also should consider, but place less weight on, the cost of providing the disclosures, both in terms of the cost incurred by the preparer and the efforts spent by the user to sort through disclosures that may have limited or no relevance." Further, when determining whether, and to what extent, to provide disclosure alternatives, the FASB and PCC should consider whether financial statement users are able to obtain additional information from company management.

Editor's Note: During the outreach process, private-company financial statement users indicated that they generally have some understanding of the company's operations before reviewing its financial statements and related notes. They generally view the disclosures in the notes as an additional way of validating information that they were already aware of and of focusing discussion on topics that may require a follow-up. The guide calls this method the "red-flag approach" and indicates that financial statement users may find it a valuable tool for identifying additional questions they need to ask management.

The guide's Basis for Conclusions emphasizes that under the red-flag approach, the financial statement notes can be limited to the basic information necessary to identify appropriate follow-up questions to facilitate a user's review. The guide highlights that the FASB and PCC need to ensure that potential alternative disclosures contain enough information for users to properly apply the red-flag approach.

Finally, the guide stresses that the FASB and PCC should consider whether private companies should be required to provide disclosures in addition to those provided by public companies, or modify their current disclosures, when doing so may result in more relevant information for users.

The guide stresses that the FASB and PCC should consider whether private companies should be required to provide disclosures in addition to those provided by public companies, or modify their current disclosures, when doing so may result in more relevant information for users.

See Appendix B for (1) factors to consider in the determination of whether disclosure alternatives should be provided and (2) a flowchart illustrating the framework used to determine whether to permit disclosure alternatives for private companies.

Presentation

Like the DP, the updated decision-making framework includes a presumption that both private and public companies should be subject to the same financial statement presentation requirements because of the importance of the information included on the face of the financial statements. However, the guide indicates that this presumption may be overcome in certain instances. In making this determination, the PCC and FASB should consider whether the presented information (1) applies to private companies, (2) is relevant to financial statement users, or (3) could be supplemented with information included in a related footnote without affecting the financial statement comparison. In addition, the FASB and PCC would need to consider industry-specific presentation guidance and whether it is equally relevant to both public and private companies.

[5] See Appendix B for a flowchart illustrating the common areas of focus of typical private-company financial statement users.

See Appendix B for (1) factors to consider in the determination of whether presentation alternatives should be provided and (2) a flowchart illustrating the framework used to determine whether to permit presentation alternatives for private companies.

Effective Dates

Private companies generally have limited resources, including a smaller accounting team, and generally receive training and an accounting update once a year in preparation for their year-end audit or review. Therefore, it is often challenging for private companies to properly apply a new accounting standard within the same time frame as public companies. To mitigate such concerns, the decision-making framework asserts that private companies generally should be allowed to adopt the amendments in a FASB Accounting Standards Update (ASU) one year after the first annual period of public-company adoption, with early adoption permitted. In addition, the framework indicates that private companies should not be required to adopt new accounting standards during an interim period within the initial year of adoption.

The decision-making framework asserts that private companies generally should be allowed to adopt the amendments in a FASB Accounting Standards Update one year after the first annual period of public-company adoption, with early adoption permitted.

While it is expected that the one-year adoption deferral for private companies would be standard practice for the issuance of a new ASU, the FASB and PCC would need to assess each ASU to determine whether the effective date for private companies should be the same as that for public companies or whether it should be longer than one year after the adoption date for public companies. The decision-making framework includes a summary of factors for the FASB and PCC to consider when making this assessment.

See Appendix B for (1) factors to consider in the determination of whether effective-date alternatives should be provided and (2) a flowchart illustrating the framework used to determine alternative effective dates for private companies.

Transition Method

Under the proposed guide, the FASB and PCC would assess whether, in situations in which public entities are required to apply new guidance retrospectively, private companies should use the same retrospective transition method (i.e., a full retrospective method or a modified/limited retrospective approach) as public companies. This assessment will involve consideration of potential practical expedients and of the benefits and costs related to limited or modified retrospective method alternatives for private companies. Once this assessment is complete, the FASB and PCC would consider whether prospective, rather than retrospective, transition would be more appropriate for private companies. Upon determining the transition-method alternative, the FASB and PCC would consider whether private companies should quantitatively disclose the effect that the transition alternative will have on the comparability of the current- and prior-period financial statements.

The decision-making framework includes various questions that the FASB and PCC should consider in determining whether it would be appropriate to provide transition alternatives for private companies. As with other areas of the framework, the FASB and PCC should weight questions related to "user relevance" more heavily than questions related to "cost and complexity." In addition, the FASB and PCC should consider the benefits and costs associated with the various transition method alternatives by considering the (1) nature of financial statement distribution, (2) typical use of private-company financial statements, (3) access to management, and (4) experience level of those preparing financial statements.

See Appendix B for a flowchart illustrating the framework used to determine the method of transition for private companies.

Next Steps

Comments on the updated private-company decision-making framework are due by June 21, 2013. After the comment period, the FASB and PCC plan to jointly consider the comments and finalize the framework. Although the framework is not yet final, the FASB and PCC have indicated that they would consider it and related guidance when deciding whether to permit alternatives within U.S. GAAP for private companies.

Appendix A — Six Factors Differentiating Financial Reporting Implications for Public Companies and Those for Private Companies

The table below summarizes the six significant factors, as included in the FASB's DP, that differentiate private-company and public-company reporting considerations, as well as the implications of these factors for private-company reporting.

Factor	Description	Implications
Types and number of financial statement users	There are generally far fewer private-company users (e.g., lenders, creditors, equity investors) than public-company users (e.g., equity and debt investors, analysts). While preparers of private-company financial statements can control the distribution of the financial statements and related reports, public-company financial statements are more broadly distributed, "primarily . . . to provide information to the public capital markets."	Private-company financial statements should address the needs of their most typical users (i.e., lenders, creditors, and equity investors), who are generally concerned about cash, liquidity, and cash flows from operations. Because preparers control the distribution of the financial statements, they generally understand what disclosures users find relevant. This is important to assessing the effect of new accounting and disclosure guidance and its cost-benefit implications.
Financial statement user access to management	Private-company financial statement users generally have greater access to management than their public-company counterparts and therefore typically have more opportunity to request additional information (e.g., amounts or disclosures included in financial statements) when needed.	A user's access to management may affect the benefits and costs of implementing new guidance.
Investment strategies of equity investors	The investment strategies of private companies often differ from those of public companies. Private-company equity investors will generally hold their investments longer because they are anticipating returns on their investment in the form of (1) dividends, (2) possible buyouts, (3) business combinations, or (4) initial public offerings. Public-company investors typically hold equity investments for a shorter period, since they often consider changes in share price to be the primary source of return on their investments.	As a result of these differences in investment strategies, private-company investors generally focus more on accounting and disclosure requirements affecting cash and EBITDA and less on requirements that increase the volatility of the financial statements.
Ownership and capital structures	A private company's ownership and capital funding are generally significantly different from a public company's, since private companies focus more on (1) income taxes and estate taxes, (2) succession planning, (3) stock ownership and transfer restrictions, and (4) limiting exposure to personal liability and loss. In addition, a private company is generally structured in such a manner (e.g., S corporations, limited liability companies, sole proprietorships, trusts) that earnings are passed through to its owners and taxed at the individual owner level rather than the company level. Private companies also often have multiple entities under common control, resulting in a higher frequency of related parties, guarantees, and cross-collateral arrangements.	An entity should consider how new guidance may affect financial statement users when determining whether a difference in recognition, measurement, disclosure, or presentation requirements is warranted.

Factor	Description	Implications
Accounting resources	Private companies generally have fewer and less specialized accounting personnel than public companies; thus, private companies typically focus less on monitoring changes in accounting guidance and the overall standard-setting process. Similarly, some of the accounting firms serving private companies may be smaller and have limited resources.	Regarding existing or proposed accounting standards for private companies, resource limitations should be considered in the assessment of the costs of preparing the financial statements versus the benefits obtained by financial statement users, since users often have greater access to management to obtain additional information on an as-needed basis. Resource limitations should also be considered in the determination of effective dates and transition for new standards, since private companies may need additional time for proper implementation. Further, resource limitations can significantly affect the standard-setting process; regarding adoption of new standards, private companies can benefit from more focused outreach and more targeted education.
Learning about new financial reporting guidance	Private-company financial statement preparers generally "learn about new financial accounting and reporting guidance in the second half of the calendar year" to coincide with the planning procedures of their year-end audit or review, though many do receive educational updates once or twice a year. Users and public accountants who serve private companies also need to be educated on the new guidance. Conversely, public-company preparers are regularly updated on new accounting and reporting guidance, since they need to be prepared to apply the often complex requirements and meet their quarterly reporting requirements.	Deferring the adoption of new accounting and reporting guidance for private companies would prove beneficial in many ways. These include giving preparers and their public accounting firms (1) additional time for effective and efficient implementation, (2) the ability to expand their understanding of the new guidance and assess the impact on the financial statements, and (3) time to observe the implementation of these standards by public companies. In addition, the FASB should consider incorporating private-company examples into the proposed guidance and should increase its emphasis on educating both public-company and private-company constituents.

Appendix B — The Private-Company Decision-Making Framework Process

Recognition and Measurement

If the FASB and PCC determine that the new guidance is either (1) not relevant to private-company financial statement users or (2) relevant but too costly or complex to implement without practical expedients, they will analyze the benefits and costs of potential exceptions or modifications for private companies by considering the following questions on "relevance to users" and "cost and complexity" (reprinted from the ITC):

Relevance to users

1.5 The first group of questions pertains to the relevance of information to typical users of private company financial statements and the access that those users commonly have to the relevant information, as follows:

a. Does the transaction, event, or balance affect reported cash balances, cash flows, or adjusted EBITDA?

b. Does the transaction, event, or balance significantly affect borrowings, liquidity, or leverage?

c. Does the transaction or event affect, or does the balance relate to, trade receivables, inventories, fixed assets, other long-term tangible assets, accounts payable, or other liabilities?

d. Do users typically consider the quantitative effect of the transaction, event, or balance when evaluating collateral, financial performance, or financial position? Consider whether users typically adjust financial statements by substituting an alternative accounting approach.

e. Does the guidance require that the threshold for recognizing or measuring a transaction or event be at least probable of occurring?

f. Does the guidance relate to loss contingencies or commitments that could significantly affect future cash flows? If yes, consider whether disclosing the event or circumstance would likely satisfy the needs of users.

g. Does the measurement guidance reflect volatility in financial statements resulting from underlying changes in market prices of debt instruments or certain derivatives that are expected to reverse contractually in the future because the instrument or derivative has a defined maturity or term?

h. Is it likely that users that are interested in the transaction, event, or balance can obtain information directly from management that can reasonably satisfy the objective of the guidance?

i. Is the lag between the year-end reporting date and the date financial statements are issued and made available to users likely to significantly dilute the relevance of the information resulting from the guidance?

Cost and complexity

1.6 The second group of questions pertains to the cost and complexity of providing information to users of private company financial statements as follows:

j. Does application of the guidance often require assistance from outside resources at a significant cost?

k. Is significant complexity involved in determining the initial and/or ongoing accounting treatment?

l. Are there expected to be significant changes to information systems, debt covenant agreements, other contracts, internal controls, or processes as a result of applying the new guidance?

m. Is the accounting treatment challenging to audit, review, or compile?

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 ability of users to obtain additional information directly from preparers of private company financial statements

e. Given the resource constraints of many private companies, the cost of preparing, auditing, or reviewing 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.

2.10 The flowchart below illustrates the steps to use when deciding whether to permit disclosure alternatives for private companies within U.S. GAAP.

1. Is the guidance primarily relevant to specific industries? If so, is the guidance relevant to both public and private companies?

Yes → *Generally, require private companies to provide the same disclosures as public companies for industry-specific accounting guidance.*

No ↓

2. Is the requirement to disclose disaggregated information?

Yes → *Evaluate relevance of disaggregated information to users. If not relevant to users, do not require disclosure. If relevant to users, consider requiring narrative disclosure of information.*

No ↓

3. Does the requirement provide relevant information to private company lenders, other creditors, and investors about 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 consolidation policy about which entities are included in the consolidated financial statements
   g. Capital, regulatory, or other 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 the 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?

Yes → *Generally, do not permit disclosure alternatives.*

→ *Consider the need for additional disclosures to provide more relevant information to private company financial statement users.*

No → *1. Evaluate whether remaining disclosure requirements will adequately facilitate a red-flag approach to reviewing the financial statement notes.*
2. Consider the ability of users to access management to obtain additional information.
3. Determine whether to permit disclosure alternatives.

Presentation Requirements

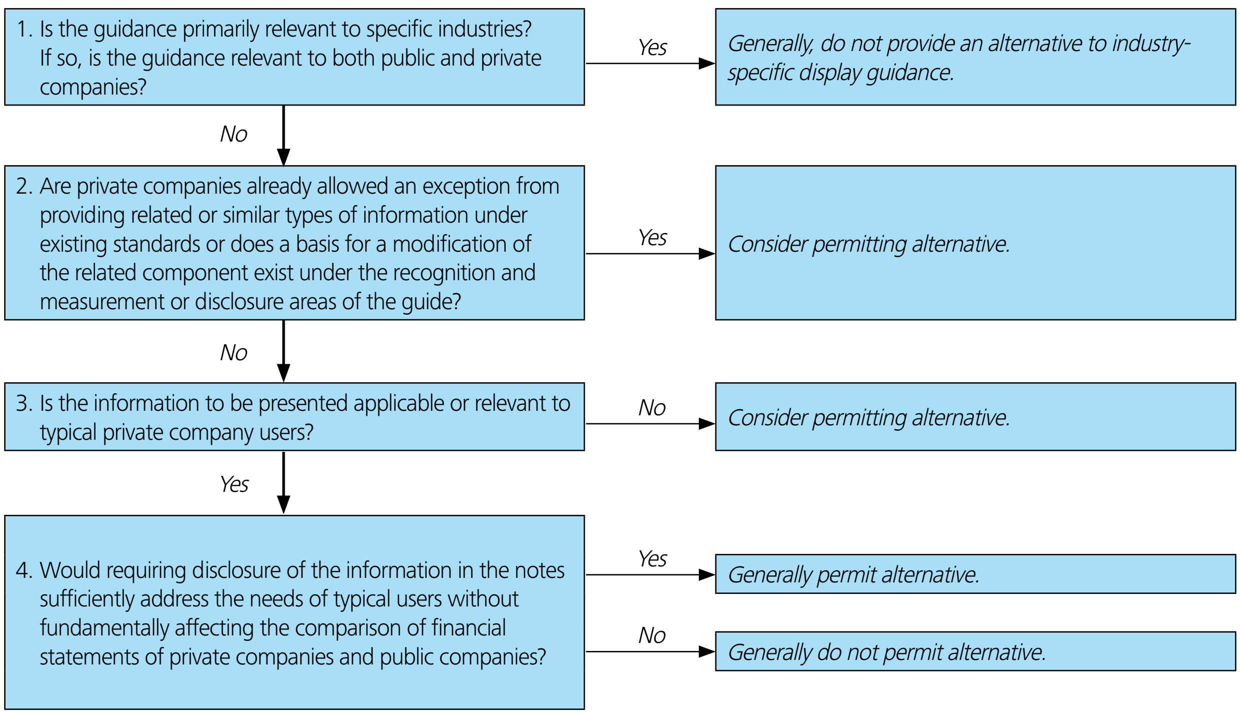
3.3 In determining whether information is not applicable or relevant to typical private company users, the Board and the PCC should consider, among other factors, the following:

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 component

c. Whether the information affects amounts and metrics on which typical users of private company financial statements focus.

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



Effective Date Guidance

4.5 In assessing the complexity of the amendments [for effective date guidance], the Board and the PCC should evaluate the following:

a. The extent and magnitude of the expected change to financial statements, including the effect on users and preparers of private company financial statements

b. The anticipated effort needed to implement the amendments, including the extent of changes to information systems, the expected level of reliance on third-party consultants and specialists for implementation assistance, and the magnitude of potential changes to internal controls and processes

c. The anticipated effect of the amendments on the terms of contractual agreements, including loan and credit agreements and related covenants, customer and supplier contracts, compensation and labor agreements, and regulatory requirements.

4.7 The flowchart below illustrates the steps to use when evaluating the effective date of amendments for private companies.

1. Is there an immediate need that requires the amendments to become effective as soon as possible?

Yes → *The effective date generally should be for the same annual period as required for public companies.*

No ↓

2. Does the guidance in the amendments warrant a deferral period of two or more years considering (a) the complexity of and the extent of change expected from the amendments, (b) whether a retrospective method of transition is required, and (c) the extent to which users of private company financial statements may be adversely affected as a result of the extended period of time in which private company and public company financial statements may not be reported on a comparable basis of U.S. GAAP, particularly when the amendments affect reported cash balances, cash flows, adjusted EBITDA,working capital, total borrowings, or liquidity and leverage metrics?

Yes → *Consider the appropriateness of deferring the effective date two years beyond the first annual period required for public companies. Generally make effective for annual periods and interim and annual periods thereafter.*

No → *Generally defer the effective date one year beyond the first annual period required for public companies. Generally make effective for annual periods and interim and annual periods thereafter.*

Transition Method

5.7 The flowchart below illustrates the steps to use when determining the method of transition for private companies.

1. Are the amendments required to be applied using the full or a modified or limited retrospective method of transition?

No → *The transition method should be the same for private companies and public companies.*

Yes ↓

2. Determine whether private companies should be permitted to apply practical expedients, a limited or modified transition method, or the prospective method by considering the following:

   a. Whether the amendments affect reported cash balances, cash flows, or adjusted EBITDA

   b. Whether the amendments affect other important amounts or metrics including total debt, liquidity, or leverage ratios

   c. Whether users can gain a sufficient understanding of the effect of the amendments through disclosure or access to management

   d. The extent of modifications required to information systems, internal controls, or processes, and maintenance of parallel accounting records, implementation assistance from outside resources at a significant cost, and significant use of internal resources

   e. The effort and cost to audit or review the effect of applying a retrospective method of transition.

If yes, then → *Require a private company that applies an alternative method of transition to disclose the following:*

1. At a minimum, qualitative information about the comparison of its current-period and prior-period financial statements

2. Consider whether quantitative information about the comparison of its current-period and prior-period financial statement should be required.

If no, then → *The transition method should be the same for private companies and public companies.*

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