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July 28, 2014

Via email to director@fasb.org

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

Re: Proposed Accounting Standards Update, *Pushdown Accounting* (File Reference No. EITF-12F) ("the ED")

Dear Ms. Cosper:

We are pleased to provide comments on the proposal related to pushdown accounting. We agree with the objective to address an issue for which limited guidance previously existed. We are also generally supportive of the ED's optional approach to pushdown accounting.

As the Task Force is aware, the optionality permitted by the ED conflicts with current SEC staff guidance for public entities included in SAB Topic 5.J and EITF Topic D-97. While we understand that revising the current pushdown guidance falls within the SEC staff's purview, we encourage the Board to work with the SEC staff to either rescind or substantially conform it to the final ASU.

We also believe relief is necessary to address two practice issues during the transition from the SEC staff's historic guidance to the final ASC amendments. Otherwise, some entities will be required to apply pushdown accounting under current guidance, but would prefer not to ("Scenario 1"). And other entities would be prohibited from applying pushdown accounting under the final amendments, but would prefer to do so ("Scenario 2"). We believe these entities should have the option to apply pushdown accounting, or not, consistent with the approach in the ED.

To illustrate both scenarios:

1. We are aware of situations in which a private company underwent a greater than 95% change in control in a prior period without applying pushdown accounting, but that faces a requirement under the SEC staff's existing guidance to retroactively apply pushdown accounting for an IPO that occurs after the effective date or if the private company is acquired after the effective date and its financial statements are needed to comply with Rule 3-05.[1]
2. On the other hand, if a private company that underwent a change-in-control event of 75% in 2013 is pursuing an IPO after the effective date, it would be prohibited from applying pushdown accounting under the existing SEC staff guidance as well as the ED since it only applies to change-in-control events after the effective date.

[1] *Financial Statements of Business Acquired or to be Acquired*, under Regulation S-X

Working with the SEC staff to provide transition relief for those entities after the adoption date of any final amendments would be consistent with the Task Force's rationale for making pushdown accounting optional: it is more important to satisfy user needs by allowing entities to apply judgment on the basis of their unique set of facts and circumstances than to achieve comparability in this area.

Our responses to the Board's specific questions are provided in the appendix to this letter.

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Adam Brown at (214) 665-0673 or Gautam Goswami at (312) 616-4631.

Very truly yours,

BDO USA, LLP

BDO USA, LLP

Appendix

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. Separately, we note that the Board currently has a project to clarify the definition of a business under U.S. GAAP. As the staff's research noted, the accounting ramifications in applying the business-based guidance as compared to the asset-based guidance can be significant. Accordingly, the Board may wish to consider whether or how any proposed changes to the definition of a business as a result of that project will affect the scope of those who can elect to apply pushdown accounting.

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 since a change of control threshold aligns with the concept in Topics 805 and 810.

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 the application of pushdown accounting should be optional. We concur with the Task Force that it is more important to satisfy user needs by allowing entities to apply judgment on the basis of their unique set of facts and circumstances than to achieve comparability in this area.

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 with the application of Topic 805 to the separate financial statements of the acquired entity.

If the acquirer did not establish a new basis of accounting for the acquired entity's assets and liabilities, we also believe the application of Topic 805 at the target level is a sensible approach and note that it is currently used in practice. For example, this scenario occurs in preparing separate financial statements of a portfolio operating company when an investment company records the acquisition of that portfolio operating company as a single investment at fair value.

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 acquired entities should apply the subsequent measurement guidance in Topic 805 and other U.S. GAAP as applicable to their circumstances. In our response to Question 8, we elaborate on our suggestions with respect to areas in which additional guidance should be provided.

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 with the notion that a bargain purchase gain is realized by the acquirer and that a target entity cannot (and should not) realize a gain associated with itself. To avoid any uncertainty about the journal entry to be recorded by the target when the acquirer has recognized a bargain purchase gain, we recommend that the final amendments specify that a gain is generally, in substance, a contribution that should be recorded within equity in the target entity's separate financial statements.

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. Similar guidance should be provided when an acquirer finances its acquisition through the issuance of mandatorily redeemable preferred stock as defined in Topic 480. In addition, see our response on the related disclosures in Question 9.

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.

Yes, we believe that additional guidance would be beneficial to practitioners and is necessary to minimize the diversity that currently exists in practice related to certain topics. Given the lack of guidance in Topic 805 or otherwise for a target entity's accounting, we believe the final ASU should specifically address the accounting for the following topics from the perspective of a target entity: indemnification assets, contingent consideration, transaction expenses (of both the acquirer and the target), and litigation over purchase price.

In addition, we have frequently observed situations in which a private equity firm acquires a private operating entity by funding a "Newco" that consummates the acquisition. Questions often arise about whether the Newco is "substantive." If the Newco is deemed to be substantive, it will apply acquisition accounting for the purchase of the operating entity in its separate financial statements. If the Newco is not deemed to be substantive, pushdown accounting might not be elected, which would lead to the use of carryover basis. We believe that practitioners would benefit from additional guidance with respect to whether a Newco is substantive, given the potential for significantly different outcomes.

Moreover, due to the conflict between the ED and the SEC staff's guidance in SAB Topic 5.J, we recommend that the SEC staff a) rescind SAB Topic 5.J or b) substantially conform it to the final ASU. We also believe the collaborative group guidance in EITF Topic D-97 should be rescinded or narrowed to make it more operational. In the event guidance on collaborative groups is retained, we recommend limiting it to a narrow set of transactions (e.g., "club deals" in which multiple private equity firms collaborate) and that additional steps be taken to make that guidance less subjective. This could be addressed through a separate project, if necessary.

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. However, we observe that there are disclosure requirements in Topic 805 that would not apply in a pushdown context. For example, ASC 805-10-50-2(h) requires disclosure of pro forma financial information, including pro forma revenue and earnings as if the business combination had occurred as of the beginning of the comparable prior annual reporting period. From a target entity's perspective, the pro forma financial results would only contain the adjustments required by purchase accounting, such as the amortization of an intangible asset. It would not reflect the combined operations of the acquirer and the target, as required by paragraph 50-2(h)(2). Therefore, we believe the guidance should more explicitly address how target entities should apply the disclosure requirements in Topic 805.

Separately, as the application of pushdown accounting creates a new entity for accounting purposes at the acquisition date, the acquired entity's income statement should only be presented from the acquisition date to the end of the fiscal year. In practice, we observe that many entities still elect to present a full year of activity and do so by presenting two separate income statements which are presented separately and divided by a vertical black line to distinguish the pre- and post-pushdown periods. We believe the ED should address the overall financial statement presentation to drive consistency and to remove any ambiguity that may exist about potentially combining the pre- and post-pushdown activity in the year that pushdown accounting is first applied.

Additionally, we note that it is not uncommon for a subsidiary to pledge its assets as collateral for the debt of its parent. Accordingly, the Board may wish to link the disclosure requirements of this Subtopic to other existing GAAP such as Topics 405, 460, and 850 to highlight potential exposures the target company has with respect to its parent's 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 disagree with the proposed disclosure requirement for entities that do not elect to apply pushdown accounting in the period of a change-in-control event. The option to apply pushdown accounting is an election made at each change-in-control event. Under other U.S. GAAP, entities are required to disclose accounting policies that they have selected, but are not typically required to disclose anything about the alternative policies that were not selected. Therefore, we question the basis for such a disclosure. Due to the close proximity of a private entity's management and financial statement users, we do not believe a disclosure of this nature is necessary. Likewise, for public companies, information with respect to a change-in-control event would already be available to financial statement users through other means (e.g., through required disclosures made in Item 5.01 of Form 8-K).

If the Task Force mandates such a disclosure, we believe the guidance should be modified to require disclosure only to the extent that the change-in-control event is known or knowable by the acquired entity. It is possible that a reporting entity may not be aware that one of its stakeholders has concluded that it is the reporting entity's primary beneficiary.

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?

As referenced in in our response to Question 10, we do not believe an entity should be required to disclose that it did not apply pushdown accounting in the reporting period.

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.

For the most part, we agree that a prospective approach is sensible. However, we believe certain accommodations for change of control events in prior periods should be provided, as discussed in our cover letter.

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.

Except as noted elsewhere, we generally agree with the notion of an election in the reporting period in which the change-in-control event occurs.

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 and suggest that the basis explain that those consequential amendments simply remove language that would be redundant with the new optional approach to pushdown accounting.