



August 18, 2013

FASB Proposed Definition of a “Public Business Entity”

Overview of Proposal

The Financial Accounting Standards Board (FASB) issued a proposal to define the term “public business entity” (PBE). FASB is accepting comments until September 20; **please send comments to CUNA by September 10.**

The purposes of the proposal are to (1) amend FASB’s Master Glossary to add a definition of a PBE and (2) identify the types of organizations that would be excluded from the scope of the draft Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies (guide) once it is finalized. The proposal would not affect existing requirements.

The definition of a PBE would be used by FASB and the Private Company Council (PCC) in specifying the scope of future accounting and reporting guidance. PBEs, as well as not-for-profit organizations (NFPs) and employee benefit plans within the scope of Accounting Standards Codification Topics 960 through 965 on plan accounting, would be excluded from the scope of the guide. *Credit unions are explicitly excluded* from FASB’s definition of a not-for-profit entity. FASB Accounting Standards Codification Section 958-10-20.

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

Proposed Definition of a Public Business Entity

The proposal would define a PBE as an organization that meets *any one* of the following criteria:

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

CUNA Question 1: Do you agree with the proposed definition of a public business entity? Why or why not?

FASB decided that the definition of a PBE should include only unrestricted securities 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. Unrestricted securities can be resold to the public without the company’s control and generally have an active market, while restricted securities are generally sold to a limited number and type of investors who often will have a greater ability to access management.

CUNA Question 2: Do you agree that a business entity that has securities that are unrestricted and that is required to provide U.S. GAAP financial statements to be made publicly available on a periodic basis pursuant to a legal or regulatory requirement should be considered a PBE? Please explain why. In addition, do you think further clarification is needed to determine what an unrestricted security is?

How the Proposal Compares to International Financial Reporting Standards (IFRS)

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

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

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

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

FASB 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 PBE, an NFP, or certain employee benefit plans. However, FASB acknowledges that decisions about whether an entity may apply permitted differences within U.S. GAAP may ultimately be determined by regulators (for example, the SEC and financial institution regulators, including NCUA), lenders and other creditors, or other financial statement users that may not accept financial statements that reflect accounting or reporting alternatives for private companies.

Application to Financial Institutions

FASB discussed whether a financial institution that does not otherwise meet any of the criteria of a PBE as defined in this proposal should be included in the definition of a PBE for financial reporting purposes and, therefore, would not be within the scope of the guide. A financial institution referred to in this proposal would be subject to the description in the Accounting Standards Codification, which includes banks, savings and loan associations, savings banks, credit unions, finance companies, and insurance entities.

FASB discussed whether to include all financial institutions in the definition of a PBE 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. FASB 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.

Some Board members expressed concern that if financial institutions were not considered PBEs and, therefore, would be within the scope of the guide, it may not always be appropriate for those companies to apply accounting and reporting alternatives within U.S. GAAP because of the unique needs of some

financial statement users of financial institutions. FASB determined that a financial institution would not be included in the definition of a PBE but could be excluded from the scope for specific accounting and reporting alternatives provided within U.S. GAAP if it is determined that those differences would adversely affect the provision of relevant information to financial statement users. FASB decided that a financial institution could be considered for accounting and reporting alternatives in areas of accounting and reporting that are not specific to financial institutions or that are not particularly relevant to financial statement users of financial institutions.

Some Board members expressed support for including financial institutions in the definition of a PBE because of their unique nature but also continuing to evaluate whether financial institutions should be permitted to apply 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.

One Board member expressed concern about additional costs that could be incurred by financial institutions if regulators do not accept accounting and reporting alternatives within U.S. GAAP for private companies. As a result, financial institutions may maintain two sets of accounting records, which may not be cost beneficial.

Although FASB considered an alternative that would differentiate financial institutions on the basis of asset size, it rejected that alternative because it would be difficult to determine a bright line on the basis of the size of a financial institution when assessing user needs and preparer considerations. In addition, if FASB 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.

CUNA Question 4: CUNA has consistently urged FASB to recognize credit unions as a unique type of financial institution. While we support FASB's tentative determination not to include all types of financial institutions within the scope of the definition of a PBE, do you foresee any issues that could arise as a result of such a determination? Why or why not?

Effective Date

FASB would not finalize the amendments in the proposal until the new term PBE is used in an amendment in the Accounting Standards Codification. Therefore, the effective date of the proposed amendments would be established concurrently with the first standard that uses the definition of a PBE.

CUNA Question 5: Should FASB consider a second phase of the project at a later stage to examine whether to amend existing U.S. GAAP with a new definition resulting from this proposal? In that second phase of the project, FASB would consider whether to (a) preserve the original scope of guidance in the Accounting Standards Codification or (b) change the scope of guidance in the Accounting Standards Codification to align with the new definition. Please explain why.

CUNA Question 6: Any other comments or questions.

**Please send comments to Senior Assistant General Counsel [Luke Martone](#).
Click [here](#) for the proposal.**