



FASB Removes Cumulative Financial Reporting for Development Stage Entities

The FASB recently issued guidance that eliminates the cumulative financial reporting requirement for public and private development stage entities (DSEs).¹

Key Facts

- Removes all references to DSEs and the resulting disclosures for the cumulative amounts of income, cash flows, and shareholder equity in the financial statements;
- Moves the disclosure requirements for entities' activities when planned operations have not started to the risk and uncertainties guidance;
- Removes DSE guidance when evaluating whether entities are variable interest entities (VIEs); and
- Early adoption is available for financial statements not issued. Upon adoption, entities will eliminate all previously required DSE disclosures.

Key Impacts

- Reduces the cost and complexity of financial reporting for entities that have not started planned operations;
- Entities that have not started planned operations will now be required to disclose the risks and uncertainties about their current development activities and discuss how those activities will lead to revenue-generating operations; and
- Creates consistency among entities when evaluating VIEs.

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¹ FASB Accounting Standards Update No. 2014-10, Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements, Including an Amendment to Variable Interest Entities Guidance in Topic 810, Consolidation, June 10, 2014, available at www.fasb.org.

DSE Definition Eliminated

The definition of a DSE is eliminated from U.S. GAAP because the new standard removes ASC Topic 915.² This means that once entities adopt the new standard, they will no longer need to include the following disclosures in the financial statements:

- Cumulative-to-date amounts for income, cash flows, and shareholder equity;
- DSE labeling on the face of the financial statements; and
- Notes discussing DSE activities.

Disclosures for Entities with Operations That Have Not Started

The standard moves disclosure guidance about the nature of entities' operations and activities if planned operations have not started from ASC Topic 915 to ASC Topic 275. The expanded risks and uncertainties disclosure guidance was made to provide relevant disclosures to investors and financial statement users.³

The standard requires discussion of the risks and uncertainties related to entities' current activities as well as their future plans. For example, entities will need to consider disclosing what the planned operations will be when operations start and what those risks may be.

Consistent VIE Analysis for All Entities

DSE-specific guidance to evaluate whether a DSE is a VIE was eliminated by the new standard.⁴ As a result, the VIE analysis will be consistent for all entities, including those that would have been a DSE under ASC Topic 915.

IFRS, Effective Date, and Transition

The proposed ASU eliminates a difference between U.S. GAAP and IFRS, which does not include the DSE concept.

The effective dates related to the elimination of inception-to-date information and other remaining disclosure requirements in Topic 915 and the clarification of the disclosure guidance in Topic 275 on risks and uncertainties are:

- Public business entities – annual and interim periods in fiscal years beginning after December 15, 2014; and
- All other entities – annual periods in fiscal years beginning after December 15, 2014, and interim periods in fiscal years beginning after December 15, 2015.

² FASB ASC Topic 915, Development Stage Entities, available at www.fasb.org.

³ FASB ASC Topic 275, Risks and Uncertainties, available at www.fasb.org.

⁴ FASB ASC Topic 810, Consolidation, available at www.fasb.org.

The effective dates for the elimination of the DSE-specific VIE criteria are:

- Public business entities – annual and interim periods in fiscal years beginning after December 15, 2015; and
- All other entities – annual periods in fiscal years beginning after December 15, 2016, and interim periods beginning after December 15, 2017.

The standard also sets requirements for adoption.

- Changes required by the elimination of ASC Topic 915 and amendments to the VIE guidance in ASC Topic 810 will be applied retrospectively upon adoption.
- The disclosure amendments to ASC Topic 275 on risks and uncertainties will be applied prospectively upon adoption.
- Early adoption is permitted for any annual period or interim period for which financial statements have not been issued or made available.

Information previously required under ASC Topic 915 will no longer be presented or disclosed in financial statements issued upon adoption of the new standard.

Adoption Challenges. Adopting the standard can present challenges for entities conducting an initial public offering, which is discussed in the following example.

Example: Adoption During the Initial Public Offering Process

A calendar year-end company that is a privately held DSE has issued annual financial statements for the years ended December 31, 2011, 2012, and 2013, which include the inception-to-date and other ASC Topic 915 disclosure requirements through December 31, 2013.

The company files a registration statement on May 31, 2014, in anticipation of an initial public offering and includes issued financial statements for the years ended 2011, 2012, and 2013 and the quarters ended March 31, 2013, and 2014. Because the financial statements have been issued before the new standard was issued, we expect the company to include in the financial statements the inception-to-date and other ASC Topic 915 disclosure requirements through March 31, 2014.

However, if the company is required to update its registration statement after issuance of the standard with a set of interim financial statements that had not yet been issued (i.e., June 30, 2014), the company may early adopt the new standard and eliminate the inception-to-date and other information previously required for all periods presented. The company should also reevaluate its risks and uncertainties disclosures based on the amendments to Topic 275.

Contact us: This is a publication of KPMG's Department of Professional Practice 212-909-5600

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Earlier editions are available at: <http://www.kpmginstitutes.com/financial-reporting-network>

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