

July 15, 2014

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

File Reference No. EITF-12F

Dear Ms. Cospers:

McGladrey LLP appreciates the opportunity to comment on the Proposed Accounting Standards Update, *Business Combinations (Topic 805), Pushdown Accounting, a consensus of the FASB Emerging Issues Task Force* (the "proposed Update"). Overall, we support the FASB's efforts to provide guidance on when an acquired entity can apply pushdown accounting in its separate financial statements, especially given that authoritative guidance currently only exists for SEC registrants. We believe the proposed Update will result in greater consistency in practice between SEC and non-SEC registrants. However, we think that consistency could be increased further if additional implementation guidance was included in the final Update to address certain common issues that are seen in practice today. Our responses to the "Questions for Respondents" on which specific comment is sought and comments and suggestions on other matters in the proposed Update, including additional issues that we believe should be addressed, are included below for your consideration.

Comments on Questions for Respondents

Question 1: *Do you agree that the guidance in this proposed Update should apply to an acquired entity, both public and nonpublic, that is a business or nonprofit activity? If not, please explain why.*

We agree that the guidance in the proposed Update should apply to an acquired entity, both public and nonpublic, that is a business or nonprofit activity.

Question 2: *Do you agree that the threshold for the option to apply pushdown accounting should be when an acquirer has obtained control of the entity? If not, what would be a more appropriate threshold for the option to apply pushdown accounting and why would that threshold be more appropriate?*

We agree that the threshold for the option to apply pushdown accounting should be when an acquirer has obtained control of the entity. We believe this threshold is appropriate as it is conceptually sound and consistent with the change-in-control guidance relating to business combinations and consolidations. As a result, this threshold will also be less complex to apply as compared to the existing guidance for SEC registrants because it would not require an evaluation of whether an entity has become substantially wholly owned and if elected, would result in substantially the same basis of accounting for the acquirer and acquired entity.

Question 3: *Do you agree that pushdown accounting should be optional for an entity when control over the entity has been obtained by an acquirer? Alternatively, should pushdown accounting be mandatory for certain entities or certain transactions? If so, what types of entities or transactions should require a mandatory application of pushdown accounting?*

We agree that pushdown accounting should be optional for an entity when control over the entity has been obtained by an acquirer. We believe this optionality is appropriate to allow entities to apply judgment in determining whether its users would be better served by continuing to use the acquired

Ms. Susan M. Cospers
Financial Accounting Standards Board
July 15, 2014
Page 2

entity's historical basis or to apply pushdown accounting. In addition, any requirement to apply pushdown accounting, especially at a change-in-control threshold, would result in a significant increase in its application without empirical evidence that pushdown accounting results in more decision-useful information as compared to the historical basis that existed before an acquirer obtained control of the entity.

Question 4: *Do you agree that an acquired entity that elects the option to apply pushdown accounting should reflect in its separate financial statements the new basis of accounting established by the acquirer for the individual assets and liabilities of the acquired entity by applying Topic 805. If the acquirer did not establish a new basis of accounting for the individual assets and liabilities of the acquired entity, should it reflect in its separate financial statements the new basis of accounting that would have been established by the acquirer had the acquirer applied Topic 805? If not, please explain why.*

We agree that an acquired entity that elects to apply pushdown accounting should reflect in its separate financial statements the new basis of accounting established by the acquirer by applying Topic 805 (or the new basis of accounting that would have been established by the acquirer had the acquirer applied Topic 805). Further to this, we also think it would be beneficial if the final Update addressed the amounts that should be reflected within stockholders' equity for an acquired entity that applies pushdown accounting. In practice today, the stockholders' equity of an acquirer is not pushed down to an acquired entity. Instead, an acquired entity resets its opening retained earnings to zero, records its common stock at the par value of its issued shares with any remaining difference between the net assets recorded and the sum of the par value of its issued shares recorded within additional paid-in-capital. We presume this treatment would continue after the issuance of this Update but it would nonetheless be helpful to include this from a clarity standpoint.

Question 5: *Do you agree that an entity that elects the option to apply pushdown accounting should follow the subsequent measurement guidance in Topic 805 and other applicable U.S. GAAP to subsequently measure and account for its assets, liabilities, and equity instruments? If not, please explain why.*

We agree that an entity that elects to apply pushdown accounting should follow the subsequent measurement guidance in Topic 805 and other applicable U.S. GAAP.

Question 6: *Do you agree that an entity that elects the option to apply pushdown accounting should not recognize bargain purchase gains, if any, in its separate income statement? If not, please explain why.*

We agree that an entity that elects to apply pushdown accounting should not recognize bargain purchase gains in its separate income statement. This is generally consistent with practice today as the bargain purchase gain is not part of the new basis of accounting established by the acquirer for the individual assets and liabilities of the acquired entity. Further to this, we believe the final Update should address the treatment of acquisition-related costs incurred by the acquirer as part of a transaction and clarify that these expenses should also be excluded from the acquired entity's separate income statement, as these expenses are also not part of the new basis of accounting established by the acquirer.

Question 7: *Do you agree that any acquisition-related debt incurred by the acquirer should be recognized in the acquired entity's separate financial statements only if the acquired entity is required to recognize a liability for the debt in accordance with other applicable U.S. GAAP? If not, please explain why.*

We agree that acquisition-related debt incurred by the acquirer should not be accounted for any differently from other related party debt under relevant U.S. GAAP. While this will be a change from the existing guidance for SEC registrants, which includes specific conditions in which acquisition-

Ms. Susan M. Cospers
Financial Accounting Standards Board
July 15, 2014
Page 3

related debt is required to be recognized in an acquired entity's separate financial statements, we believe it is appropriate as there should not be different recognition requirements for debt in a pushdown accounting scenario as compared to other scenarios. With that said, we think in certain situations the acquired entity should be required to provide additional disclosures when debt is incurred for an acquisition. We believe the final Update should require disclosures similar to those included in the SEC guidance on acquisition-related debt within the Interpretive Response to Question 3 at ASC 805-50-S99-1.

Question 8: *Should the final Accounting Standards Update on pushdown accounting include any additional guidance on recognition and measurement of assets, liabilities, and equity instruments of the acquired entity? If yes, please explain for which assets, liabilities, and equity instruments additional guidance should be provided.*

We believe additional guidance should be included in the final Update on the following topics for which practice today may be inconsistent:

- **Asset for covenant-not-to-compete** - When noncompete arrangements are entered into with selling shareholders or employees of the acquired entity at the same time as a business combination, they are generally not considered part of the business combination and are accounted for separately. However, these arrangements generally are beneficial to the acquired entity's ongoing operations, much like other assets acquired as part of the business combination that would be recorded by an acquired entity that elected to apply pushdown accounting. As a result, it is unclear as to whether an asset for a covenant-not-to-compete should or may be recorded by the acquired entity as a result of applying pushdown accounting.
- **Liability for contingent consideration** – We would expect the guidance in the proposed Update at ASC 805-50-30-12 on acquisition-related debt would also be applicable to a contingent consideration liability, but we believe it would be helpful to state this within the final Update.

Question 9: *Do you agree that an entity that elects the option to apply pushdown accounting should provide the disclosures in Topic 805 to meet the disclosure objective in this proposed Update? Are there any disclosures, other than those required in Topic 805, that should be required by this proposed Update?*

We agree that an entity that elects to apply pushdown accounting should provide the disclosures in Topic 805. In addition, refer to our response to Question 7 for additional disclosures we believe should be provided for acquisition-related debt.

Question 10: *Do you agree that an entity that does not elect the option to apply pushdown accounting should disclose in the current reporting period that it has (a) undergone a change-in-control event whereby an acquirer has obtained control of the entity during the reporting period and (b) elected to continue to prepare its financial statements using its historical basis that existed before the acquirer obtained control of the entity? Are there any other disclosures that an acquired entity that does not elect the option to apply pushdown accounting should be required to disclose?*

We generally agree that an entity that does not elect to apply pushdown accounting should disclose that it has undergone a change-in-control event and elected to continue to prepare its financial statements using its historical basis. However, we are concerned that an entity may not always be aware that an acquirer obtained control of the entity, such as in some scenarios in which the entity is a variable interest entity. We suggest that the final Update address these types of scenarios and include an exception that if after making an exhaustive effort an entity is unable to obtain the information necessary to determine whether there has been a change in control, only disclosure of

Ms. Susan M. Cospers
Financial Accounting Standards Board
July 15, 2014
Page 4

this fact is necessary. This concept is consistent with the exception included at ASC 810-10-15-17c for consolidation of variable interest entities.

Question 11: *Do you agree that for purposes of disclosure requirements, an entity should assess at each reporting period whether its control has been obtained by an acquirer and whether it would elect the option to apply pushdown accounting? How much incremental cost and effort does such continuous assessment require?*

We generally agree that an entity should assess at each reporting period whether its control has been obtained by an acquirer and whether it would elect the option to apply pushdown accounting. However, we are concerned that a significant level of effort may be required in some variable interest entity scenarios as noted in our response to Question 10. In other scenarios, we don't believe there will be significant incremental costs and effort for an entity to continuously make this assessment.

Question 12: *Do you agree that this proposed Update should be effective prospectively to transactions in which an acquirer has obtained control of the acquired entity? Do you also agree that an acquired entity should be allowed to elect the option to apply pushdown accounting each time it has undergone a change-in-control event whereby an acquirer has obtained control of the acquired entity? If not, please explain why.*

We believe that an acquired entity should have the option to apply the final Update on either a prospective or retrospective basis. We think that allowing a retrospective transition option on adoption is appropriate as there may be situations in which the shareholders of an entity that was acquired in a prior period (that did not meet the prior threshold to apply pushdown accounting) would be better served if the new basis of accounting established by the acquirer were reflected in its separate financial statements rather than the historical basis. In addition to the potential benefits to an acquired entity's shareholders from retrospective application of pushdown accounting, this transition method may also be beneficial to both the acquirer and the acquired entity from an administrative standpoint as the acquired entity's assets and liabilities would be recorded on the same basis in both separate sets of financial statements. If the Board decides that all acquired entities should not be given the option to apply the final Update on a retrospective basis, we believe consideration should be given to allowing a retrospective transition option for nonpublic acquired entities only.

Question 13: *Do you agree that the decision about whether to elect the option to apply pushdown accounting should be made in the reporting period in which the change-in-control event occurs and should be irrevocable? If not, please explain why.*

We believe that after the issuance of a final Update, whether an acquired entity is allowed to apply (or discontinue the application of) pushdown accounting in a reporting period subsequent to the one in which the change-in-control event occurs should be based on whether the entity can justify that a change to an alternative accounting principle is preferable, consistent with the guidance at ASC 250-10-45-2b. If the guidance in the final Update is consistent with that of the proposed Update, we believe the Basis for Conclusions should provide further explanation to support this conclusion as it is not entirely clear to us why this accounting alternative should necessarily be treated differently than other accounting alternatives within U.S. GAAP.

Question 14: *Do you agree with the proposed consequential amendments to remove guidance in Subtopic 805-50 on application of pushdown accounting when an acquisition meets certain conditions (previously EITF Issue No. 86-9, "IRC Section 338 and Push-Down Accounting")? If not, please explain why.*

We agree with the removal of the guidance in Subtopic 805-50 on the application of pushdown accounting when an acquisition meets certain conditions.

Ms. Susan M. Cospers
Financial Accounting Standards Board
July 15, 2014
Page 5

Other Comments and Suggestions

In ASC 805-50-30-10 of the proposed Update, it is stated that “If the acquirer did not establish a new basis of accounting for the individual assets and liabilities of the acquiree because it was not required to apply Topic 805, the acquiree shall reflect in its separate financial statements the new basis of accounting that would have been established by the acquirer had the acquirer applied Topic 805.” We understand that this would be applicable for situations in which an acquirer applies specialized industry accounting (such as investment companies), for example, as noted at paragraph BC21 in the Basis for Conclusions in the proposed Update. However, we think it would be helpful to specifically state or reference in the final Update the guidance in the Codification where this may be applicable rather than just including this in the Basis for Conclusions.

Furthermore, we believe there are a number of other issues that are relevant to pushdown accounting that should be addressed in the final Update as follows:

- **Financial statement presentation** - In current practice, as the application of pushdown accounting effectively results in the creation of a new accounting entity, the acquired entity's operating results prior to pushdown accounting are not combined with those subsequent to pushdown accounting. Therefore, if a full year of operations is shown in the statements of income, comprehensive income, cash flows, and changes in shareholders' equity, the periods prior to the application of pushdown accounting are separated from the periods after the application of pushdown accounting by a vertical black line and clearly labeled “Predecessor” (for operations prior to pushdown accounting) and “Successor” (for operations subsequent to pushdown accounting). The relevant footnote disclosures are also presented separately for the predecessor and successor accounting periods.
- **Treatment of certain liabilities incurred by an acquired entity** - When an entity is acquired, it may incur certain liabilities as of the date of acquisition. For example, there may be change-in-control payments or success bonuses that were contingent on the closing of the acquisition. It is unclear whether these types of liabilities and the related expense should be recorded by an acquired entity in the period preceding the acquisition or the period subsequent to the acquisition.
- **Application of pushdown accounting to a subsidiary of an acquired entity** - In certain acquisitions, in addition to the acquiring entity and the acquired entity, there are often other entities created for various reasons. In some situations, the entity for which separate financial statements will be issued is a subsidiary of the acquired entity. We believe it would be helpful if the final Update addressed whether it is acceptable to apply pushdown accounting to entities that are controlled by the acquired entity.

We would be pleased to respond to any questions the FASB or its staff may have concerning our comments. Please direct any questions to Rick Day at 563.888.4017 or Brian H. Marshall at 203.312.9329.

Sincerely,



McGladrey LLP