



September 20, 2013

Ms. Susan Cospier  
Technical Director  
File Reference No. 2013-310  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

PricewaterhouseCoopers LLP appreciates the opportunity to comment on the proposed Accounting Standards Update, *Definition of a Public Business Entity, an Amendment to the Master Glossary* (the "proposed update").

We agree with most of the proposed criteria that would comprise a definition of a public business entity. However, we have a concern with the criterion "other entities whose financial statements or financial information are required to be or are included in a filing." Based on that criterion, a private company could be considered a public business entity as a result of an acquisition or investment by a public company, in which case the private company's historical financial statements would be required to be prepared pursuant to the requirements of a public business entity. Based on some of the proposed alternatives under U.S. GAAP that could be available for private companies, preparers could face significant challenges in unwinding previously elected accounting alternatives.

We recommend that the Board focus on the complexities created in financial reporting for both public and private companies in circumstances where the "status" of a private company changes due to such events. In doing so, we encourage the Board to continue to collaborate with the SEC staff to ensure that unintended consequences (for example, the possibility that a public company could effectively be precluded from acquiring a private company due to an inability to comply with the financial reporting requirements) are assessed in circumstances where U.S. GAAP and SEC reporting requirements intersect.

In addition, the term "unrestricted securities" conveys an important distinction in the proposed criteria, but it is not defined in U.S. GAAP. Accordingly, we recommend that this term be included in the Master Glossary.

Appendix A, attached to this letter, contains our responses to the Questions for Respondents, which expands on our comments above.



We appreciate the opportunity to express our views. If you have any questions regarding our comments, please contact Patrick Durbin at (973) 236-5152 or Kirsten Schofield at (973) 236-4054.

Sincerely,

*PricewaterhouseCoopers LLP*



## Appendix A

### **Question 1: Please describe the entity or individual responding to this request.**

PricewaterhouseCoopers LLP is one of the largest providers of audit, tax, and other professional services to private companies in the United States.

### **Question 2: Do you agree with the definition of a public business entity included in this proposed Update? Please explain why.**

Please refer to the comments and recommendations contained in our cover letter. We agree with most of the proposed criteria that would comprise a definition of a public business entity. However, we have a concern with the criterion "other entities whose financial statements or financial information are required to be or are included in a filing." We believe that this criterion may have the unintended consequence of creating complexity in financial reporting for a public company that acquires a private company that, prior to acquisition, qualified for and elected to apply private company accounting alternatives. For example, when a private company is acquired by a public company and the public company is required to include the private company's historical financial statements in a filing with the SEC under Regulation S-X Rule 3-05, *Financial statements of businesses acquired or to be acquired*, the private company would not be eligible to apply the accounting alternatives and the previously prepared financial statements would not be in accordance with U.S. GAAP. It could be complicated and costly for the preparer of the financial statements to "unwind" the effects of the adoption of the accounting alternatives in order to comply with the filing requirements.

Similar complexities could also occur in instances where a public company invests in a private company that qualified for and applied the accounting alternatives and the public company is required to report pursuant to Regulation S-X Rule 3-09, *Separate financial statements of subsidiaries not consolidated and 50 percent or less owned persons*, or Regulation S-X 4-08(g), *Summarized financial information of subsidiaries not consolidated and 50 percent or less owned persons*.

### **Question 3: 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 public business entity? Please explain why. Can you identify a situation in which an entity would meet this criterion but would not meet any of the other criteria identified in the definition of a public business entity? In addition to what is discussed in paragraph BC18 of this proposed Update, do you think further clarification is needed to determine what an unrestricted security is?**

We agree with the fundamental principle that if a business entity has unrestricted securities and is required to make its U.S. GAAP financial statements publicly available because of a legal or



regulatory requirement, the entity should be considered a public business entity. We are not aware of any current circumstance that would result in a company meeting this criterion but not any of the other criteria.

The term “unrestricted securities” is not defined in the Master Glossary. While the concept of an unrestricted security is discussed in the basis for conclusions in the proposed update, we recommend that this term be included in the Master Glossary as it conveys an important distinction in determining if an entity is a public business entity and may not be clearly understood.

**Question 4: Do you agree that no public or nonpublic distinction should be made between NFPs for financial reporting purposes? Instead, the Board would consider whether all, none, or only some NFPs should be permitted to apply accounting and reporting alternatives within U.S. GAAP. Please explain why.**

We believe that not-for-profit entities have unique characteristics and therefore no public or non-public distinction should be made for not-for-profit entities for financial reporting purposes. We agree that this distinction also should not be made between particular types of not-for-profit entities. Finally, we agree that the Board should consider on a standard-by-standard basis whether all, none, or only some not-for-profit entities will be eligible to apply accounting and reporting alternatives within U.S. GAAP.

**Question 5: Should the Board consider whether to undertake 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 proposed Update? In that second phase of the project, the Board would consider whether to (a) preserve the original scope of the 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.**

Currently, the Master Glossary contains five definitions of a “Non-public Entity,” three definitions of a “Public Entity,” two definitions of a “Publicly Traded Company,” as well as a definition of a “Securities and Exchange Commission Registrant” and a “Securities and Exchange Commission Filer.” The addition of another definition, which in many respects is similar to these existing definitions, may result in some confusion among preparers and users. Therefore, we fully support the Board undertaking a project to amend existing U.S. GAAP to include a new definition resulting from this proposed update. A single definition could reduce the risk of misunderstanding by preparers when determining whether they are a non-public entity or when applying existing accounting standards. In addition, a single definition would be consistent with the Board’s objective of reducing complexity within the Master Glossary by eliminating duplicative terms.



Ideally, as it is an important step of the overall process, the second phase should be undertaken concurrent with the proposed update, and not at a later stage. However, we appreciate that this phase would require significant analysis and thus may delay the approval of this proposed update. Accordingly, we recommend that the Board undertake and complete the second phase reasonably quickly.

Finally, when undertaking the second phase of the project, we recommend that the Board preserve the originally intended scope of the guidance in the Accounting Standards Codification. Thus, we recommend that the Board's previous scoping decisions about guidance to be included in the Accounting Standards Codification today be upheld, absent sufficient justification for a change as determined on a case by case basis.