Virginia Society of
Certified Public
Accountants

July 29, 2014

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

Re: Proposed Accounting Standard Update: Business Combinations (Topic 805) Pushdown Accounting

The Virginia Society of CPAs' (VSCPA) Accounting and Auditing Advisory Committee (the Committee) has reviewed the above exposure draft (ED). In general, the Committee supports the Financial Accounting Standards Board's (the FASB or Board) objective to provide guidance on when and how an acquired entity that is a business or nonprofit activity can apply push down accounting in its separate financial statements. We agree this initiative is necessary to address the lack of guidance and the diversity in practice for nonpublic entities as well as the practice issues that exist in the application for all entities.

Below are summary-level comments on the ED under the topics optional nature of guidance and additional implementation guidance. In addition, the attached table addresses the specific questions for respondents posed by the Board.

Optional nature of guidance

Adoption when the acquirer has applied Topic 805: Ostensibly, the optional nature of the guidance is inconsistent with the objective of improving consistency. However, mandatory guidance would require significantly more acquired entities to incur the costs of applying pushdown accounting, especially since the threshold for application is at the change in control level. We are unaware of any empirical data that suggests the users of the financial statements would have information that is better for decision-making. Accordingly, the Committee believes that the optional nature is a prudent and reasonable conclusion at this time to allow the acquired entity to evaluate its specific facts and circumstances in deciding whether push down accounting addresses the needs of its financial statement users. The Board could later address this issue when additional information and experience are available.

Adoption when the acquirer has not applied Topic 805: Some members of the Committee are less supportive of the option for the acquired entity to apply pushdown accounting when the acquirer has not established a new basis of accounting for the individual assets and liabilities of the acquired entity. The resulting "scenario" reporting creates an unusual and seemingly unwarranted asymmetry; the financial statements are not on the historical basis or the revised basis of accounting of the acquirer.

Additional implementation guidance

Practice issues for public and nonpublic companies: The ED purports to address practice issues that exist in the application for all entities. Could the FASB be more specific on which significant practice issues and how they are or are not addressed by the ED?

Bargain purchase: We agree that any bargain purchase should not be reported in the income statement of the acquired entity. However, we believe the Board should provide specific guidance on how to account for the effects of a bargain purchase gain within the equity section of the acquired entity's financial statements.

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The Committee commends the FASB on its initiative to improve the consistent application of pushdown accounting. We appreciate the opportunity to respond to the ED. Please direct any questions to VSCPA Government Affairs Director Emily Walker at ewalker@vscpa.com or (804) 612-9428.

Sincerely,

Charles M. Valadez, CPA, CGMA, CITP
Chair

2014–15 VSCPA Accounting & Auditing Advisory Committee

Charles Valadez, CPA — Chair
Joshua Keene, CPA — Vice Chair
Michael Cahill, CPA
Mitchell Hartson Jr., CPA
Staci Henshaw, CPA
James Nesbitt, CPA
Brent Simer, CPA

Table 1: Responses to Questions for Respondents

Questions	Response	Comments
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.	Yes	We are in general agreement 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?	Yes	We are in general agreement that the threshold for the option to apply pushdown accounting should be when an acquirer has obtained control of the entity. However, we do note that all pertinent information may not be known on the change of control date and some members of the Committee believe that pushdown accounting should be recognized at the time all information has been received during the measurement period by the acquirer under Topic 805, with interim disclosure regarding the change in control.
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?	Yes	We are agreement that pushdown accounting should be optional for an entity when control over the entity has been obtained by an acquirer. While making pushdown accounting mandatory would increase comparability among entities, we believe the facts and circumstances of each transaction and the needs of the users of the financial statements should be evaluated when electing to reflect pushdown accounting. This is especially relevant since a mandatory requirement would result in a significant increase in its application at the proposed change in control threshold without empirical evidence that the pushdown accounting basis results in improved decision-making information?

Table 1: Responses to Questions for Respondents

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.	No	Some members of our Committee are less supportive of the option for the acquired entity to apply pushdown accounting when the acquirer has not established a new basis of accounting for the individual assets and liabilities of the acquired entity. The resulting “scenario” reporting creates an unusual and seemingly unwarranted asymmetry; the financial statements are not on the historical basis or the revised basis of accounting of the acquirer.
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.	Yes	We are in general agreement that if an entity elects the option to apply pushdown accounting that they 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.	Yes	We agree that an entity that elects the option to apply pushdown accounting should not recognize bargain purchase gains in its separate income statement. We believe it would be inconsistent with other aspects of U.S. GAAP for the acquired entity to reflect income from a bargain purchase gain resulting from transactions in the acquired entity’s equity instruments. However, specific guidance should be provided on the proper accounting treatment in the acquired entity’s financial statements. For example, should the acquired entity reset its retained earnings to zero and plug the balancing amount to paid-in-capital? How would a nonprofit report the gain in its financial statements?

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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.	Yes	We agree that acquisition-related debt incurred by the acquirer should only be recognized in the acquired entity's separate financial statements if the acquired entity is required to recognize that debt under applicable U.S. GAAP.
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.	No	We believe that current authoritative literature provides sufficient guidance on recognition and measurement of assets, liability and equity instruments of the acquired entity, and that additional guidance in the final Update would be unnecessary.
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?	Yes	We are in general agreement that an entity that elects pushdown accounting should provide the appropriate disclosures in Topic 805 to meet the disclosure objectives in the proposed Update.
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?	Yes	We agree that the disclosures outlined in the proposed Update relating to situations where an acquired entity does not elect the option to apply pushdown accounting are sufficient. We note that the Board may wish to include a requirement for additional disclosure with respect to the total purchase consideration and the respective percentage of ownership represented in the change in the control transaction to provide users of the financial statements with some context regarding the acquired entity's valuation.

Table 1: Responses to Questions for Respondents

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?	Yes	We agree that an entity should assess at each reporting period whether control has been obtained by an acquirer and whether it would elect the option to apply pushdown accounting. In general, we do not believe continuous assessment of the controlling interests of the entity will result in significant, if any, incremental costs or efforts.
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.	Yes	We agree that the proposed Update should be effective prospectively. We also agree that an acquired entity should be allowed the option to apply pushdown accounting each time it undergoes a change-in-control event whereby an acquirer has obtained control of the acquired entity to allow for the appropriate analysis of the facts and circumstances of the change in control and the needs of the respective users of the financial statements. We believe the option to apply pushdown accounting should be available in each change in control event.
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.	No	We believe that a change in the initial election to not apply pushdown accounting should be permissible within the acquirer's measurement period under Topic 805 to provide sufficient time for the acquired entity to analyze the facts and circumstances of the change in control transaction and the needs of the respective users of the financial statements. The decision should then be irrevocable. Appropriate disclosures should be included when a change to apply pushdown accounting election is made.
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.	Yes	We are in general agreement with the proposed consequential amendments.