

FINANCIAL ACCOUNTING SERIES



No. 2014-10
June 2014

Development Stage Entities (Topic 915)

Elimination of Certain Financial Reporting
Requirements, Including an Amendment to Variable
Interest Entities Guidance in Topic 810, Consolidation

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board

The *FASB Accounting Standards Codification*[®] is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective.

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Summary

Why Is the FASB Issuing This Accounting Standards Update (Update)?

The objective of the amendments in this Update is to improve financial reporting by reducing the cost and complexity associated with the incremental reporting requirements for development stage entities. Users of financial statements of development stage entities told the Board that the development stage entity distinction, the inception-to-date information, and certain other disclosures currently required under U.S. generally accepted accounting principles (GAAP) in the financial statements of development stage entities provide information that has limited relevance and is generally not decision useful. As a result, the amendments in this Update remove all incremental financial reporting requirements from U.S. GAAP for development stage entities, thereby improving financial reporting by eliminating the cost and complexity associated with providing that information.

The amendments in this Update also eliminate an exception provided to development stage entities in Topic 810, Consolidation, for determining whether an entity is a variable interest entity on the basis of the amount of investment equity that is at risk. The amendments to eliminate that exception simplify U.S. GAAP by reducing avoidable complexity in existing accounting literature and improve the relevance of information provided to financial statement users by requiring the application of the same consolidation guidance by all reporting entities. The elimination of the exception may change the consolidation analysis, consolidation decision, and disclosure requirements for a reporting entity that has an interest in an entity in the development stage.

Who Is Affected by the Amendments in This Update?

The amendments in this Update affect entities that are development stage entities under U.S. GAAP. In addition, the amendments may affect the consolidation decisions for a reporting entity that has an interest in an entity that is a development stage entity.

A development stage entity is defined in the Master Glossary of the Accounting Standards Codification as follows:

An entity devoting substantially all of its efforts to establishing a new business and for which either of the following conditions exists:

- a. Planned principal operations have not commenced.

- b. Planned principal operations have commenced, but there has been no significant revenue therefrom.

What Are the Main Provisions?

The amendments in this Update remove the definition of a development stage entity from the Master Glossary of the Accounting Standards Codification, thereby removing the financial reporting distinction between development stage entities and other reporting entities from U.S. GAAP. In addition, the amendments eliminate the requirements for development stage entities to (1) present inception-to-date information in the statements of income, cash flows, and shareholder equity, (2) label the financial statements as those of a development stage entity, (3) disclose a description of the development stage activities in which the entity is engaged, and (4) disclose in the first year in which the entity is no longer a development stage entity that in prior years it had been in the development stage.

The amendments also clarify that the guidance in Topic 275, Risks and Uncertainties, is applicable to entities that have not commenced planned principal operations.

Finally, the amendments remove paragraph 810-10-15-16. Paragraph 810-10-15-16 states that a development stage entity does not meet the condition in paragraph 810-10-15-14(a) to be a variable interest entity if (1) the entity can demonstrate that the equity invested in the legal entity is sufficient to permit it to finance the activities that it is currently engaged in and (2) the entity's governing documents and contractual arrangements allow additional equity investments. Under the amendments, all entities within the scope of the Variable Interest Entities Subsections of Subtopic 810-10 are required to evaluate whether the total equity investment at risk is sufficient using the guidance provided in paragraphs 810-10-25-45 through 25-47, which requires both qualitative and quantitative evaluations. Because the term *development stage entity* is used in paragraph 810-10-15-16, the definition of a development stage entity has been removed from the Master Glossary concurrent with the effective date of the amendment removing paragraph 810-10-15-16.

How Do the Main Provisions Differ from Current U.S. Generally Accepted Accounting Principles (GAAP) and Why Are They an Improvement?

The amendments in this Update simplify accounting guidance by removing all incremental financial reporting requirements for development stage entities. The amendments also reduce data maintenance and, for those entities subject to audit, audit costs by eliminating the requirement for development stage entities to

present inception-to-date information in the statements of income, cash flows, and shareholder equity.

Discussions with investors and other users of financial statements of development stage entities indicated that they do not find the inception-to-date information or the other disclosure requirements for development stage entities to be decision useful. As such, the amendments in this Update reduce costs by eliminating the requirements to (1) present inception-to-date information in the statements of income, cash flows, and shareholder equity, (2) label the financial statements as those of a development stage entity, (3) disclose a description of the development stage activities in which the entity is engaged, and (4) disclose in the first year in which the entity is no longer a development stage entity that in prior years it had been in the development stage. Therefore, eliminating the Topic 915 requirements provides cost savings for preparers without reducing the relevance of information provided to users of financial statements.

The clarification that disclosures about risks and uncertainties required by Topic 275 also apply to entities that have not commenced planned principal operations will improve the relevance of information provided to users of financial statements in those cases in which an entity did not adhere to the requirements for those disclosures.

The elimination of the exception to the sufficiency-of-equity-at-risk criterion in paragraph 810-10-15-16 for development stage entities will require all reporting entities that have an interest in a development stage entity to apply consistent guidance for transactions that are economically the same or similar. Therefore, the same guidance will be applied for determining whether an entity is a variable interest entity and whether the variable interest entity should be consolidated, regardless of whether that entity has commenced planned principal operations or has significant revenue from its principal operations. This will provide more consistent consolidation analyses and decisions among reporting entities, thereby improving the relevance of information provided to users of financial statements.

When Will the Amendments Be Effective?

The amendments related to the elimination of inception-to-date information and the other remaining disclosure requirements of Topic 915 should be applied retrospectively except for the clarification to Topic 275, which shall be applied prospectively. For public business entities, those amendments are effective for annual reporting periods beginning after December 15, 2014, and interim periods therein. For other entities, the amendments are effective for annual reporting periods beginning after December 15, 2014, and interim reporting periods beginning after December 15, 2015.

For public business entities, the amendment eliminating the exception to the sufficiency-of-equity-at-risk criterion for development stage entities in paragraph

810-10-15-16 should be applied retrospectively for annual reporting periods beginning after December 15, 2015, and interim periods therein. For all other entities, the amendments to Topic 810 should be applied retrospectively for annual reporting periods beginning after December 15, 2016, and interim reporting periods beginning after December 15, 2017.

Early application of each of the amendments is permitted for any annual reporting period or interim period for which the entity's financial statements have not yet been issued (public business entities) or made available for issuance (other entities). Upon adoption, entities will no longer present or disclose any information required by Topic 915.

How Do the Provisions Compare with International Financial Reporting Standards (IFRS)?

IFRS currently does not include the concept of a development stage entity and, therefore, does not provide separate guidance on consolidation, presentation, or disclosure for entities in the development stage. As such, the amendments in this Update reduce existing differences between U.S. GAAP and IFRS.

Amendments to the *FASB Accounting Standards Codification*[®]

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–32. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

Amendments to Master Glossary

2. Supersede the Master Glossary term *Development Stage Entity*, with a link to transition paragraph 810-10-65-5, as follows:

Development Stage Entity

~~An entity devoting substantially all of its efforts to establishing a new business and for which either of the following conditions exists:~~

- ~~a. Planned principal operations have not commenced.~~
- ~~b. Planned principal operations have commenced, but there has been no significant revenue therefrom.~~

Amendments to Topic 915

3. Supersede Topic 915, Development Stage Entities, with a link to transition paragraph 915-10-65-1.

4. Add paragraph 915-10-65-1 and its related heading as follows:

> Transition Related to 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*

915-10-65-1 The following represents the transition and effective date information related to 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*:

- a. The pending content that links to this paragraph shall be effective for **public business entities** for annual reporting periods beginning after December 15, 2014, and interim periods therein. For all other entities, the pending content that links to this paragraph shall be effective for annual reporting periods beginning after December 15, 2014, and for interim reporting periods beginning after December 15, 2015.
- b. For all entities, the pending content that links to this paragraph shall be applied retrospectively except for the clarification to Topic 275, which shall be applied prospectively.
- c. A public business entity may early adopt the pending content that links to this paragraph for any annual reporting period or interim period for which the entity's financial statements have not yet been issued. All other entities may early adopt the pending content that links to this paragraph for financial statements that have not yet been made available for issue.

Amendments to Subtopic 230-10

5. Amend paragraph 230-10-05-3, with a link to transition paragraph 915-10-65-1, as follows:

Statement of Cash Flows—Overall

Overview and Background

230-10-05-3 Other Topics, including industry-specific Topics, may have Statement of Cash Flows Subtopics that address the Topic-specific requirements for the statement of cash flows. The guidance in those Subtopics is intended to be incremental to the guidance otherwise established in this Statement of Cash Flows Topic. Topics with incremental Statement of Cash Flows Subtopics are:

- a. Foreign Currency Matters, Subtopic 830-230
- b. Subparagraph superseded by Accounting Standards Update 2014-10, ~~Development Stage Entities~~, Subtopic 915-230
- c. Entertainment—Films, Subtopic 926-230
- d. Financial Services—Depository and Lending, Subtopic 942-230
- e. Financial Services—Investment Companies, Subtopic 946-230
- f. Not-for-Profit Entities, Subtopic 958-230
- g. Real Estate—General, Subtopic 970-230
- h. Real Estate—Time Sharing Activities, Subtopic 978-230.

6. Supersede paragraph 230-10-60-5 and its related heading, with a link to transition paragraph 915-10-65-1, as follows:

Relationships

~~> Development Stage Entities~~

~~230-10-60-5 Paragraph superseded by Accounting Standards Update 2014-10. For the required presentation of and the additional information required in the statement of cash flows of a development stage entity, see Topic 915.~~

Amendments to Subtopic 275-10

7. Amend paragraph 275-10-05-2, with a link to transition paragraph 915-10-65-1, as follows:

Risks and Uncertainties—Overall

Overview and Background

275-10-05-2 The central feature of this Subtopic's disclosure requirements is selectivity: specified criteria serve to screen the host of risks and uncertainties that affect every entity so that required disclosures are limited to matters significant to a particular entity. The disclosures focus primarily on risks and uncertainties that could significantly affect the amounts reported in the financial statements in the **near term** or the near-term functioning of the reporting entity. The risks and uncertainties this Subtopic addresses can stem from any of the following:

- a. The nature of the entity's operations, including the activities in which the entity is currently engaged if principal operations have not commenced
- b. The use of estimates in the preparation of the entity's financial statements
- c. Significant concentrations in certain aspects of the entity's operations.

8. Amend paragraphs 275-10-50-1 through 50-2 and its related heading and add paragraph 275-10- 50-2A, with a link to transition paragraph 915-10-65-1, as follows:

Disclosure

275-10-50-1 All of the disclosures required by this Subtopic shall be included in the basic financial statements. Reporting entities shall make disclosures in their financial statements about the risks and uncertainties existing as of the date of those statements in the following areas:

- a. Nature of operations, including the activities in which the entity is currently engaged if principal operations have not commenced
- b. Use of estimates in the preparation of financial statements
- c. Certain significant estimates
- d. Current vulnerability due to certain concentrations.

These four areas of disclosure are not mutually exclusive. The information required by some may overlap. Accordingly, the disclosures required by this Subtopic may be combined in various ways, grouped together, or placed in diverse parts of the financial statements, or included as part of the disclosures made pursuant to the requirements of other Topics.

> Nature of Operations/Activities

275-10-50-2 If an entity has commenced planned principal operations, the entity's financial ~~Financial~~ statements shall include a description of the major products or services the reporting entity sells or provides and its principal markets, including the locations of those markets. If the entity operates in more than one business, the disclosure also shall ~~also~~ indicate the relative importance of its operations in each business and the basis for this determination—for example, assets, revenues, or earnings. Not-for-profit entities' (NFPs') disclosures should briefly describe the principal services performed by the entity and the revenue sources for the entity's services. Disclosures about the nature of operations or activities need not be quantified; relative importance could be conveyed by use of terms such as predominately, about equally, or major and other.

275-10-50-2A An entity that has not commenced principal operations shall provide disclosures about the risks and uncertainties related to the activities in which the entity is currently engaged and an understanding of what those activities are being directed toward.

9. Amend the heading preceding paragraph 275-10-55-2 and add paragraphs 275-10-55-3A through 55-3B and their related heading, with a link to transition paragraph 915-10-65-1, as follows:

Implementation Guidance and Illustrations

> Illustrations

275-10-55-1 The kinds of disclosures required by this Subtopic are illustrated in this Section. Each consists of a situation in which the disclosure would likely be made or not made and a discussion of how and why the illustrative disclosure complies with the requirements of this Subtopic or why no disclosure is required by this Subtopic. Some of the concentrations described in the Examples may

illustrate more than one of the categories of concentrations given in paragraph 275-10-50-18(a) through (d).

> > Example 1: Nature of Operations/Activities—Planned Principal Operations Have Commenced

275-10-55-2 This Example illustrates the disclosures required by paragraph 275-10-50-2. Conglomerate, Inc. is a U.S.-based multinational entity. Conglomerate's principal lines of business are automotive products, aerospace products and technologies, textiles, and nonprescription health-care products. The principal markets for Conglomerate's automotive and aerospace products and technologies are European- and Far East-based industrial concerns. Textiles are sold primarily to U.S. clothing manufacturers, while nonprescription health-care products are sold to wholesale and retail distributors worldwide. The operations of Conglomerate in any one country are not significant in relation to its overall operations. The following illustrates disclosure of the nature of operations required by this Subtopic.

Conglomerate, Inc. is a multinational manufacturer and engineering concern. The entity's principal lines of business are automotive products, aerospace products and technologies, textiles, and nonprescription health-care products, all of which are about equal in size based on sales. The principal markets for the automotive and aerospace products and technologies are European- and Far East-based industrial concerns. Textiles are sold primarily to domestic clothing manufacturers, while nonprescription health-care products are sold primarily to wholesale and retail distributors worldwide.

275-10-55-3 This disclosure provides all of the following:

- a. Information necessary for users not familiar with the operations of Conglomerate to identify and consider the broad risks and uncertainties associated with the businesses and markets in which it operates and competes. From the disclosures provided, financial statement users having a general knowledge of business matters should be able to assess that Conglomerate's product lines are subject to different and varied risks. Those financial statement users familiar with the businesses recognize the general risks associated with each of these businesses and their related markets.
- b. Information that facilitates the overall understanding of the financial information presented. This kind of disclosure could provide users with a basis for comparing an entity's financial information with that of competitors or with applicable industry statistics.
- c. Insight into the location of Conglomerate's principal markets, although on a broad scale. Because Conglomerate's markets are so diverse, it likely would not be useful to enumerate the specific locations of the

entity's markets. For this reason, the manner in which the information is disclosed in the illustrative disclosure is sufficient to meet the broad objectives of this Subtopic.

> > Example 1A: Nature of Operations/Activities—Planned Principal Operations Have Not Commenced

275-10-55-3A This Example illustrates one way to comply with the disclosures required by paragraph 275-10-50-2. NewCompany, Inc. (Company) is a business that has not commenced planned principal operations. The Company is designed to develop and manufacture specialized environmental test equipment for measuring air quality. The Company's first product is a rapid-result test kit to identify certain airborne contaminants in high-risk environments. The Company's activities since inception have consisted principally of acquiring technology patents, raising capital, and performing research and development activities. The following illustrates disclosure required by this Subtopic of the nature of activities for an entity that has not commenced principal operations.

NewCompany, Inc. (Company) is a business whose planned principal operations are the design, engineering, and manufacturing of air quality test equipment. The Company is currently conducting research and development activities to operationalize certain patented technology that the Company owns so it can manufacture rapid-result test kits for certain airborne contaminants in high-risk environments.

During the last year, the Company secured a research facility in Norwalk, Connecticut, which houses all of its employees and research and development activities. The Company also is in the process of raising additional equity capital to support the completion of its development activities to begin manufacturing the test kits as soon as possible.

The Company's activities are subject to significant risks and uncertainties, including failing to secure additional funding to operationalize the Company's current technology before another company develops similar technology and test kits.

275-10-55-3B The disclosure in paragraph 275-10-55-3A provides all of the following:

- a. Information necessary for financial statement users not familiar with the activities of the Company to identify and consider the broad risks and uncertainties associated with businesses that have activities that are similar to those in which the Company is engaged. From the disclosures provided, financial statement users that have a general knowledge of business matters should be able to assess both of the following:

1. That the Company's activities are subject to different and varied risks, including the risk that the entity may be affected by the rapidly changing and intensely competitive technology market
 2. That the Company is dependent on additional capital resources for the continuation and expansion of its business activities.
- b. Information that facilitates the overall understanding of the financial information provided. That kind of disclosure could provide users with a basis for understanding the Company's financial information and comparing that information with similar entities or other relevant statistics.

Amendments to Subtopic 340-10

10. Supersede paragraph 340-10-60-9 and its related heading, with a link to transition paragraph 915-10-65-1, as follows:

Other Assets and Deferred Costs—Overall

Relationships

> ~~Development Stage Entities~~

~~**340-10-60-9** Paragraph superseded by Accounting Standards Update 2014-10. For the assessment of recoverability of capitalized or deferred costs in a development stage subsidiary, see Section 915-810-35.~~

Amendments to Subtopic 720-15

11. Amend paragraph 720-15-15-1, with a link to transition paragraph 915-10-65-1, as follows:

Other Expenses—Start-Up Costs

Scope and Scope Exceptions

> Entities

720-15-15-1 The guidance in this Subtopic applies to all nongovernmental entities, including not-for-profit entities (NFPs), ~~the following:~~

- a. ~~Subparagraph superseded by Accounting Standards Update 2014-10. Not for profit entities (NFPs)~~
- b. ~~Subparagraph superseded by Accounting Standards Update 2014-10. Development stage entities (as the term is discussed in Section 915-10-15)~~
- c. ~~Subparagraph superseded by Accounting Standards Update 2014-10. Established operating entities (as the term is discussed in Section 915-10-15).~~

Amendments to Subtopic 810-10

12. Supersede paragraph 810-10-15-16, with a link to transition paragraph 810-10-65-5, as follows:

Consolidation—Overall

Scope and Scope Exceptions

Variable Interest Entities

~~810-10-15-16 Paragraph superseded by Accounting Standards Update 2014-10. Because reconsideration of whether a legal entity is subject to the Variable Interest Entities Subsections is required only in certain circumstances, the initial application to a legal entity that is in the development stage is very important. Guidelines for identifying a **development stage entity** appear in paragraph 915-10-05-2. A development stage entity is a VIE if it meets any of the conditions in paragraph 810-10-15-14. A development stage entity does not meet the condition in paragraph 810-10-15-14(a) if it can be demonstrated that the equity invested in the legal entity is sufficient to permit it to finance the activities it is currently engaged in (for example, if the legal entity has already obtained financing without additional subordinated financial support) and provisions in the legal entity's governing documents and contractual arrangements allow additional equity investments. However, sufficiency of the equity investment should be reconsidered as required by paragraph 810-10-35-4, for example, if the legal entity undertakes additional activities or acquires additional assets.~~

13. Add paragraph 810-10-65-5 and its related heading as follows:

> Transition Related to 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

810-10-65-5 The following represents the transition and effective date information related to 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*:

- a. For a **public business entity**, the pending content that links to this paragraph shall be effective for annual reporting periods beginning after December 15, 2015, and interim periods therein.
- b. For all other entities, the pending content that links to this paragraph shall be effective for annual reporting periods beginning after December 15, 2016, and for interim reporting periods beginning after December 15, 2017.
- c. An entity applying the exception for development stage entities in paragraph 810-10-15-16 shall apply the pending content that links to this paragraph retrospectively.
- d. A public business entity may early adopt the pending content that links to this paragraph for any annual reporting period or interim period for which the entity's financial statements have not yet been issued. All other entities may early adopt the pending content that links to this paragraph for financial statements that have not yet been made available for issuance.
- e. For the disclosures required in paragraphs 810-10-50-2AA through 50-2AC and 810-10-50-3 through 50-10, applicable comparative disclosures shall be required only for periods after the effective date.
- f. If a reporting entity is required to consolidate a **variable interest entity** as a result of the initial application of the pending content that links to this paragraph, the initial measurement of the assets, liabilities, and noncontrolling interests of the variable interest entity depends on whether the determination of their carrying amounts is practicable. In this context, *carrying amounts* refers to the amounts at which the assets, liabilities, and noncontrolling interests would have been carried in the consolidated financial statements if the requirements of the pending content that links to this paragraph had been effective when the reporting entity first met the conditions to be the **primary beneficiary**. The following options are available for the initial measurement of the assets, liabilities and noncontrolling interests of the variable interest entity:
 - 1. If determining the carrying amounts is practicable, the consolidating entity shall initially measure the assets, liabilities, and noncontrolling interests of the variable interest entity at their carrying amounts at the date the pending content that links to this paragraph first applies.
 - 2. If determining the carrying amounts is not practicable, the assets, liabilities, and noncontrolling interests of the variable interest entity

- shall be measured at fair value at the date the pending content that links to this paragraph first applies.
- g. Any difference between the net amount added to the statement of financial position of the reporting entity and the amount of any previously recognized interest in the newly consolidated variable interest entity shall be recognized as a cumulative-effect adjustment to retained earnings. A reporting entity shall describe the transition method(s) applied and shall disclose the amount and classification in its statement of financial position of the consolidated assets or liabilities by the transition method(s) applied.
- h. A reporting entity that is required to consolidate a variable interest entity as a result of the initial application of the pending content that links to this paragraph may elect the fair value option provided by the Fair Value Option Subsections of Subtopic 825-10, only if the reporting entity elects the option for all financial assets and financial liabilities of that variable interest entity that are eligible for this option under those Fair Value Option Subsections. This election shall be made on a variable-interest-entity-by-variable-interest-entity basis. Along with the disclosures required in those Fair Value Option Subsections, the reporting entity shall disclose all of the following:
1. Management's reasons for electing the fair value option for a particular variable interest entity or a group of variable interest entities
 2. The reasons for different elections if the fair value option is elected for some variable interest entities and not others
 3. Quantitative information by line item in the statement of financial position indicating the related effect on the cumulative-effect adjustment to retained earnings of electing the fair value option for a variable interest entity.
- i. The determinations of whether a **legal entity** is a variable interest entity and which reporting entity, if any, is a variable interest entity's primary beneficiary shall be made as of either of the following dates:
1. The date the reporting entity became involved with the legal entity
 2. If events requiring reconsideration of the legal entity's status or the status of its variable interest holders have occurred, the most recent date at which the pending content that links to this paragraph would have required consideration.
- j. If at transition it is not practicable for a reporting entity to obtain the information necessary to make the determinations in (i) as of the date the reporting entity became involved with a legal entity or at the most recent reconsideration date, the reporting entity shall make the determinations as of the date the pending content that links to this paragraph is first applied.
- k. If the variable interest entity and the primary beneficiary determinations are made in accordance with (i) and (j), then the primary beneficiary shall measure the assets, liabilities, and noncontrolling interests of the

variable interest entity at fair value as of the date the pending content that links to this paragraph is first applied.

Amendments to Subtopic 835-20

14. Amend paragraph 835-20-55-2, with a link to transition paragraph 915-10-65-1, as follows:

Interest—Capitalization of Interest

Implementation Guidance and Illustrations

> Implementation Guidance

>> Clarification of the Phrase When Planned Principal Operations Begin

835-20-55-2 This paragraph provides clarification of the phrase *when planned principal operations begin* (in paragraph 835-20-15-6(d)) to be able to determine when the investment in the investee that is the qualifying asset is ready for its **intended use** and interest capitalization ceases. ~~The phrase in this Subtopic has the same meaning as in Topic 915. That Topic considers an entity to be in the development stage if planned~~ Planned principal operations may not have not commenced and if the entity ~~it~~ is devoting substantially all of its efforts to establishing a new business through **activities** such as the following:

- a. Financial planning
- b. Raising capital
- c. Exploring for natural resources
- d. Developing natural resources
- e. Research and development
- f. Establishing sources of supply
- g. Acquiring property, plant, and equipment or other operating assets, such as mineral rights
- h. Recruiting and training personnel
- i. Developing markets
- j. Starting up production.

Amendments to Subtopic 980-10

15. Supersede paragraph 980-10-15-6, with a link to transition paragraph 915-10-65-1, as follows:

Regulated Operations—Overall

Scope and Scope Exceptions

~~980-10-15-6 Paragraph superseded by Accounting Standards Update 2014-10-10, Section 915-205-45 and paragraphs 915-215-45-1 through 45-3 and 915-235-50-1, which require disclosure of additional information, apply to development stage entities, which are also regulated entities in all cases.~~

Amendments to Status Sections

16. Add paragraph 915-10-00-1 as follows:

915-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
Development Stage Entity	Superseded	2014-10	06/10/2014
Investee	Superseded	2014-10	06/10/2014
Public Business Entity	Added	2014-10	06/10/2014
Research and Development	Superseded	2014-10	06/10/2014
Subsidiary	Superseded	2014-10	06/10/2014
915-10-05-1	Superseded	2014-10	06/10/2014
915-10-05-2	Superseded	2014-10	06/10/2014
915-10-15-1 through 15-5	Superseded	2014-10	06/10/2014
915-10-65-1	Added	2014-10	06/10/2014

17. Add paragraph 915-205-00-1 as follows:

915-205-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
Development Stage Entity	Superseded	2014-10	06/10/2014
915-205-05-1	Superseded	2014-10	06/10/2014
915-205-15-1	Superseded	2014-10	06/10/2014
915-205-45-1 through 45-6	Superseded	2014-10	06/10/2014

18. Add paragraph 915-210-00-1 as follows:

915-210-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
Development Stage Entity	Superseded	2014-10	06/10/2014
915-210-05-1	Superseded	2014-10	06/10/2014
915-210-15-1	Superseded	2014-10	06/10/2014
915-210-45-1	Superseded	2014-10	06/10/2014

19. Add paragraph 915-215-00-1 as follows:

915-215-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
Development Stage Entity	Superseded	2014-10	06/10/2014
915-215-05-1	Superseded	2014-10	06/10/2014
915-215-15-1	Superseded	2014-10	06/10/2014
915-215-45-1 through 45-3	Superseded	2014-10	06/10/2014

20. Add paragraph 915-225-00-1 as follows:

915-225-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
Development Stage Entity	Superseded	2014-10	06/10/2014
915-225-05-1	Superseded	2014-10	06/10/2014
915-225-15-1	Superseded	2014-10	06/10/2014
915-225-45-1	Superseded	2014-10	06/10/2014

21. Add paragraph 915-230-00-1 as follows:

915-230-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
Development Stage Entity	Superseded	2014-10	06/10/2014
915-230-05-1	Superseded	2014-10	06/10/2014
915-230-15-1	Superseded	2014-10	06/10/2014
915-230-45-1	Superseded	2014-10	06/10/2014

22. Add paragraph 915-235-00-1 as follows:

915-235-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
Development Stage Entity	Superseded	2014-10	06/10/2014
915-235-05-1	Superseded	2014-10	06/10/2014
915-235-15-1	Superseded	2014-10	06/10/2014
915-235-50-1	Superseded	2014-10	06/10/2014
915-235-50-2	Superseded	2014-10	06/10/2014

23. Add paragraph 915-340-00-1 as follows:

915-340-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
Development Stage Entity	Superseded	2014-10	06/10/2014
915-340-05-1	Superseded	2014-10	06/10/2014
915-340-15-1	Superseded	2014-10	06/10/2014
915-340-25-1	Superseded	2014-10	06/10/2014
915-340-35-1	Superseded	2014-10	06/10/2014
915-340-35-2	Superseded	2014-10	06/10/2014

24. Add paragraph 915-605-00-1 as follows:

915-605-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
Development Stage Entity	Superseded	2014-10	06/10/2014
915-605-05-1	Superseded	2014-10	06/10/2014
915-605-15-1	Superseded	2014-10	06/10/2014
915-605-25-1	Superseded	2014-10	06/10/2014

25. Add paragraph 915-810-00-1 as follows:

915-810-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
Development Stage Entity	Superseded	2014-10	06/10/2014
915-810-05-1	Superseded	2014-10	06/10/2014
915-810-15-1	Superseded	2014-10	06/10/2014
915-810-35-1	Superseded	2014-10	06/10/2014
915-810-35-2	Superseded	2014-10	06/10/2014

26. Amend paragraph 230-10-00-1, by adding the following items to the table, as follows:

230-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
230-10-05-3	Amended	2014-10	06/10/2014
230-10-60-5	Superseded	2014-10	06/10/2014

27. Amend paragraph 275-10-00-1, by adding the following items to the table, as follows:

275-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
275-10-05-2	Amended	2014-10	06/10/2014
275-10-50-1	Amended	2014-10	06/10/2014
275-10-50-2	Amended	2014-10	06/10/2014
275-10-50-2A	Added	2014-10	06/10/2014
275-10-55-2	Amended	2014-10	06/10/2014
275-10-55-3A	Added	2014-10	06/10/2014
275-10-55-3B	Added	2014-10	06/10/2014

28. Amend paragraph 340-10-00-1, by adding the following item to the table, as follows:

340-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
340-10-60-9	Superseded	2014-10	06/10/2014

29. Amend paragraph 720-15-00-1, by adding the following item to the table, as follows:

720-15-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
720-15-15-1	Amended	2014-10	06/10/2014

30. Amend paragraph 810-10-00-1, by adding the following items to the table, as follows:

810-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
Development Stage Entity	Superseded	2014-10	06/10/2014
810-10-15-16	Superseded	2014-10	06/10/2014
810-10-65-5	Added	2014-10	06/10/2014

31. Add paragraph 835-20-00-1 as follows:

835-20-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
835-20-55-2	Amended	2014-10	06/10/2014

32. Amend paragraph 980-10-00-1 as follows:

980-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
980-10-15-6	Superseded	2014-10	06/10/2014

The amendments in this Update were adopted by the affirmative vote of six members of the Financial Accounting Standards Board. Mr. Smith dissented.

Mr. Smith dissents from the issuance of the guidance in this Update. Mr. Smith notes that the original purpose of this project was to reduce the cost and complexity associated with the inception-to-date information required under U.S. GAAP for development stage entities. Mr. Smith observes that the Board expanded the scope of the project to eliminate the concept of the development stage entity and the exception to applying the guidance on variable interest entities for development stage entities that meet the requirements specified in paragraph 810-10-15-16. Mr. Smith notes that the basis for conclusions of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest*

Entities, specifically addresses the Board's justification for providing the exception that the guidance in this Update removes. Mr. Smith also notes that several comment letters indicated that paragraph 810-10-15-16 not only is used by development stage entities, but also is used by analogy to evaluate the application of guidance on variable interest entities to multiphased entities. Sufficient information was not presented during the deliberations of this project to enable Mr. Smith to vote to overturn the previous Board's conclusion for Interpretation 46(R).

Members of the Financial Accounting Standards Board:

Russell G. Golden, *Chairman*
James L. Kroeker, *Vice Chairman*
Daryl E. Buck
Thomas J. Linsmeier
R. Harold Schroeder
Marc A. Siegel
Lawrence W. Smith

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

BC2. The amendments in this Update remove the term *development stage entity* and eliminate the incremental presentation and disclosure requirements for development stage entities in Topic 915. The amendments reduce costs, simplify accounting guidance, and increase the relevance of information presented to financial statement users without reducing decision-useful information by doing the following:

- a. Eliminating the requirement for development stage entities to present inception-to-date information in the statements of income, cash flows, and shareholder equity
- b. Amending Topic 275 to clarify that the risk and uncertainty disclosure requirements apply to entities that have not commenced principal operations
- c. Eliminating the exception related to the sufficiency of equity at risk for development stage entities from the guidance on variable interest entities in paragraph 810-10-15-16 to increase consistency in application of consolidation guidance across all entities
- d. Removing the definition of *development stage entities* from the Master Glossary of the Accounting Standards Codification.

Background Information

BC3. The Private Company Council (PCC) added a project to its agenda to determine whether the inception-to-date presentation requirements for development stage entities, codified in Topic 915, should be amended or eliminated. The PCC initially requested that the staff determine whether the cost to preparers to provide the inception-to-date information required by Topic 915 was supported by benefits to users of private company (nonpublic) financial statements. Staff research on this issue found that the issue also is relevant for public companies. As a result, the Board added the project to its agenda at the July 16, 2013 meeting of the PCC and expanded the scope of the project to

address the concerns of both nonpublic companies and public companies about Topic 915 reporting requirements for development stage entities.

BC4. Most of the guidance in Topic 915 was previously included in FASB Statement No. 7, *Accounting and Reporting by Development Stage Enterprises*, and has not been amended substantively since that Statement's issuance in June 1975. Statement 7 became effective for fiscal periods beginning on or after January 1, 1976, and required that development stage entities also apply U.S. GAAP applicable for established operating entities. Thus, development stage entities were required to present the same basic financial statements and follow the same recognition and measurement requirements for revenues, start-up costs, and other similar incurred costs as do established operating entities.

BC5. Topic 915 provided general presentation and disclosure requirements for an entity in the development stage. The guidance required a development stage entity to (a) present inception-to-date information in the statements of income, cash flows, and shareholder equity, (b) label the financial statements as those of a development stage entity, (c) disclose a description of the development stage activities in which the entity is engaged, and (d) disclose in the first year in which the entity is no longer a development stage entity that in prior years it had been in the development stage. Those incremental requirements resulted in financial statements that were potentially more costly to prepare and audit than those of established operating entities.

BC6. Discussions about the amendments with investors indicated that the inception-to-date information provides little information relevant to their investment considerations. In addition, the accumulated loss information within the inception-to-date information often includes costs related to (a) more than one product that is under development or (b) products or development strategies that may have been abandoned and, therefore, are no longer relevant. Instead, investors stated that they consider the adequacy of current and future cash flows, the feasibility of the business activities under development, and other nonfinancial market indicators or conditions that may affect an entity's overall success when making their investment decisions.

BC7. In November 2013, the Board issued proposed Accounting Standards Update, *Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements* (2013 Exposure Draft), which proposed superseding Topic 915 along with a proposed conforming amendment to eliminate paragraph 810-10-15-16. The 45-day comment period ended on December 23, 2013. The Board received 24 comment letters, mainly from accounting firms and state CPA societies. The majority of respondents agreed with the guidance in the proposed Update.

Long-Lived Development Stage Entities

BC8. Some stakeholders stated that the guidance in Topic 915 has become onerous for some development stage entities because the nature of some of those entities has changed since the issuance of Statement 7. A review of the rationale for Statement 7 indicated that the FASB was aware that some entities may remain in the development stage for several years. However, in its deliberations, the Board at that time did not appear to contemplate development stage entities that would be long-lived or perpetual in nature.

BC9. Currently, development stage entities often remain in the development stage for many years before the preparation of U.S. GAAP financial statements may be required and before engaging an accounting firm to audit those statements. As a result, some entities incur significant audit costs related to their efforts to compile and present inception-to-date cumulative information in preparing their first financial statements under U.S. GAAP. In addition, development stage entities often issue complex equity instruments (warrants, preferred stock, unique terms on dilution, and subsequent issuances) that can require numerous pages of disclosure when presenting equity transactions from inception to date for each reporting period. Stakeholders stated that as development stage entities mature or seek to become public companies, they also may change auditors. The new auditors may perform detailed audit procedures related to the inception-to-date information, which may result in significant increased costs.

BC10. Additionally, there are entities that identify themselves as development stage entities that do not plan to produce or market any product under development. Instead, the entity's primary purpose is to perform research and development on many products and to sell potentially successful product developments to manufacturing and marketing-driven firms. Many of those entities never progress beyond the development stage. Examples of those types of entities frequently are found in industries such as pharmaceuticals, biotechnology, and software development.

BC11. Since the issuance of Statement 7 in 1975, the way users obtain financial information, particularly for public companies, has changed dramatically, and it has become much easier for individuals interested in specific types of information to gather and aggregate that information in numerous ways. In particular, public filings can be searched and aggregated to accommodate user needs, if any, for inception-to-date information through public access to historical filings via the internet; research tools such as the Electronic Data Gathering, Analysis, and Retrieval system (EDGAR); web-based data service providers; and eXtensible Business Reporting Language (XBRL). Therefore, similar inception-to-date information can be gathered from publicly available sources without that information being specifically required to be accumulated and presented in current-period financial statements. Discussions with users of financial

statements of nonpublic entities indicated that they also obtain information from management to meet specific information needs not met by general-purpose financial statements.

Inception-to-Date Information

BC12. The Board decided to eliminate the requirement for development stage entities to present inception-to-date information in the statements of income, cash flows, and shareholder equity on the basis of stakeholder feedback, which included respondents to the Exposure Draft. Respondents indicated that the information is not useful to users of financial statements of development stage entities and is costly for preparers to provide. The Board stated that the original purpose of the development stage entity distinction set out in Statement 7 is no longer relevant. Additionally, for public companies, the inception-to-date information is publicly available through various data research tools (see paragraph BC11), and for private companies, this information may be available via direct user access to management.

Disclosure Requirements in Topic 275

BC13. Discussions with investors indicated that the remaining requirements discussed in paragraph BC5 were not decision useful. Investors indicated that they do not find the description of development stage entities useful because they do not distinguish those types of entities in that manner. Disclosures about the activities in which the entity is engaged usually are evident in the entity's Management's Discussion and Analysis (SEC registrants) or as part of the documents given to potential investors and lenders to support investment or funding requests. Therefore, the remaining disclosures in Topic 915 do not appear to provide decision-useful information. Thus, the Board decided to eliminate those requirements.

BC14. Several stakeholders suggested eliminating the remaining disclosures in Topic 915 and clarifying that the risk and uncertainty disclosure requirements in Topic 275 should apply to entities that had not commenced planned principal operations. That clarification would ensure that the information in Topic 915 about an entity's current activities is presented consistently in one location in an entity's financial statements and streamline disclosure requirements. Respondents to the Exposure Draft agreed that all other remaining disclosure requirements in Topic 915 should be eliminated. Respondents and individuals contacted through outreach efforts suggested that the disclosures in Topic 275 would be more useful if they included information about (a) what the intended operations of the entity are, (b) the activities in which the entity is currently engaged, and (c) when management plans to begin operations. The Board decided that the suggested alternative disclosures are more prescriptive than the more broad nature of the disclosure guidance in Topic 275. Additionally, the

Board decided that the suggested disclosure in item (c) above relates to forward-looking information that may be difficult to apply for some entities that have not commenced planned principal operations.

BC15. Even though development stage entities are within the scope of Topic 275, the Accounting Standards Codification uses the term *operations* rather than the term *activities*. Therefore, some entities that have not commenced planned principal operations may not consider the disclosure requirements in Topic 275 to be applicable to them. The Board decided to clarify that all entities, including those that have not commenced planned principal operations, should disclose the risks and uncertainties associated with their operations or activities undertaken in preparation for planned operations. The Board added an illustration to Topic 275 in the amendments in this Update to clarify this requirement.

Guidance for Variable Interest Entities

BC16. An entity is subject to consideration for consolidation under the guidance in the Variable Interest Entities Subsections of Subtopic 810-10 if, by design, any of the conditions in paragraph 810-10-15-14 exist. When evaluating whether a development stage entity has insufficient equity investment at risk (as described in paragraph 810-10-15-14), the evaluation should focus on whether the entity has sufficient equity at risk to permit it to finance the *activities in which it is currently engaged* and whether the legal entity's governing documents and contractual arrangements allow additional equity investments. In practice, the phrase *activities in which it is currently engaged* is being interpreted to mean activities in a particular funding phase or activities required to meet a specific funding milestone. However, a development stage entity must reconsider the sufficiency of the equity investment at risk as required by paragraph 810-10-35-4, for example, if the legal entity undertakes additional activities or acquires additional assets. The term *current activities* is ambiguous, and its interpretation is not limited to situations in which there are clearly defined funding phases or milestones. Because of that ambiguity and the requirement to reconsider the sufficiency of the equity investment at risk if additional activities are undertaken or additional assets are acquired, inconsistent consolidation decisions may result.

BC17. The amendments eliminate the exception that a development stage entity should be assessed on the *current activities* in which it is involved. Also, under the amendment, all entities that, by design, meet any of the conditions in paragraph 810-10-15-14(a) through (c) are now subject to further consideration for consolidation under the guidance in the Variable Interest Entities Subsections. All legal entities will be evaluated using the guidance on the sufficiency of equity investment at risk in paragraphs 810-10-25-45 through 25-47 to assess the amount of the total equity investment at risk that is necessary to permit a legal entity to finance its activities without additional subordinated financial support.

Because of the evolution of the nature and complexity of some development stage entities since the guidance in Topic 915 was developed and the significant judgment required to assess “current activities” of those entities, the Board decided that the application of the quantitative and qualitative guidance in paragraphs 810-10-25-45 through 25-47 that requires consideration of the design of the development stage entity and the apparent intentions of the parties that created it will result in more consistent and appropriate consolidation decisions across all entities. The Board recognizes that some development stage entities that were previously excluded from consolidation consideration may need to be evaluated further for consolidation.

BC18. The Board considered the possible use of a long-lived entity or a perpetual development stage entity to circumvent the objective of the consolidation requirements in Topic 810 in its discussion on eliminating the Topic 810 exception for development stage entities. The Board decided that the exception in paragraph 810-10-15-16 could be interpreted inappropriately to provide an opportunity for long-lived or perpetual development stage entities to be created and potentially avoid consolidation in perpetuity. An entity purposely structured as a perpetual development stage entity could avail itself of the exception in paragraph 810-10-15-16 and avoid consolidation even though it may have capital structures similar to nondevelopment stage entities that are consolidated. In its discussion, the Board also considered EITF Issue No. 99-16, “Accounting for Transactions with Elements of Research and Development Arrangements,” which addresses the issue of entities creating different classes of stock with the call right to purchase developed research. Those entities were able to avoid or change the manner in which research and development costs were recognized. The Board noted that Issue 99-16 addresses certain specific arrangements that could occur with development stage entities but does not comprehensively serve as a substitute for the consolidation analysis in Topic 810. Additionally, the rationale for Statement 7 indicated that the Board at that time was aware that some entities may remain in the development stage for several years. However, in its deliberations of Statement 7, that Board did not appear to contemplate development stage entities that would be long lived or perpetual in nature. Additionally, no conceptual basis exists to support different consolidation guidance for development stage entities. Accordingly, the Board decided at this time to eliminate the guidance on variable interest entities for development stage entities in paragraph 810-10-15-16 and require all entities to apply the same guidance for consolidation decisions.

BC19. A few respondents indicated that they consider paragraph 810-10-15-16 by analogy to assess the identification of the primary beneficiary in nondevelopment stage, multiphased entities. In assessing who has power over the activities that most significantly affect a variable interest entity’s economic performance, those respondents assess only the current “phase” of the entity’s activities when there are multiple phases with differing activities and significant uncertainties exist. That assessment could result in the designation of different

primary beneficiaries from one phase to another. Further outreach indicated apparent similarities between accounting firms when determining the primary beneficiary in the cases in which there were multiple phases with uncertainties associated with getting to the next phase of activities. However, there appeared to be a difference in how some of those respondents arrive at that conclusion. While some of those respondents referenced paragraph 810-10-15-16, others appeared to be performing a more general analysis of significant activities and asking whether there are uncertainties that should be considered in assessing the likelihood of a multiphased entity reaching subsequent “phases” of activities and determining the appropriate primary beneficiary. One of those respondents suggested that if paragraph 810-10-15-16 was eliminated, it would be useful if the Board provided an example that demonstrates how to identify the primary beneficiary when analyzing a variable interest entity that has multiple distinct phases. Some Board members consider application by analogy to determine that the primary beneficiary is beyond the explicit exception provided in paragraph 810-10-15-16. Thus, they see no reason that the elimination of an unrelated provision should affect the primary beneficiary determination if performed properly under existing guidance. Furthermore, the Board considered that suggestion to be beyond the scope of this project.

Definition of Development Stage Entity

BC20. The Board decided to remove the definition of development stage entity from the Master Glossary of the Accounting Standards Codification on the basis of the effects of its decisions to eliminate any special reporting requirements by development stage entities. The definition will be removed concurrent with the elimination of paragraph 810-10-15-16, which relies on that definition.

Effective Date and Transition

BC21. The Board decided that if an entity is reporting the inception-to-date information and the other remaining disclosure requirements of Topic 915, the amendments in this Update should be applied retrospectively except for the clarification to Topic 275, which shall be applied prospectively. For public business entities, the changes are effective for annual reporting periods beginning after December 15, 2014, and interim reporting periods therein. For other entities, the changes are effective for annual reporting periods beginning after December 15, 2014, and interim reporting periods beginning after December 15, 2015. Entities are allowed to apply such guidance early for any annual reporting period or interim period for which the entity’s financial statements have not yet been issued (public business entities) or made available for issuance (other entities). Upon adoption, entities will no longer present or disclose any information required by Topic 915.

BC22. The Board also decided that if an entity’s consolidation decision changes because the Board eliminated the exception for development stage entities in

paragraph 810-10-15-16, the amendments in this Update should be applied retrospectively. The transition guidance for the retrospective application is the same transition guidance that the FASB provided in Statement No. 167, *Amendments to FASB Interpretation No. 46(R)*, if an entity had to consolidate a variable interest entity as a result of a change in accounting. The Board decided to provide additional time for entities to apply the guidance in Topic 810 because, for many, this may be the first time that the entities will apply the variable interest entity consolidation guidance and they may need time to perform the variable interest analyses, aggregate, and draft new variable interest disclosures and address issues that may arise if their consolidation decision changes. For public business entities, the changes are effective for annual reporting periods beginning after December 15, 2015, and interim periods therein. For other entities, the changes are effective for annual reporting periods beginning after December 15, 2016, and interim reporting periods beginning after December 15, 2017. Entities are allowed to apply that guidance early for any annual reporting period or interim period for which the entity's financial statements have not yet been issued (public business entities) or made available for issuance (other entities).

Benefits and Costs

BC23. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Board's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC24. The Board does not anticipate that development stage entities will incur significant costs as a result of the amendments in this Update. Rather, the Board anticipates that entities subject to the existing development stage entity requirements will avoid existing data accumulation and audit costs in certain circumstances (including circumstances in which those costs could be significant). Discussions with investors and other users of financial statements of development stage entities indicated that they do not find the inception-to-date information or the remaining disclosure requirements provided by development stage entities to be decision useful. Therefore, the amendments provide cost savings for preparers without reducing information relevance for users of financial statements.

BC25. The Board understands that some investors in development stage entities that are currently using the exception language in paragraph 810-10-15-16 may incur costs to evaluate their interests in those entities for possible consolidation using the guidance in paragraphs 810-10-25-45 through 25-47. The Board decided that a single set of consolidation criteria applied by all reporting entities will benefit users of financial statements by providing more relevant and consistent consolidation decisions across all entities.

Amendments to the XBRL Taxonomy

The amendments to the *FASB Accounting Standards Codification*[®] in this Accounting Standards Update require changes to the U.S. GAAP Financial Reporting Taxonomy (UGT). Those changes, which will be incorporated into the proposed 2015 UGT, are available for public comment through ASU Taxonomy Changes provided at www.fasb.org, and finalized as part of the annual release process starting in September 2014.