



June 30, 2014

Technical Director, File Reference No. EITF-12F
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. EITF-12F Exposure Draft of the Proposed Accounting Standards Update – Business Combinations (Topic 805) Pushdown Accounting, a consensus of the FASB Emerging Issues Task Force

We are writing on behalf of the Emerging Standards Committee (ESC) of the Kentucky Society of Certified Public Accountants (KyCPA). The KyCPA is the sole professional organization representing CPAs in the Commonwealth of Kentucky. Its 5,100 members are engaged in business communities throughout the Commonwealth and have a comprehensive grassroots view of the needs of businesses, ranging from large public companies to small owner-managed businesses. KyCPA's ESC consists of a group of KyCPA members organized to monitor the activities of accounting and auditing standard setters, as well as government authorities, with the objective of participating in the standards-setting process by providing thoughtful comment on developing issues.

Our comments for your consideration are as follows:

Question 1: We are in general agreement the guidance in this proposed Update should apply to both public and nonpublic acquirees. In our experience, this update primarily codifies the accounting treatment currently being used by many nonpublic acquirees.

Question 2: We agree with the control change criteria as proposed. The criteria should be consistent with other relevant criteria in Topic 805.

Question 3: We agree pushdown accounting should be optional. We believe it is generally preferable for the acquiree to adopt pushdown accounting when a control change has occurred; however, we understand there may be unique circumstances where not doing so can make sense. An example of this would be where the primary financial statement user(s) desires pushdown not be applied.

Question 4: We agree that the acquiree that elects the pushdown option should apply Topic 805 in its separate financial statements. In the infrequent circumstances where the acquirer did not apply Topic 805 and the acquiree elected the pushdown option, they should also follow Topic 805.

Question 5: We agree the entity that elects the pushdown option should follow subsequent measurement guidance in U.S. GAAP.

Question 6: We agree it would be inappropriate for bargain purchase gains to be recognized in the income statement of the acquiree. However, it would be beneficial to provide additional discussion of how this "credit" is recorded by the acquiree. Please refer to our response to Question 8.

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Question 7: We agree acquisition-related debt incurred by the acquirer should only be recognized by the acquiree if the acquiree is otherwise required to recognize that debt under other GAAP. It is not uncommon for the Parent/acquirer to formalize an intercompany note with the Subsidiary/acquiree. The Parent generally determines the capitalization structure (debt vs equity) of its subsidiary.

Question 8: One of the inherent weaknesses in writing broad-based principles to be followed by all reporting entities is the risk that preparers and practitioners who don't work extensively in all topics will misinterpret the Board's intentions. Accordingly, we suggest all ASUs provide sufficient guidance in recognition and measurement. In this instance, as noted in question 6, the "credit" side of the bargain purchase, when recorded at the acquiree level, would be assumed to be recorded in equity. However, if the parent directed the subsidiary to record this credit as a "due to parent", would that be incorrect? Accordingly, we suggest the Board expound further on this topic.

Question 9: We agree an entity electing pushdown accounting should provide the disclosures of Topic 805. The distinction in public vs. nonpublic company disclosure should be maintained as well.

Question 10: We agree the disclosures presented in the proposed update are necessary and sufficient when the acquiree does not elect pushdown accounting.

Question 11: We agree, in general terms, an entity should reassess at each reporting period whether its control has been obtained. We can also see specific instances in VIE situations with multiple beneficiaries where changing circumstances could change the primary beneficiary determination without the acquiree's (VIE's) knowledge. Accordingly, such assessment by the entity would be based on facts and circumstances reasonably known by the entity at each assessment date.

Question 12: As a committee, we had different interpretations of the meaning of "prospectively" as currently worded. Accordingly, we suggest the Board clarify "intent." We favor the application to control changes that occur after the effective date of the standard. However, we also support a transition method that would allow previous Topic 805 acquisitions to adopt pushdown accounting if it were previously prohibited from doing so, under SEC guidelines.

We also agree the election to pushdown should be made for each acquisition as it occurs.

Question 13: We agree that an election to pushdown should not be reversed in a later period. However, we do not think the election to apply pushdown accounting should be irrevocable as related to previous elections not to pushdown. There may be situations where circumstances change and new users or management of the acquiree's separate financial statements may believe pushdown accounting better reflects the economic reality of the business and presents more meaningful information. Therefore, we suggest the "irrevocable" clause only apply once pushdown has been recorded and reported.

Question 14: We agree with the proposed consequential amendments, as described.

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Thank you very much for considering our thoughts.

Sincerely,

A handwritten signature in blue ink that reads "Glenn Bradley". The signature is written in a cursive, flowing style.

Glenn Bradley, Chair
On behalf of the Emerging Standards Committee
Kentucky Society of CPAs