

Heads Up

In This Issue:

- Definition of a Public Business Entity
- Other Developments
- Next Steps

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Setting the Stage for Private Companies

FASB Proposes Definition of a Public Business Entity

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The Private Company Council (PCC) and FASB have continued to make progress in creating accounting and reporting alternatives¹ for private companies. In connection with the development of the private-company decision-making framework (PCDMF),² the FASB recently exposed for comment a proposed ASU³ that defines the term “public business entity” (PBE). This definition would, in part, establish which entities are not eligible to adopt the alternatives developed by the PCC in accordance with the PCDMF.

This proposal comes on the heels of three proposed ASUs⁴ issued last month that contain alternatives for private companies to use in accounting for (1) intangible assets acquired in a business combination, (2) goodwill, and (3) certain types of interest rate swaps. In addition, later this month, the FASB is expected to issue another proposed ASU that would give private companies the option of not applying the variable interest entity consolidation rules to certain interests in entities under common control.

Definition of a Public Business Entity

The PBE proposal would (1) add the definition of a PBE to the Codification Master Glossary and (2) clarify which entities, in addition to PBEs, would be outside the scope of the PCDMF once it is finalized.

Criteria for PBEs

Entities that meet the definition of a PBE would not be eligible to elect the alternatives developed by the PCC and ultimately endorsed by the FASB. The proposed ASU defines a PBE as an entity that meets any of the following criteria:

1. 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).

¹ The PCDMF identifies six factors that differentiate the financial reporting considerations of private companies from those of public companies. In consideration of these factors, the PCC and FASB will evaluate whether, and in what circumstances, to provide private companies with exceptions related to (1) recognition, (2) measurement, (3) disclosure, (4) presentation, (5) effective date, and (6) transition.

² On April 15, 2013, the FASB and PCC jointly issued an [invitation to comment](#) on an updated version of the PCDMF. Comments were due by June 21, 2013. For additional details, see Deloitte’s April 25, 2013, [Heads Up](#) and the FASB’s April 15, 2013, [FASB In Focus](#).

³ On August 7, 2013, the FASB issued a [proposed Accounting Standards Update, Definition of a Public Business Entity: An Amendment to the Master Glossary](#). Comments on the proposal are due by September 20, 2013. For additional details, see the FASB’s August 7, 2013, [FASB In Focus](#).

⁴ On July 1, 2013, the FASB issued for public comment three proposed ASUs that would offer private companies several alternative accounting approaches under U.S. GAAP. Comments on the proposals are due by August 23, 2013. For additional details, see Deloitte’s July 9, 2013, [Heads Up](#) and the FASB’s July 1, 2013, [FASB In Focus](#).

2. 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.
3. 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.
4. 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.
5. 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.

Not-for-profit entities and employee benefit plans would not meet the definition of a PBE; however, the proposed ASU indicates that these entities would also be outside the scope of the PCDMF, as discussed in the next section.

The proposed definition of a PBE would not supersede any similar existing definitions in the Codification (e.g., “public entity” or “publicly traded company”). Note that the proposed definition of a PBE differs from these existing definitions in the following regard:

- Criterion 1 is not included in certain existing definitions, and criterion 5 is not included in any existing definitions.
- A consolidated subsidiary of a public company would not, by default, be public under the proposed definition for purposes of its stand-alone financial statements.

The FASB indicated that the implications of superseding similar existing definitions need to be further evaluated and that such an analysis may be performed as a second phase of this project. However, the intention is that the PCC, FASB, and EITF would consistently use the proposed definition of a PBE in their future standard-setting activities when the distinction is necessary.

The proposed definition of a PBE would not supersede any similar existing definitions in the Codification (e.g., “public entity” or “publicly traded company”).

Editor’s Note: Private companies that are preparing to go public — or that may consider going public in the future — may need to be cautious about electing the alternatives developed by the PCC until the FASB or SEC clarifies what, if any, transition guidance there would be for entities (i.e., when an entity becomes, or is no longer, a PBE). For example, it is possible that a private company that previously elected PCC alternatives would need to retrospectively apply the accounting and reporting requirements for PBEs in all historical financial statements presented in a registration statement filed with the SEC.

Separately, on the basis of the first criterion, an entity that may otherwise not meet the definition of a PBE could become a PBE if its financial statements are to be included in another entity’s SEC filing, such as for purposes of disclosing a significant equity method investment under Regulation S-X, Rule 3-09,⁵ or a significant acquisition under Regulation S-X, Rule 3-05.⁶ Thus, the entity would potentially need to eliminate any previously elected PCC alternatives from its historical financial statements before including them in another entity’s SEC filing.

Other Entities Outside the Scope of the PCDMF

Although the proposed ASU states that not-for-profit entities or employee benefit plans (within the scope of ASC 960–965⁷) would not meet the definition of a PBE, it indicates that these entities would be outside the scope of the PCDMF and, therefore, are not automatically eligible to elect the PCC alternatives.

⁵ SEC Regulation S-X, Rule 3-09, “Separate Financial Statements of Subsidiaries Not Consolidated and 50 Percent or Less Owned Persons.”

⁶ SEC Regulation S-X, Rule 3-05, “Financial Statements of Businesses Acquired or to Be Acquired.”

⁷ For titles of *FASB Accounting Standards Codification* (ASC) references, see Deloitte’s “Titles of Topics and Subtopics in the *FASB Accounting Standards Codification*.”

Editor's Note: The decision to exclude not-for-profit entities and employee benefit plans from both the definition of a PBE and the scope of the PCDMF acknowledges the unique nature of these entities. The FASB has indicated that it will consider extending individual PCC alternatives to such entities after considering their particular resources and user needs.

Other Developments

In addition to the existing proposals, the PCC's and FASB's efforts to improve private-company accounting have included the following:

- *The PCDMF* — After the comment period, the PCC and FASB redeliberated the PCDMF and voted to finalize it after agreeing on minor amendments. The final PCDMF is expected to be issued by the end of this summer after PCC and FASB approval.
- *Disclosure requirements for development-stage entities* — The FASB and PCC discussed the requirements for a development-stage entity to disclose cumulative information on income and cash flows since its inception. It was observed that preparers and users in both private and public settings question the usefulness of this information. Therefore, the FASB decided to add a project to its agenda to assess whether it should entirely eliminate the cumulative-disclosure requirements.
- *Additional accounting alternatives* — In addition to considering accounting alternatives for private companies in four areas of accounting (i.e., intangibles, goodwill, interest rate swaps, and variable interest entities), the PCC is currently conducting preagenda research on stock-based compensation. Further, the PCC has announced that it will hold a public roundtable and town hall meeting on November 4, 2013, in Columbus, Ohio, to solicit additional input from private-company stakeholders.
- *Input on future standard setting* — In a manner consistent with its mission to influence future standard setting for private companies, the PCC has been advising the FASB on many projects that are currently underway, including revenue recognition, financial instruments, and leases. In addition, the FASB's upcoming public roundtables on the revised leases exposure draft will include a meeting on nonpublic entities on October 3, 2013, in Los Angeles, California.

Next Steps

Comments on the proposed ASU on the definition of a PBE are due by September 20, 2013. It is expected that this proposed ASU, as well as the three previously issued proposed ASUs, will be redeliberated at the PCC's next meeting on October 1, 2013.

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