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Non-Issuers and Nonprofits May Be Excluded From FASB's Private Entity Guidance.

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At a meeting in Norwalk, Conn., the board decided that the category of reporting entities classified as non-issuers that file or furnish financial statements with the SEC would be excluded from the scope of a proposed decision-making framework for determining whether alternative guidance is required for private companies reporting under U.S. generally accepted accounting principles.

Elizabeth Gagnon, a FASB project manager, said that while non-issuers do not register their securities with the SEC, those entities are typically engaged in the business of facilitating securities transactions and should not be considered private companies. Non-issuers could include broker-dealers, nationally recognized statistical rating organizations, and some registered investment advisers, she added.

In previous deliberations on defining what constitutes a nonpublic entity, the board decided to exclude an entity that is required to file or furnish financial statements with the SEC for purposes of issuing securities to be traded in a public market.

Because the public availability of U.S. GAAP financial statements is used as a criterion to determine which entities should be considered public, FASB also agreed to include within that classification any entity offering unrestricted securities that provides periodic financial reports to the public under a legal or regulatory requirement.

Regarding nonprofit organizations, the board decided that they should not be considered nonpublic or public entities but instead should be treated as a separate category of entities for financial reporting purposes.

Gagnon suggested that when FASB is determining whether alternative guidance under U.S. GAAP should be provided for business entities within the scope of the private company decision-making framework, the board should also consider whether any modifications or simplifications should be extended to nonprofit entities.

Gagnon said that under the proposed approach, the board could consider on a standard-by-standard basis whether all or some nonprofit entities should be eligible to apply the accounting and reporting alternatives provided for private companies.

A staff paper prepared for the meeting said the proposed scope of the private company decision-

making framework doesn't include nonprofit organizations. The paper also explained how nonprofit organizations have diverse missions, saying that some entities serve as charitable entities with "clear public purposes," while other entities, such as credit unions and mutual insurance companies that provide a direct benefit for their members, are treated as for-profit business entities for financial reporting purposes.

FASB member Thomas Linsmeier supported the staff proposal but expressed concern that the board would begin to naturally extend its decisions on private company accounting to nonprofit organizations.

Linsmeier said the board must continue to recognize the substantive differences between the financial reporting practices of nonprofit organizations and those of private companies, as well as the differences between their respective audiences of financial statement users.

by Thomas Jaworski

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