Deloitte.

Deloitte & Touche LLP
Ten Westport Road
P.O. Box 820
Wilton, CT 06897-0820

Tel: +1 203 761 3000
Fax: +1 203 834 2200
www.deloitte.com

December 20, 2013

Ms. Susan M. Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

File Reference No. 2013-320
Re: Proposed Accounting Standards Update, *Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements*

Dear Ms. Cosper:

We appreciate the opportunity to comment on the FASB's proposed Accounting Standards Update (ASU), *Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements.*

We support the Board's efforts to reduce the costs and complexities associated with preparing financial statements under U.S. GAAP. We agree that the development-stage-entity (DSE) designation and related presentation and disclosures (e.g., inception-to-date information) provide little benefit to investors, and we therefore support eliminating the guidance in ASC 915 on DSEs.

However, we are concerned about the lack of transition requirements in the proposed ASU related to the consequential amendments to ASC 810-10. Specifically, the proposed ASU may cause a DSE to be considered a variable interest entity (VIE) because the proposed ASU removes the requirement for entities to focus solely on the DSE's *current activities* in assessing whether the DSE has sufficient equity at risk. This change could affect a reporting entity's consolidation conclusion about its interest in a DSE. We therefore recommend that the Board include in the final ASU specific transition requirements for reporting entities whose consolidation conclusions change as a result of adopting the final ASU.

We are also concerned that the elimination of the guidance in ASC 810-10 on DSEs could affect current interpretations of how ASC 810-10 should be applied to entities that have distinct phases. Currently, the ability to evaluate whether a DSE has sufficient equity at risk during each distinct phase supports the view that certain VIEs consist of distinct phases with different "activities that most significantly impact the VIE's economic performance" during each phase. Accordingly, a different variable interest holder might be identified as the primary beneficiary of the VIE during each phase (i.e., a change in power would occur once the VIE moves to the next phase (generally, upon the resolution of a significant contingency)).

If the guidance on DSEs is removed from ASC 810-10, it is essential that the Board include an example in the Codification that demonstrates how to analyze a VIE that has distinct phases during its life (similar to the example in IFRS 10, *Consolidated Financial Statements*). The example should emphasize that an entity would assess whether the contingent event related to the VIE is substantive (and therefore that the VIE would consist of multiple phases) by considering the following:

- The nature of the activities of the VIE and its design.
- The significance of activities that each variable interest holder is responsible for.
- Whether the contingent event is outside the control of the variable interest holders of the VIE.
- The likelihood that the contingent event will occur.

The appendix below contains our detailed responses to the proposed ASU's questions for respondents.

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We appreciate your consideration of our comments on the proposed ASU. If you have any questions regarding our responses, please contact Trevor Farber (203-563-2547).

Yours truly,
Deloitte & Touche LLP

cc: Robert Uhl

Appendix
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Responses to the Proposed ASU's Questions for Respondents

Question 1: Do you agree with the proposed amendments described in this proposed Update? If not, please explain which proposed amendment(s) you disagree with and why.

We support the proposed ASU because we believe that the DSE designation and related presentation and disclosure requirements (e.g., inception-to-date information) in current guidance provide little benefit to investors. However, as indicated in our response to Question 2, we believe that transition requirements should be added to the final ASU as a result of the proposal's consequential amendments to ASC 810-10.

Question 2: Under the proposed amendments, all entities applying Topic 810 would be required to evaluate the total equity investment at risk using the guidance on the sufficiency of equity investment at risk in paragraphs 810-10-25-45 through 25-47, which requires both qualitative and quantitative evaluations. Will the proposed amendments to Topic 810 result in substantive changes in the consideration of a development stage entity for consolidation? Do you agree with this change? How significant would this change be?

We believe that eliminating the requirements in ASC 810-10-15-16 could result in a conclusion that a DSE that historically had sufficient equity investment at risk is a VIE after the adoption of the proposed ASU. Specifically, the evaluation would no longer focus on whether the DSE has sufficient equity investment at risk on the basis of "the activities it is *currently engaged in*" (emphasis added). Instead, the assessment would take into account the expected losses of all of the activities the entity was designed to undertake. Given the requirement to consider all of the activities (and, therefore, the expected losses from all of these activities), we anticipate that entities that are financed with sufficient equity to complete only their current phase may be considered VIEs under the proposed ASU.

For example, an entity may be established to develop, manufacture, and distribute a new drug. When the entity is formed, it may have sufficient equity to perform its current development activities and may expect to identify additional investors if the development is successful. Under the proposed ASU, the entity would be considered a VIE upon formation if it does not have sufficient equity investment at risk to perform all of its expected activities. While in many cases the consolidation conclusion may not change, we suggest that the Board provide transition requirements (including those for the additional VIE disclosures) in the final ASU to address situations in which there is a change. These requirements should be similar to those in Statement No. 167 (now contained in ASC 810-10-65-2).

In addition, the Board should provide further guidance on how VIEs that have distinct phases should be evaluated for consolidation. Currently, the guidance in ASC 810-10 on DSEs supports a view that certain VIEs consist of distinct phases, each with different "activities that most significantly impact the VIE's economic performance." Accordingly, a different variable interest holder might be identified as the primary beneficiary of the VIE during each phase. In the example above, one variable interest holder may be the primary beneficiary of the VIE during the drug-development stage, while a different variable interest holder may be required to consolidate the entity during the manufacturing and distribution stage.

If the guidance on DSEs is removed from ASC 810-10 and the final ASU does not include additional guidance on multiphase entities, in our example the VIE could potentially be consolidated by the inappropriate variable interest holder (or not consolidated at all) during the drug-development phase if "the activities that most significantly impact the VIE's economic performance" will be performed in the VIE's later phases (i.e., manufacturing and distribution phase). Therefore, the need for additional guidance becomes critical if entities that are currently considered DSEs are considered VIEs under the amendments.

Question 3: Is there information, either previously required and proposed to be eliminated or not previously required, that would be useful to investors and potential investors of development stage entities? If so, please describe the information that development stage entities should be required to provide and why.

We are not aware of any.

Question 4: Will the proposed amendments result in substantive changes to the application of other existing guidance that would require transition provisions or that the Board should consider in determining the appropriate effective date for the final amendments? If so, please describe.

As indicated in our response to Question 2, we recommend that the final ASU contain transition requirements for reporting entities whose consolidation conclusions (or disclosure requirements) change as a result of the new guidance. We recommend that the Board include transition guidance consistent with that in Statement No. 167 (now contained in ASC 810-10-65-2).

Question 5: The proposed amendments would apply to public and nonpublic entities. Will any of the proposed amendments require special consideration for nonpublic entities? If so, which proposed amendment(s) will require special consideration and why?

We do not believe that any of the proposed amendments require special consideration for nonpublic entities.