Accounting Standards Update 2013-12

Definition of a **Public Business Entity**

An Addition to the Master Glossary

December 2013

**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 2 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 organization 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 6 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.