

FINANCIAL ACCOUNTING SERIES

FASB ACCOUNTING STANDARDS UPDATE

No. 2013-12
December 2013

Definition of a Public Business Entity

An Addition to the Master Glossary

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board

The *FASB Accounting Standards Codification*[®] is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective.

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Summary

Why Is the FASB Issuing This Accounting Standards Update (Update)?

The Board has decided that it should proactively determine which entities would be within the scope of the *Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies* (Guide). This will aim to minimize the inconsistency and complexity of having multiple definitions of, or a diversity in practice as to what constitutes, a nonpublic entity and public entity within U.S. generally accepted accounting principles (GAAP) on a going-forward basis. Specifically, stakeholders asked that the Board clarify which nonpublic entities potentially qualify for alternative financial accounting and reporting guidance. This Update addresses those issues by defining *public business entity*.

The primary purposes of this Update are to:

- a. Amend the Master Glossary of the *FASB Accounting Standards Codification*[®] to include one definition of public business entity for future use in U.S. GAAP. The amendment does not affect existing requirements. That definition will be used by the Board, the Private Company Council (PCC), and the Emerging Issues Task Force (EITF) in specifying the scope of future financial accounting and reporting guidance.
- b. Identify the types of business entities that are excluded from the scope of the Guide. Other types of entities that are excluded from the scope of the Guide include not-for-profit entities (NFPs) within the scope of Topic 958 and employee benefit plans within the scope of Topics 960 through 965 on plan accounting. Business entities that are within the scope of the Guide are those for which the Board and the PCC will consider potential financial accounting and reporting alternatives within U.S. GAAP (including the PCC's recommendations for alternatives within U.S. GAAP that are subject to endorsement by the Board). However, even if an entity is within the scope of the Guide, that entity may not necessarily be eligible to apply all financial accounting and reporting alternatives within U.S. GAAP that are made available to private companies. Decisions about what types of entities are eligible for any alternatives within U.S. GAAP will be made when determining the scope of each alternative.

The Board also will evaluate whether a particular accounting or reporting alternative that is permitted to be applied by a business entity within the scope of the Guide should be extended to a public business entity, an NFP within the

scope of Topic 958, or an employee benefit plan within the scope of Topics 960 through 965 on plan accounting.

Who Is Affected by the Amendments in This Update?

The definition of a public business entity will be used in considering the scope of new financial guidance and will identify whether the guidance does or does not apply to public business entities. The definition excludes a not-for-profit entity within the scope of Topic 958 or an employee benefit plan within the scope of Topics 960 through 965 on plan accounting and does not affect existing requirements. Business entities that are within the scope of the Guide are those for which the Board and the PCC will consider potential financial accounting and reporting alternatives within U.S. GAAP.

What Are the Main Provisions?

This Update defines *public business entity*.

How Do the Main Provisions Differ from Current U.S. Generally Accepted Accounting Principles (GAAP) and Why Are They an Improvement?

The Accounting Standards Codification includes multiple definitions of the terms *nonpublic entity* and *public entity*. The amendment in this Update improves U.S. GAAP by providing a single definition of public business entity for use in future financial accounting and reporting guidance. The amendment does not affect existing requirements. In connection with its overall agenda prioritization efforts, the Board will consider whether to undertake a second phase of the project at a later stage to examine whether to amend the scope of current U.S. GAAP, in part, by using this new definition rather than prior definitions of a public entity.

The definition of public business entity differs from some of the existing definitions of public entity in the Accounting Standards Codification. The amendment specifies that:

1. An entity that is required by the 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 public entity in the Accounting Standards Codification do not include this criterion to define public entity.
2. A consolidated subsidiary of a public company is not 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 or those that are issuers and are required to file or

furnish financial statements with the SEC. Some of the existing definitions of public entity in the Accounting Standards Codification consider a consolidated subsidiary of a public company to be public.

3. A business entity that has securities that are not subject to contractual restrictions on transfer and that is by law, contract, or regulation required to prepare U.S. GAAP financial statements (including footnotes) and make them publicly available on a periodic basis is considered a public business entity. The existing definitions of public entity in the Accounting Standards Codification do not include this criterion and do 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 financial accounting and reporting alternatives within U.S. GAAP that have been available to nonpublic business entities. Distinctions about which NFPs would receive financial 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 amendment in this Update excludes all NFPs from the definition of public business entity so that a public versus nonpublic distinction will no longer be made between NFPs in future standard setting. Instead, the Board will 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 financial accounting and reporting alternatives within U.S. GAAP for private companies.

The amendment excludes all employee benefit plans from the definition of public business entity. Similar to NFPs, the Board will consider factors such as user needs and resources, on a standard-by-standard basis, when determining whether all, none, or some employee benefit plans will be eligible to apply financial accounting and reporting alternatives within U.S. GAAP.

When Will the Amendments Be Effective?

There is no actual effective date for the amendment in this Update. However, the term *public business entity* will be used in Accounting Standards Updates No. 2014-01, *Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill*, and No. 2014-02, *Derivatives and Hedging (Topic 815): Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps—Simplified Hedge Accounting Approach*, which are the first Updates that will use the term *public business entity*.

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

The amendment in this Update is not expected to create any new differences between U.S. GAAP and IFRS. A key existing difference between the applicability of IFRS and U.S. GAAP is that IFRS provides for financial accounting and reporting alternatives for entities that do not have public accountability through the use of a separate set of standards for small and medium-sized entities (SMEs).

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

- a. It files, or it is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market, or
- b. 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 financial accounting and reporting alternatives to entities that are within the scope of the Guide (which is not based on the notion of public accountability). Those financial accounting and reporting alternatives also are provided within a single set of U.S. GAAP guidance.

Amendments to the *FASB Accounting Standards Codification*[®]

Introduction

1. The Accounting Standards Codification is amended as described in paragraph 2. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

Amendment to Master Glossary

2. Add the new Master Glossary term *Public Business Entity* as follows:

Public Business Entity

A public business entity is a business entity meeting any one of the criteria below. Neither a **not-for-profit entity** nor an employee benefit plan is a business entity.

- a. 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 (including voluntary filers), with the SEC (including other entities whose financial statements or financial information are required to be or are included in a filing).
- b. It is required by the Securities Exchange Act of 1934 (the Act), as amended, or rules or regulations promulgated under the Act, to file or furnish financial statements with a regulatory agency other than the SEC.
- c. It is required to file or furnish financial statements with a foreign or domestic regulatory agency in preparation for the sale of or for purposes of issuing securities that are not subject to contractual restrictions on transfer.
- d. It has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market.
- e. It has one or more securities that are not subject to contractual restrictions on transfer, and it is required by law, contract, or regulation to prepare U.S. GAAP financial statements (including footnotes) and make them publicly available on a periodic basis (for example, interim or

annual periods). An entity must meet both of these conditions to meet this criterion.

An entity may meet the definition of a public business entity solely because its financial statements or financial information is included in another entity's filing with the SEC. In that case, the entity is only a public business entity for purposes of financial statements that are filed or furnished with the SEC.

The amendments in this Update were adopted by the affirmative vote of six members of the Financial Accounting Standards Board. Mr. Smith dissented.

Mr. Smith objects to the issuance of this Accounting Standards Update. Mr. Smith believes that the definition of a public business entity inappropriately allows too many entities to be included in the scope of Updates issued in the future that may provide accounting alternatives to companies not meeting the definition of a public business entity. Mr. Smith believes that, in addition to criteria (a) through (d) in this Update, criterion (e) should be broader and include as a public business entity all entities where any security is not subject to contractual restrictions without regard to the other conditions in that criterion. That is, the Board should consider accounting alternatives only for entities for which there is a contractual restriction on the transfer of the entities' securities. While Mr. Smith does not believe that any entity that issues securities that are not subject to contractual restrictions on transfers is a public business entity, he knows that this definition will be used to determine the scope of Updates to be issued in the future that include accounting alternatives for companies that do not meet the definition of a public business entity. Mr. Smith is concerned that potential users of financial statements of entities whose securities are not subject to contractual restrictions on transfer may not be granted access to management of the company and therefore may be deprived of the ability to access the information necessary to make an informed decision. Mr. Smith's objection is related to his overall objection to the *Private Company Decision Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies*. Readers may wish to read that objection to obtain a more complete explanation of Mr. Smith's views.

Members of the Financial Accounting Standards Board:

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Daryl E. Buck
Thomas J. Linsmeier
R. Harold Schroeder
Marc A. Siegel
Lawrence W. Smith

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

BC2. The primary purposes of this Update are to:

- a. Amend the Master Glossary of the Accounting Standards Codification to include one definition of *public business entity* for future use in U.S. GAAP. The amendment does not affect existing requirements. That definition will be used by the Board, the PCC, and the EITF in specifying the scope of future financial accounting and reporting guidance.
- b. Identify the types of business entities that are excluded from the scope of the Guide for private company decision making. The other types of entities that are excluded from the scope of the Guide are NFPs within the scope of Topic 958 and employee benefit plans within the scope of Topics 960 and 965 on plan accounting. Business entities that are within the scope of the Guide are those for which the Board and the PCC will consider potential financial accounting and reporting alternatives within U.S. GAAP (including the PCC's recommendations for alternatives within U.S. GAAP that are subject to endorsement by the Board). However, even if an entity is within the scope of the Guide, that entity may not necessarily be eligible to apply all financial accounting and reporting alternatives within U.S. GAAP that are made available to private companies.

BC3. The Board also will evaluate whether a particular accounting or reporting alternative that is permitted to be applied by a business entity within the scope of the Guide also should be extended to a public business entity, an NFP within the scope of Topic 958, or an employee benefit plan within the scope of Topics 960 through 965 on plan accounting. However, the Board acknowledges that decisions about whether an entity may apply permitted differences within U.S. GAAP ultimately may be determined by regulators (for example, the SEC and financial institution regulators), lenders and other creditors, or other financial statement users that may not accept financial statements that reflect accounting or reporting alternatives for private companies.

BC4. The definition excludes an NFP within the scope of Topic 958 or an employee benefit plan within the scope of Topics 960 through 965 on plan accounting.

Background Information

BC5. The Board has decided that it should proactively determine which entities would be within the scope of the Guide. This will guard against inconsistency and complexity of having multiple definitions of, or a diversity in practice as to what constitutes, a nonpublic entity and public entity within U.S. GAAP on a going-forward basis. Existing standards use different definitions. Those different definitions were established to address the scope of an individual standard, differences in accounting or disclosure requirements, and deferred effective dates. Specifically, stakeholders asked that the Board clarify which nonpublic entities potentially qualify for alternative financial accounting and reporting guidance.

BC6. The objectives of the project include identifying the scope of entities that will be considered in future deliberations about potential financial accounting and reporting alternatives within U.S. GAAP, simplifying the definition of nonpublic entity, and addressing known practice issues.

BC7. On July 31, 2012, after consultation with the Board, the staff issued an Invitation to Comment on a paper that outlined an approach for deciding whether and when to modify U.S. GAAP for private companies. The paper, *Private Company Decision-Making Framework: A Framework for Evaluating Financial Accounting and Reporting Guidance for Private Companies*, contained initial FASB staff recommendations of criteria to use in determining whether and in what circumstances it is appropriate to adjust financial reporting requirements for private companies following U.S. GAAP. The Board's tentative decisions reached to date about business entities not in the scope of the Guide were included in an appendix to the Invitation to Comment.

BC8. On April 15, 2013, the Board and the PCC issued an Invitation to Comment, *Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies*. That Invitation to Comment included the Board's tentative decisions about the types of business entities that are not included in the scope of the Guide.

BC9. On August 7, 2013, the Board issued a proposed Accounting Standards Update, *Definition of a Public Business Entity: An Amendment to the Master Glossary*. The Board considered the feedback received by stakeholders on the 2012 and 2013 Invitations to Comment and the proposed Update when reaching the conclusions in this Update.

BC10. The following sections of the basis for conclusions include the factors that were considered by the Board in defining a public business entity.

Entities That File or Furnish Financial Statements with the SEC or Another Regulatory Agency and Entities That Issue Securities or Have Securities That Trade

BC11. Under all of the definitions of nonpublic entity and public entity in the Accounting Standards Codification, entities that file financial statements with a regulatory agency in preparation for the sale of securities or for the purpose of issuing securities are defined as public companies. The users of financial statements of entities that issue securities that trade in a public market generally lack or have less direct access to management to obtain material financial information, and it is common for there to be a large number of financial statement users that have broader, more diverse needs and that use financial information for different reasons from typical users of private company financial statements. The differential factors between public companies and private companies described in the Guide were developed primarily on the basis of entities that access the public capital markets by issuing securities that are publicly traded. Therefore, when assessing those entities and their relationship to the differential factors, the Board concluded that those entities should be considered public business entities. Some respondents to the proposed Update requested that the Board clarify in criterion (c) which regulatory agencies were intended to be included. In its redeliberations, the Board stated that a regulatory agency would include both foreign regulators and domestic regulators in order to include entities that prepare U.S. GAAP financial statements that may be used in other jurisdictions.

BC12. The SEC requires certain financial statements to be filed or furnished in order to regulate the capital markets for securities and to protect investors in public capital markets. For similar reasons as indicated in paragraph BC11, the Board concluded that an entity that is required by the SEC to file or furnish financial statements or does file or furnish financial statements with the SEC should be considered a public business entity (for example, broker-dealers or voluntary filers). This also includes an entity's financial statements or financial information that is required to be or is included in a filing with the SEC (for example, Regulation S-X, Rule 3-09, *Separate Financial Statements of Subsidiaries Not Consolidated and 50 Percent or Less Owned Persons*, or Regulation S-X, Rule 3-05, *Financial Statements of Businesses Acquired or to Be Acquired*, and Regulation S-X, Rule 4-08(g), *Summarized Financial Information*). The Board decided that in those situations, those financial statements must be prepared using the same accounting principles as a public business entity.

BC13. Respondents to the proposed Update asked for clarity regarding concerns about criterion (a) of the definition of public business entity, specifically, some raised concerns about the portion that indicates that "other entities whose financial statements or financial information are required to be or are included in

a filing,” would be considered a public business entity if that information is submitted in a filing by an entity that files or furnishes financial statements with the SEC. Those respondents indicated that it was unclear whether entities would be permitted to apply accounting alternatives for private companies in their standalone financial statements (that is, financial statements or financial information that is not required to be included in an SEC filing). In response, the Board determined whether an entity that does not otherwise meet any of the criteria of a public business entity could be permitted to apply financial accounting and reporting alternatives within U.S. GAAP for private companies in its standalone financial statements that are not included in a SEC filing. An entity may meet the definition of public business entity solely because its financial statements or financial information is included in another entity’s filing with the SEC. In that case, the entity is only a public business entity for purposes of financial statements filed with or furnished to the SEC.

BC14. Each definition of the terms *nonpublic entity* and *public entity* in the Accounting Standards Codification includes a criterion that in order to be defined as a nonpublic entity, an entity must not have securities that trade in a public market either on a stock exchange or in an over-the-counter market (OTC). Of all the conditions referenced in the definitions of nonpublic entity over time, the notion of “publicly traded” has been a main factor for making the distinction.

BC15. The Board discussed and considered alternatives that would clarify what is considered to be a public market for securities as it relates to entities that have debt or equity securities. Part of the considerations included (a) whether the public availability of U.S. GAAP financial statements should be used as a criterion to determine which business entities should be considered public and (b) what is a public market as it relates to business entities that have securities that are able to be resold in a secondary market.

BC16. The Board decided that, consistent with the existing definitions of nonpublic entity and public entity in the Accounting Standards Codification, entities that have securities that are traded, listed, or quoted on an exchange or an OTC market should be considered public. A few respondents to the proposed Update requested clarification about what constitutes an OTC market. The Board stated that an OTC market includes an interdealer quotation or trading system for securities that are not listed on an exchange (for example, OTC Markets Group Inc., including the OTC Pink Markets, or the OTC Bulletin Board).

BC17. The Board also added an additional criterion to the definition of public business entity and decided that if any of a business entity’s securities are not subject to contractual restrictions on transfer, and that by law, contract, or regulation must prepare U.S. GAAP financial statements (including footnotes)¹

¹Reports of Condition and Income (call reports) that are required by federal financial institution regulators are not considered U.S. GAAP financial statements for purposes of this Update because they, at a minimum, do not require compliance with all of the footnote requirements under U.S. GAAP.

and make them publicly available (including financial statements that are made available publicly upon request or posted to an entity's website for public access) on a periodic basis, that entity should be considered public. The Board added this criterion because of the evolution of the markets, which have changed considerably over time since the existing definitions of nonpublic entity and public entity were first established and criterion (e) is intended to capture securities other than those on an exchange or an OTC market. The existing definitions of nonpublic entity and public entity in U.S. GAAP focus only on securities that trade on a stock exchange or an over-the-counter market. Some respondents to the proposed Update requested clarification about whether an entity would be required to meet all of the conditions included in criterion (e) to be considered a public business entity. The Board decided to clarify in the final Update that an entity must meet all conditions in criterion (e) to be considered a public business entity.

BC18. Some Board members expressed concern that if the public availability of U.S. GAAP financial statements was used in the definition, entities could be required to reassess their status on an interim or annual basis to determine whether they meet this criterion to be defined as a public business entity. Some Board members who support defining an entity as public on the basis of whether it has U.S. GAAP financial statements that are made publicly available noted that including reference to a legal, contractual, or regulatory requirement to make financial statements publicly available on a periodic basis results in entities not needing to reassess whether they meet the definition of public business entity on a regular basis. Some respondents to the proposed Update suggested that the Board clarify what is meant by *periodic basis*. The Board stated some examples of what is intended by a periodic basis (for example, an interim or annual basis).

BC19. Another Board member was concerned that limiting the definition of public business entity to entities that had securities that trade in a public market and make their U.S. GAAP financial statements publicly available is too restrictive, because entities that have access to the public markets have similar transactions in securities and should not be treated differently on the basis of whether or not their U.S. GAAP financial statements are made publicly available. Many entities provide information to investors that is based on U.S. GAAP rather than a complete set of U.S. GAAP financial statements. Investors are made aware of the risks in the stocks on the basis of corporate and financial disclosure that is made available. Those entities have users that have similar information needs as investors and analysts of public company debt and equity investors. Those entities have availed themselves of the benefits provided by issuing securities in the public market and, therefore, should be required to apply the same requirements as public companies.

BC20. The Board decided that the definition of public business entity should include only securities that are not subject to contractual restrictions on transfer (that is, the securities are not subject to management preapproval on resale) because many private companies place restrictions on the sale of their securities

in a secondary market and can control to whom they sell their securities. Securities that are subject to contractual restrictions on transfer generally are sold to a limited number and type of investors who often will have a greater ability to access management.

BC21. Criterion (e) in the proposed Update referred to unrestricted securities. Some stakeholders commented that the term *unrestricted* should be clarified in the final Update. As a result of the feedback received from stakeholders, the Board decided to remove the term *unrestricted* and replace it with securities that are “not subject to contractual restrictions on transfer.”

Conduit Bond Obligors

BC22. Most definitions of nonpublic entity in the Accounting Standards Codification exclude an entity that is a conduit bond obligor for conduit debt securities that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets). When considering whether a business entity that is a conduit bond obligor should be considered a public business entity for financial reporting purposes, the Board assessed the five significant differential factors between public companies and private companies included in the Guide, including the number and types of users and typical users’ access to management. The Board observed that conduit bond obligors are indirectly accessing the public debt markets. Accordingly, the Board concluded that the users of financial statements of a privately held conduit bond obligor often have similar information needs as investors in public company corporate debt securities and that, therefore, financial statements should not reflect differences in financial accounting and reporting guidance. In addition, conduit bond obligors typically have more financial statement users that have less ability to directly obtain additional material financial information than most other private companies.

BC23. The Board considered an alternative that includes in the definition of public business entity only those conduit bond obligors that are required to indirectly comply with SEC Rule 15c2-12, *Municipal Securities Disclosure*. Some Board members expressed support for this alternative because entities that are indirectly (through its broker-dealer) subject to Rule 15c2-12 typically have conduit bonds that are more widely traded and typically have more financial statement users that have less access to management than conduit bond obligors that are not indirectly subject to Rule 15c2-12. Other Board members rejected this alternative because, in their view, the size of a bond offering should not be a determining factor when considering financial accounting and reporting differences for private companies but, rather, the fact that those entities are accessing the public capital markets should be a determining factor. Board members acknowledge that some entities that are conduit bond obligors face similar resource constraints as many other private companies and indicated that

they will be willing to consider potential deferred effective dates for privately held companies that are conduit bond obligors.

Financial Institutions

BC24. The Board discussed whether a financial institution that does not otherwise meet any of the criteria of a public business entity as defined in this Update should be included in the definition of public business entity for financial reporting purposes and, therefore, is not within the scope of the Guide. A financial institution referred to in this Update is subject to the description in paragraph 942-320-50-1 of the Accounting Standards Codification, which includes banks, savings and loan associations, savings banks, credit unions, finance companies, and insurance entities.

BC25. The Board discussed whether to include all financial institutions in the definition of public business entity on the basis of public accountability because financial institutions hold and manage financial resources for a broad group of individuals for investment purposes and act in a fiduciary capacity. That notion of public accountability is consistent with the decision reached by the IASB when it finalized its IFRS for SMEs. The Board rejected that alternative because of its view that public accountability applies to many regulated industries and should not be a factor in determining whether an entity is considered public for financial reporting purposes.

BC26. Some Board members expressed concern that if financial institutions were not considered as a separate criterion of a public business entity and, therefore, are within the scope of the Guide, it may not always be appropriate for those companies to apply financial accounting and reporting alternatives within U.S. GAAP because of the unique needs of some financial statement users of financial institutions. The Board determined that a financial institution that does not otherwise meet one of the criteria of public business entity is not included in the definition of public business entity but could be excluded from the scope of guidance for specific financial accounting and reporting alternatives provided within U.S. GAAP if it is determined that those differences adversely affect the provision of relevant information to financial statement users. The Board decided that some financial institutions could be considered for financial accounting and reporting alternatives in areas of financial accounting and reporting that are not specific to financial institutions or that are not particularly relevant to financial statement users of financial institutions that are not publicly traded.

BC27. Some Board members expressed support for including financial institutions as a criterion in the definition of public business entity because of their unique nature but also continuing to evaluate whether financial institutions should be permitted to apply financial accounting and reporting differences when deliberating individual topics. Those Board members stated that the needs and investment strategies of financial statement users of financial institutions,

including depositors and regulators, may differ from the needs of most other users of private company financial statements and, therefore, may require separate consideration depending on the accounting or reporting difference under consideration.

BC28. One Board member expressed concern about additional costs that could be incurred by financial institutions if regulators do not accept financial accounting and reporting alternatives within U.S. GAAP for private companies. As a result, financial institutions that do not meet one of the other criterion in the definition of public business entity, may elect to maintain two sets of accounting records, which may not be cost beneficial.

BC29. The Board considered an alternative that would differentiate financial institutions on the basis of asset size. The Board rejected that alternative because it would be difficult to determine a bright-line distinction on the basis of the size of a financial institution when assessing user needs and preparer considerations. In addition, if the Board were to establish a size threshold to correspond with current thresholds created by regulators, those thresholds would be subject to change by the regulators during future periods, which would require the FASB to consider whether to make a corresponding change.

Private Companies That Are Consolidated Subsidiaries of Public Companies

BC30. Some of the definitions of nonpublic entity in the Accounting Standards Codification exclude an entity that is controlled by a public entity. The Board considered whether a U.S. private subsidiary that is controlled and consolidated by a U.S. public company should be permitted to apply financial accounting and reporting alternatives for private companies when preparing standalone U.S. GAAP financial statements.

BC31. For purposes of consolidation, many private subsidiaries already prepare and provide to their controlling public company financial information following U.S. GAAP guidance for public companies. The Board considered that permitting a private subsidiary to apply financial accounting and reporting alternatives for recognition and measurement, effective dates, and transition methods may not result in significant benefits to a private subsidiary when preparing standalone financial statements. However, the Board noted that permitting a private subsidiary to apply financial accounting and reporting alternatives relating to disclosures in its standalone financial statements may provide relevant information to its users of standalone financial statements (often times, a lender to the private subsidiary) while reducing costs. In addition, some Board members concluded that a private company should not be precluded from applying differences in its standalone U.S. GAAP financial statements on the basis of its internal reporting requirements to a parent that is a public company. Some Board members indicated that there could be different materiality considerations when

preparing the subsidiary's standalone financial statements compared with the materiality considerations used in preparing consolidated financial statements of the public company parent. Therefore, permitting a private subsidiary to apply financial accounting and reporting alternatives that are not material to its public parent could be cost beneficial for a private subsidiary and users of its standalone financial statements. Other Board members indicated that this issue is one of materiality and would be equally applicable to any differential accounting method employed that is not considered material and that a specific exception should not be addressed based solely on materiality.

BC32. Some Board members expressed concern about the potential for having conflicting accounting information available because financial statements of a private subsidiary would not reconcile to information about the subsidiary that may be included in consolidated financial statements of the public company parent. However, the Board considered that standalone financial statements generally would not be made publicly available to all financial statement users of the public company parent and that, under the Guide, a privately held subsidiary would be required to disclose that it applied alternatives within U.S. GAAP. Specifically, some Board members expressed concerns about considering a wholly owned subsidiary of a public company as a private company because, in some cases, the private subsidiary's operations may be a substantial portion of the public company's financial results. Those Board members indicated that if disclosure is the primary area in which a private subsidiary would achieve cost savings, future disclosure relief may be provided by the disclosure framework project.

A Private Company That Controls a Public Subsidiary

BC33. The Board considered whether a U.S. private company that controls and consolidates a U.S. public company in its financial statements should be permitted to apply financial accounting and reporting alternatives within U.S. GAAP for private companies. The Board considered if the consolidated entity as a whole has some public equity holders, whether the consolidated entity should be considered a public entity and whether financial reporting would be simplified if an entity is considered public any time there is a public entity in the consolidated group.

BC34. The Board ultimately decided that a private company that controls and consolidates a U.S. public company in its financial statements should not be considered a public business entity and should be within the scope of the Guide because the financial reporting requirements of a public subsidiary should not preclude a privately held entity from applying financial accounting and reporting alternatives for private companies in its own financial statements. When evaluating the five significant differential factors in the Guide, the Board considered that the characteristics of financial statement users of a private company that controls and consolidates a public company typically are similar to

most other private companies. The Board recognized that permitting a controlling private company to apply financial accounting and reporting alternatives for private companies may not be cost beneficial in all circumstances, specifically when that controlling private company has a significant number of public subsidiaries or when its primary operations consist of holding an investment in one or more public subsidiaries. However, some private companies have a number of private subsidiaries and if a controlling private company is not permitted to apply financial accounting and reporting alternatives for private companies in its consolidated financial statements, its private subsidiaries would be required to provide the parent with financial information prepared in accordance with public company U.S. GAAP that may be costly to prepare and irrelevant to financial statement users.

Not-for-Profit Entities

BC35. Many of the definitions of nonpublic entity and public entity in the Accounting Standards Codification include all types of entities, including NFPs. The Board discussed whether a distinction or distinctions between NFPs are necessary and, if so, how that distinction or distinctions between particular types of NFPs might best be made. Given the unique nature of NFPs and many of their users, the Board decided that a public or nonpublic distinction should not be made between NFPs for financial reporting purposes. Instead, the Board will consider on a standard-by-standard basis, whether all, none, or only some NFPs should be permitted to apply financial accounting and reporting alternatives within U.S. GAAP using factors such as user needs and NFP resources.

BC36. The Board decided that NFPs have many unique characteristics that differ from most other types of public and private companies. The ownership structures of NFPs differ from most private and public companies in that NFPs do not have shareholders. The primary users of an NFP's financial statements include donors and regulators, in addition to creditors. The needs of many of the primary users of NFP financial statements are specific and unique in comparison with the needs of the primary users of both public and private company financial statements. That is why NFPs have specific reporting guidance that is tailored to the unique nature of the entities.

BC37. The Board considered whether to distinguish between NFPs on the basis of (a) whether the NFP issues or is an obligor for conduit debt securities that are traded in a public market consistent with existing U.S. GAAP, (b) whether it receives public donations, or (c) a size threshold. The Board concluded that these alternatives may not be appropriate in all circumstances and may create an ineffective bright line among NFPs.

Employee Benefit Plans

BC38. Employee benefit plans have unique characteristics that differ from both private companies and public companies. The needs of users of employee benefit plan financial statements are specific and more focused when compared with the needs of financial statement users of both public companies and private companies. Employee benefit plans follow accounting guidance that often is tailored to the unique nature of the plans. After considering those factors, the Board decided that employee benefit plans should not be included in the definition of public business entity for financial reporting purposes and should not be included in the scope of the Guide. Instead, the Board will consider, on a standard-by-standard basis, whether all, none, or some employee benefit plans should be permitted to apply financial accounting and reporting alternatives under U.S. GAAP, using factors such as user needs and resources.

BC39. The Board considered an alternative that would differentiate an employee benefit plan that is sponsored by a private company from an employee benefit plan that is sponsored by a public company. The Board rejected that alternative because it concluded that the factors that differentiate a private company from a public company, particularly related to the types of users and their financial reporting needs, are not applicable to an employee benefit plan regardless of whether the plan is sponsored by a private company or a public company. Also, most users of employee benefit plan financial statements do not have different financial reporting needs based on the ownership structure of the plan sponsor.

Consequential Amendments

BC40. The Board discussed whether to amend the existing definitions of nonpublic entity and public entity in the Accounting Standards Codification by replacing them with a new definition of public business entity. The Board acknowledged that eliminating the multiple definitions of nonpublic entity and public entity could reduce confusion among stakeholders and simplify the definition, which could help reduce complexity in financial reporting. However, the Board decided that the existing definitions in the Accounting Standards Codification should not be amended at this time. A new definition of public business entity will be added to the Master Glossary for use in new financial accounting and reporting guidance. The Board discussed that one of the primary objectives of the project is to identify the types of entities that are included within the scope of the Guide and to use the definition on a consistent basis in future deliberations about potential financial accounting and reporting alternatives within U.S. GAAP. To date, most U.S. GAAP differences between public entities and nonpublic entities have been limited primarily to deferred effective dates and exemptions for some disclosure requirements. Effective date differences are only applicable in the period of adoption and will not remain in the Accounting Standards Codification for future periods. Therefore, if the existing definitions of

nonpublic entity are not amended, this should result in a limited amount of disclosure differences that may potentially be amended over time.

BC41. The Board concluded that amending the existing definitions of nonpublic entity and public entity requires significant analysis and discussion, regardless of whether the objective is (a) to ensure that the original scope of guidance in the Accounting Standards Codification is preserved or (b) to change the scope of that guidance to align with the new definition. The Board decided to defer a decision about whether to amend the existing definitions of nonpublic entity and public entity to a later date after considering the overall agenda prioritization efforts under way. The Board decided that by deferring this decision the Board will have an opportunity to learn about any potential implementation issues on the final definition of a public business entity after additional financial accounting and reporting alternatives are provided for private companies.

Benefits and Costs

BC42. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Board's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC43. The Board considered the feedback received from stakeholders, in addition to research performed, to assess how the five significant differential factors that form the basis for the Guide should be used for different types of entities. The five differential factors include (a) number of primary users and their access to management, (b) investment strategies of primary users, (c) ownership and capital structure, (d) accounting resources, and (e) learning about new financial reporting guidance.

BC44. The Board does not anticipate that entities will incur significant costs as a result of the amendment in this Update. The amendment provides the benefit of improving consistent application of U.S. GAAP by the addition of the term public business entity to the Master Glossary of the Accounting Standards Codification for use in new financial accounting and reporting guidance. The amendment does not affect existing accounting requirements, and it eliminates the use of multiple definitions of nonpublic entity and public entity in new financial accounting and reporting guidance.

Amendments to the XBRL Taxonomy

The amendments to the *FASB Accounting Standards Codification*[®] in this Accounting Standards Update do not require changes to the U.S. GAAP Financial Reporting Taxonomy (UGT). Any stakeholders who believe that changes to the UGT are required should provide their comments and suggested changes at www.fasb.org.