



May 30, 2013

FASB: Private Company Decision-Making Framework

SUMMARY OF REQUEST FOR COMMENT

- The Financial Accounting Standards Board (FASB) and the Private Company Council (PCC), which was established last year, jointly issued a request for comment (RFC) on an updated version of the private-company decision-making framework that was initially proposed by FASB in July 2012. The current proposed framework is very similar to that proposed last year, which also identified the following five areas in which alternative guidance for private companies might be considered because their financial reporting needs may differ from those of public companies: (1) recognition and measurement, (2) disclosures, (3) presentation, (4) effective date, and (5) transition.
- The proposal includes two primary differences from the original proposed framework; these are: (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.
- FASB is accepting comments until June 21; please send your comments to CUNA by June 17.

DESCRIPTION OF REQUEST FOR COMMENT

Background

This RFC represents the views of FASB and the PCC after considering comments received in response to the original proposed framework issued in July 2012. FASB and the PCC decided to expose the updated private company decision-making framework because the original proposal had not been deliberated by either group when it was issued. The decision to expose the current proposed framework was not the result of any significant continuing concerns raised during the deliberation process. The proposed framework includes the following two primary changes from the original proposal:

- The original proposed framework included a presumption that industry-specific guidance for recognition and measurement is relevant to financial statement users of both public and private companies. As a result, it excluded industry-specific guidance from consideration of alternatives for private companies within GAAP. The current proposed framework does not include a presumption and, thus, FASB and the PCC would consider whether the same industry-specific guidance is relevant to financial statement users of both public and private companies. If not, then FASB and the PCC can consider alternatives for that industry-specific guidance for private companies.
- The original proposed framework was silent on whether to require a private company to elect all applicable recognition or measurement alternatives within GAAP or to allow flexibility to choose which recognition and measurement alternatives are appropriate for private company investors. The current proposed framework would generally allow a private company to apply the alternatives within recognition or measurement guidance that it deems appropriate without having to apply all alternatives within recognition and measurement. However, in certain circumstances, FASB and the PCC may require that application of alternatives for private companies within recognition or measurement in one area be linked to the application in another area.

The ultimate objective of this RFC is to assist FASB and the PCC in developing a framework for FASB and the PCC to use in determining whether and in what circumstances to provide alternative recognition, measurement, disclosure, display, effective date, or transition guidance for private companies reporting under GAAP. The assessment of significant differential factors between private companies and public companies that underlies this RFC is considered to be an important source of input to the development of the proposed framework.

Once finalized, the framework is not intended to be an entirely new conceptual framework that would lead to a basis for preparing financial statements of private companies that is fundamentally different from the basis for preparing financial statements of public companies. Rather, the framework would augment the existing conceptual framework for financial reporting to provide additional considerations in making user-relevance and cost-benefit evaluations under the existing conceptual framework for private companies. The framework is intended to be a tool to help FASB and the PCC identify differential information needs between users of public company financial statements and users of private company financial statements and to identify opportunities to reduce the complexity and costs of preparing financial statements in accordance with GAAP.

Please note that this CUNA Comment Call specifically addresses only the few areas that differ from the original proposed framework, on which CUNA filed a Comment Letter in October 2012. A link to that letter and to CUNA's Comment Call for the original proposed framework, which you may find useful for additional background information on the framework, can be found at the end of this Comment Call.

Scope

In a separate effort, FASB is deliberating which types of companies would be considered private companies (nonpublic business entities) to distinguish between different types of entities for standard-setting purposes and to determine which business entities should be included in the scope of this framework. The tentative decisions reached by FASB identify the types of business entities that would not be included in the scope of this framework. FASB has tentatively decided that a business entity is not within the scope of this framework 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.

If an entity is within the scope of this framework, that entity may not necessarily be eligible to apply all financial accounting and reporting alternatives within GAAP that are made available to business entities that are within the scope of this framework. FASB and the PCC will consider factors such as user needs, on a standard-by-standard basis, when determining which business entities within the scope of this framework will be eligible to apply accounting and reporting alternatives within GAAP.

Significant Differential Factors and Their Implications for Financial Reporting

Consistent with the original proposed framework, the proposal includes six significant private company differential factors and their implications for private company financial reporting that are listed below. The six differential factors were identified on the basis of an assessment about how and why the needs of users of private company financial statements may differ from those that use public company financial statements. The proposed framework also addresses how the cost-benefit considerations of financial reporting may vary between private companies and public companies. That assessment captures the most common characteristics that differentiate financial statement user needs and preparer considerations for private companies from those of public companies. As a result, the observations included in the proposed framework are not intended to apply to all private company or public company financial statement stakeholders.

Significant Differential Factors:

- 1) Types and number of financial statement users;
- 2) Access to management;
- 3) Investment strategies of equity investors;
- 4) Ownership and capital structures;
- 5) Accounting resources; and
- 6) Learning about new financial reporting guidance.

CUNA Question 1: Do you feel that these differential factors are appropriate? If not, please explain why and include any additional factors that you believe should be considered along with their potential implications to private company financial reporting.

Determining Recognition and Measurement Guidance

This section of the proposed framework is intended to assist FASB and the PCC in assessing whether, for existing and proposed standards under consideration, a sufficient basis exists to provide recognition or measurement guidance for private companies that differs from the related guidance for public companies. While considering the recommended factors may provide insights about potential alternatives, the purpose is not to reach conclusions about what the alternative method(s) of recognition or measurement should be if FASB and the PCC decide to provide alternative guidance in a particular standard. FASB and the PCC would consider the benefits and costs of potential alternatives following due process that includes research, targeted outreach to stakeholders, and a public comment period. Most alternative methods to applying recognition and measurement guidance would likely involve a corresponding modification to display or disclosure requirements.

Generally, a private company could apply the alternatives within recognition or measurement guidance that it deems appropriate without having to apply all alternatives within recognition and measurement for private companies. However, FASB and the PCC may require application of certain alternatives within recognition or measurement in one area to be linked to the application in another area. A private company that applies alternatives within recognition or measurement guidance should disclose that fact prominently in the notes to financial statements to help users understand that one or more areas of the financial statements are not presented on a comparable basis with those of public companies or other private companies that elected not to apply the alternatives within GAAP.

CUNA Question 2: Do you agree with allowing a private company to apply the alternatives within recognition or measurement guidance that it deems appropriate without being required to apply all alternatives available to private companies within recognition and measurement? Do you agree that, in certain circumstances, FASB and the PCC may link eligibility for application of alternatives within recognition or measurement in one area to the application in another area? Why or why not?

Industry-Specific Guidance

When FASB and the PCC consider whether an alternative for private companies should be made within recognition and measurement guidance, they would evaluate whether the alternative would amend certain industry-specific accounting guidance for private companies in FASB's Accounting Standards Codification (topics 905 through 995). In making that determination, FASB and the PCC would consider whether the same recognition and measurement guidance is relevant to financial statement users of both public and private companies operating in those industries. Regardless of other factors that differentiate private companies from public companies, some recognition and measurement guidance could be equally relevant to users of public and private company financial statements because of the unique nature of certain industries and the often specialized accounting guidance that companies in those industries are required to apply and because of the potential need for greater comparability between private and public company financial statements in regulated or highly specialized industries.

When FASB issues broad or objectives-based accounting guidance for which no industry-specific guidance is provided, FASB and the PCC would have to determine whether certain industries should be excluded from the scope when considering particular alternatives for private companies within GAAP. That determination would need to be made on the basis that there are differences in the relevance of the financial information to the financial statement users of private companies and public companies that have core operations in those industries.

CUNA Question 3: With respect to industry-specific guidance:

- a. Do you agree that the proposed framework appropriately considers industry-specific accounting guidance for private companies? That is, should private companies follow the same industry-specific guidance that public companies are required to follow in instances in which FASB and the PCC determine that the guidance is relevant to financial statement users of both public and private companies operating in those industries? Why or why not?
- b. Do you think factors other than user relevance, such as cost and complexity, should be considered when FASB and the PCC are determining whether to provide alternatives within industry-specific guidance?

CUNA Question 4: Overall, do you agree that the proposed framework would lead to decisions that provide relevant information to users of private company financial statements in a more cost-effective manner? If it does not, what improvements can be made to achieve those objectives?

CUNA Question 5: Other comments and/or questions.

**Please send comments & questions to Senior Assistant General Counsel
[Luke Martone.](#)**

Related Material

- [RFC on FASB's website](#)
- [CUNA Comment Letter on 2012 Proposed Framework](#)
- [CUNA Comment Call on 2012 Proposed Framework](#)