

# The FASB Private Company Decision-Making Framework

The FASB issued a discussion paper for a framework to help determine when or if privately held companies should receive exceptions or modifications to reporting requirements.

On July 31, 2012, the Financial Accounting Standards Board (FASB) issued an invitation to comment on its discussion paper, *Private Company Decision-Making Framework: A Framework for Evaluating Financial Accounting and Reporting Guidance for Private Companies*. The goal of the framework is to articulate a methodology to determine when the unique needs of private companies justify an exception to U.S. Generally Accepted Accounting Principles (U.S. GAAP). The deadline for comments was October 31.

## The Proposed Framework

The FASB has identified six factors where financial reporting considerations and guidance for private organizations may differ from those of their public counterparts: types and number of financial statement users, access to management, investment strategies, ownership and capital structures, accounting resources, and learning about new financial reporting guidance.

The framework discusses five

different types of modifications to reporting requirements for private companies, including recognition and measurement, disclosure requirements, display (presentation) requirements, effective date, and transition method. In terms of recognition and measurement requirements, for example, the FASB staff believes that private organizations should be allowed consideration for differences based on user relevance, cost, and complexity.

While the framework suggests that private and public companies should apply the same presentation requirements on the face of financial statements, the FASB staff believes that private companies should be provided exemptions and modifications depending on how relevant the account or measures are to the unique users of private company financial statements. Other recommendations include modifications for disclosures, where the FASB believes private companies should be exempt from disaggregated disclosures, including account reconciliations and line item breakouts.

The FASB also believes that effective dates and transition methods should be modified for privately held companies. In most

cases, the Board recommends that privately held companies should be required to adopt new guidance, such as amendments in an Accounting Standards Update, one year after the first annual reporting period required for public companies. In regard to alternative methods for transition, suggestions include practical expedients, a modified/limited retrospective approach, and a prospective method.

## What's Next?

While the FASB staff has issued its recommendations, the process is far from complete. The Board and the Private Company Council (PCC) must still deliberate the content of the framework and review comment letters.

For small private companies, reading and commenting on the proposed framework is imperative: This framework will alter how reporting in this environment is completed and ultimately affect how business is conducted. Public comments ensure that the final framework meets the needs of these stakeholders and others. To that end, the IMA® Small Business Financial and Regulatory Affairs Committee (SBFRC) issued a letter

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## Small Business

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to the FASB before the October 31 deadline. The SBFRC intends to ensure small business needs are considered as the framework is developed further. You can read a copy of the letter at ([www.ima.net.org/about\\_ima/advocacy\\_activity/small\\_business\\_financial\\_and\\_regulatory\\_affairs\\_co.aspx](http://www.ima.net.org/about_ima/advocacy_activity/small_business_financial_and_regulatory_affairs_co.aspx)). **SF**

*Mitchell Roop is president of Mitch Roop Inc., a Tampa, Fla.-based consulting firm providing CFO services. He is a member of IMA's Tampa Bay Chapter and serves on IMA's Small Business Financial and Regulatory Affairs Committee and IMA's COSO Refresh Committee. You can reach him at [mitchr@mitchroop.com](mailto:mitchr@mitchroop.com).*