

Board Meeting Handout EITF Issue 12-G September 11, 2013

Purpose of This Meeting

1. At its June 26, 2013, meeting, the Board ratified the revised consensus-for-exposure reached by the Task Force on Issue 12-G, "Accounting for the Difference between the Fair Value of the Assets and the Fair Value of the Liabilities of a Consolidated Collateralized Financing Entity," and approved the issuance of the proposed FASB Accounting Standards Update, Consolidation (Topic 810): Measuring the Financial Liabilities of a Consolidated Collateralized Financing Entity, for a 60-day public comment period ending on September 17, 2013. The FASB staff has heard concerns that the 60-day comment period may be insufficient to adequately analyze the conceptual and operational implications of this revised proposed Update. The staff will ask the Board to consider extending the comment period to October 17, 2013.

Question for the Board

Does the Board agree with the staff's recommendation to extend the comment period for the revised proposed Update, *Consolidation (Topic 810): Measuring the Financial Liabilities of a Consolidated Collateralized Financing Entity,* by 30 days, resulting in a 90-day comment period that would end on October 17, 2013?

The staff prepares Board meeting handouts to facilitate the audience's understanding of the issues to be addressed at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect the views of the FASB or its staff. Official positions of the FASB are determined only after extensive due process and deliberations.



Board Meeting Handout Development Stage Entities September 11, 2013

Purpose of This Meeting

1. The purpose of this meeting is for the Board to consider amending the current presentation and disclosure requirements for public and nonpublic development stage entities in Topic 915, Development Stage Entities.

Summary of Current Accounting Guidance

- 2. U.S. generally accepted accounting principles (GAAP) define a development stage entity as an entity that devotes substantially all of its efforts to establishing a new business and for which either of the following conditions exist:
 - a. Planned principal operations have not commenced.
 - b. Planned principal operations have commenced, but there has been no significant revenue therefrom.
- 3. Topic 915 requires financial statements issued by a development stage entity to present financial position, results of operations, and cash flows in conformity with U.S. GAAP and to include the following additional information:
 - a. The financial statements shall be identified as those of a development stage company.
 - b. The balance sheet shall include any cumulative net losses with a descriptive caption (such as deficit accumulated during the development stage) in the shareholder equity section.
 - c. The statement of shareholder equity shall include from inception for each issuance all of the following:
 - 1. The date and number of shares of stock, warrants, rights, or other equity securities issued for cash and for other consideration.

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- The dollar amounts (per share or other equity unit and in total) assigned to the consideration received for shares of stock, warrants, rights, or other equity securities. Dollar amounts shall be assigned to any noncash consideration received.
- 3. The nature of the noncash consideration and the basis for assigning amounts.
- d. The income statement shall include amounts of revenue and expenses for each period covered by the income statement and cumulative amounts from the entity's inception. For a dormant entity that is reactivated to undertake development stage activities, the disclosure of cumulative amounts shall be from inception of the development stage.
- e. The statement of cash flows shall include the cash inflows and outflows for each period for which an income statement is presented and cumulative amounts from the entity"s inception.
- 4. The following disclosures also are required for development stage entities:
 - a. The financial statements shall include a description of the nature of the development stage activities in which the entity is engaged.
 - b. The financial statements for the first fiscal year in which an entity is no longer considered to be in the development stage shall disclose that in prior years it had been in the development stage.

Feedback from Outreach Efforts

- 5. The limited feedback obtained did not substantiate the relevance of the inception-to-date information. Several investors contacted by the FASB staff were unfamiliar with the term *development stage enterprise* and the requirements for the inception-to-date information. When questioned further, many were not sure of the benefit that the inception-to-date information provided.
- 6. Practitioners said that the benefits of the inception-to-date information are not worth the costs to preparers. Practitioners also stated that several years of equity roll forwards do not provide relevant information to users. Practitioners added that

potential investors in development stage entities are concerned with the future cash flows of the technology or product being developed, and, thus, would prefer more forward-looking information as opposed to historical cumulative information.

Development Stage Entities and Variable Interest Entity Guidance (Topic 810, Consolidation)

7. Paragraph 810-10-15-16 states the following:

A development stage entity does not meet the condition in paragraph 810-10-15-14(a) [equity at risk] 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.

There is a requirement to reconsider the sufficiency of the equity investment in paragraph 810-10-35-4; for example, if the legal entity undertakes additional activities or acquires additional assets.

8. While paragraph 810-10-15-16 specifically addresses development stage entities, the staff believes the same outcome would result in applying the qualitative and quantitative guidance in the discussion of sufficiency of equity at risk in paragraphs 810-10-25-45 through 25-47 if Topic 915 were to be superseded.

Alternatives

- 9. **Alternative 1:** Remove the inception-to-date presentation requirements from the balance sheet, statement of shareholder equity, income statement, and statement of cash flows but leave the disclosure requirements in place that require the development stage entity to do all of the following:
 - a. Label the financial statements as those of a development stage company.
 - b. Disclose a description of the nature of the development stage activities in which the entity is engaged.

- c. Disclose in the first fiscal year in which the entity is no longer considered to be in the development stage that in prior years the entity had been in the development stage.
- 10. **Alternative 2:** Remove all additional disclosures and inception-to-date presentation requirements for development stage entities from the financial statements by superseding Topic 915.

Question 1 for the Board

Does the Board agree with the staff recommendation to remove the additional disclosures and inception-to-date presentation requirements from the balance sheet, statement of shareholder equity, income statement, and statement of cash flows by superseding Topic 915 (Alternative 2)?

Comment Period

11. The staff outreach efforts resulted in useful directional feedback; however, the number of individuals providing feedback was limited. The staff recommends a 45-day comment period for the proposed Exposure Draft as an effort to solicit as much additional input from investors, preparers, and practitioners as possible.

Question 2 for the Board

Does the Board agree with the staff recommendation to provide a 45-day comment period for the proposed Exposure Draft?

Question 3 for the Board

Does the Board agree that the questions recommended by the staff should be included in the notice to recipients?

Transition

12. The staff recommends a prospective application with early adoption allowed.

Question 4 for the Board

Does the Board agree with the staff recommendation of prospective application with early adoption allowed?

Other

Question 5 for the Board

Does the Board have any additional comments or observations it would like to include in the basis for conclusions?



Board Meeting Handout

Consolidation: Principal versus Agent Analysis September 11, 2013

PURPOSE OF THE MEETING

- 1. At this meeting, the staff will ask the Board to provide input on its proposed plan for redeliberations of the 2011 proposed Accounting Standards Update 2011-220, *Consolidations (Topic 810): Principal versus Agent Analysis* (Exposure Draft).
- 2. The staff previously discussed feedback received on the Exposure Draft through the comment letter process at a prior Board meeting on April 25, 2012.

REMAINING SIGNIFICANT ISSUES TO BE ADDRESSED

- 3. Significant issues raised by constituents that warrant the Board's consideration and which have not been addressed are as follows:
 - a. The overall principle in the principal versus agent analysis
 - b. The factors that the decision maker must consider, and the weighting of each factor
 - c. Participating rights and redemption rights
 - d. Decision maker's exposure to negative and positive returns
 - e. Consolidation conclusions for money market funds
 - f. Related party issues and the proposed requirement that the decision maker must consider any indirect interests held through related parties
 - g. Effective date and transition requirements.
- 4. A summary of decisions reached to date during previous redeliberations can be found on the FASB website at:

http://www.fasb.org/cs/ContentServer?c=Document_C&pagename=FASB%2FDocument_C%2FDocumentPage&cid=1176160618152

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PLAN FOR REDELIBERATION

5. The Staff intends on addressing all of the issues listed above in Paragraph 3.

Question for the Board

Question 1: Does the Board have any comments on the staff's proposed plan for redeliberation?