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FASB Finalizes Guidance for Defining a Public Business.

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At a meeting in Norwalk, Conn., FASB directed its staff to prepare a final accounting standards update that would amend the Accounting Standards Codification (ASC), but board members agreed that no effective date will be provided for the standard. Rather, the board decided that the final definition of a public business would be established when the term is used in a future amendment to the ASC.

The board's discussion indicated that alternative guidance to U.S. generally accepted accounting principles developed by FASB's advisory group, the Private Company Council, could be the first accounting standards to reference the new definition of a public business entity.

On August 7 FASB issued the proposed accounting standards update "Definition of a Public Business Entity: An Amendment to the Master Glossary," which set criteria for identifying a public business entity, including a requirement to file or furnish financial statements with the SEC or another regulatory agency for purposes of issuing securities.

Before finalizing the proposed guidance, board members agreed to clarify the proposal to address stakeholder concerns about the criteria for identifying a public business entity and about linking the definition of a public business entity to existing regulatory requirements.

The board ultimately voted against a staff recommendation to eliminate a criterion that an entity that has unrestricted securities and is required to periodically provide publicly available U.S. GAAP financial statements in accordance with all legal, contractual, or regulatory requirements should be considered a public business.

Callie Haley, a postgraduate technical assistant at FASB, said the staff is not aware of many instances in which an entity would be considered a public business entity based on that criterion alone. She added that the criterion conflicts with the project's objective of simplifying the process of identifying a public business entity because it introduces unnecessary complexity into the definition.

However, FASB member Thomas Linsmeier supported retaining the criterion, saying its scope would help protect the board from having to continually update its definition of a public business entity as the financial markets evolve over time.

The board accepted the staff recommendation to delay its decision about whether to amend the existing definitions of a nonpublic entity in the ASC given the board's current agenda prioritization effort.

According to Haley, the staff believes that FASB and the Private Company Council should have more time to evaluate any potential implementation issues regarding the final definition of a public business as future accounting alternatives are provided to private entities.

by Thomas Jaworski

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