July 30, 2014

Submitted via email: director@fasb.org

Technical Director, Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

File Reference: EITF-12F, FASB

Dear Technical Director:

The Technical Issues Group (TIG) of the Missouri Society of CPAs (MSCPA) appreciates the opportunity to comment on certain matters in the Proposed Accounting Standard Update to Business Combinations (Topic 805), *Pushdown Accounting*. The views expressed herein are written on behalf of the TIG of the MSCPA. The TIG has been authorized by the MSCPA Board of Directors to submit comments on matters of interest to the society's membership. The views expressed in this letter have not been approved by the MSCPA Board of Directors or Executive Board and, therefore, should not be construed as representing the views or policy of the MSCPA.

We generally agree with the direction taken by the Financial Accounting Standards Board (Board) and support any action by the Board that addresses the needs of preparers and users of the separately prepared financial statements of the controlled entity as well as those of the consolidated entity. Given the diversity of practice that exists with respect to the application of pushdown accounting among entities that are not SEC registrants, we concur with the EITF’s conclusion that current U.S. GAAP offers limited guidance. Moreover, we agree that existing SEC rules for determining whether and when an acquired firm should be required to use pushdown accounting are not adequate and have led to inconsistent reporting practices among listed companies. In this respect, the responses to the fourteen questions below are supportive of the provisions contained in the update.

Thank you for considering our comments. We would be pleased to respond to any questions the Board or its staff may have about any of the following comments. Please direct any questions to Bob Singer, Topic 805 Update, Pushdown Accounting Project Leader (rsinger@lindenwood.edu).

Sincerely,

Robert A. Singer

Josh A. Ayers, CPA
TIG Chairman

Robert A. Singer, Ph.D., CPA
Project Leader

The following responses address selected questions:

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.*

> **Response:** Yes, we agree that the guidance provided in this update should apply to both public and non-public entities (i.e., business and not-for-profits). We concur with the task force's view that reliance upon the SEC rules in the area of pushdown accounting is insufficient and moreover, is limited to publicly held companies. The guidance in this update will provide needed direction to privately held companies if they elect to use 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?*

> **Response:** Yes, we agree that the threshold for using pushdown accounting should apply when an acquirer has obtained control (i.e., greater than 50 percent; as well as to variable interest entities (VIEs) and certain contractual arrangements). We believe that this threshold is consistent with ASC 805 provisions, which require the acquirer to prepare consolidated financial statements when control is achieved.

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?*

> **Response:** In general we agree that the nature and circumstances of an acquisition are important in determining whether the election to adopt pushdown accounting is appropriate. On the other hand, making the application of pushdown accounting voluntary rather than mandatory may incline some firms to adopt this accounting basis if it improves their financials, while others may elect not to adopt this accounting basis if it worsens their financials. In this regard, we feel that making pushdown accounting voluntary will lead to continued divergence in practice thereby hampering comparability. We believe comparability should be an overriding concern and thus recommend that the Board consider mandatory application.

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.*

> **Response:** We agree that an acquired entity that elects the option to use pushdown accounting should reflect in the separate financial statements the new basis of accounting in valuing the balance sheet elements of the acquired entity by applying Topic 805. We believe that the new basis in valuing the assets and liabilities in the financial statements of the acquired firm will provide valuable information not only with respect to investors and creditors of the acquired firm, but also would serve to help users of the consolidated financial statements better evaluate the value of the acquisition to the combined entity.
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> With regard to the question of whether the acquired entity should reflect in its separate financial statements the new basis of accounting when the acquirer (whether in violation of or in meeting an exception from those provisions of Topic 805) does not adopt a fair value basis for the acquired firm's assets and liabilities, we believe that requiring the acquired firm to disclose what the fair values would have been is beneficial. However, the cost associated with determining what the fair value basis would have been at acquisition date had the acquirer included the fair values of the acquired company's assets and liabilities in the consolidated financial statements may impose an undue burden on the acquired company. We believe that the update should be amended to allow the acquired company to perform a cost/benefit analysis of any such disclosures, and if costs exceed benefits to make the disclosures voluntary. We recommend that the update be amended to allow the acquired company to disclose the reasons for not providing the new basis of accounting explaining how its cost/benefit analysis led it to its decision not to disclose.

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.*

> **Response:** Yes, we concur that if the entity elects the option to apply pushdown accounting, it should be consistent with the measurement provisions of Topic 805 governing the preparation of the parent company's consolidated financial statements. Since Topic 805 requires (under the acquisition method) the parent company to use the fair values (including any unrecorded intangibles) at the date control is achieved and that these values provide the basis for measuring changes in the subsidiary amounts in subsequent periods, the separate financial statements of the subsidiary should be prepared on the same basis. Other subsequent changes in assets and liabilities should be measured based on the applicable 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.*

> **Response:** Yes, we agree that an entity that elects the option to apply pushdown accounting should not recognize bargain purchase gains. Consistent with the concepts underlying ASC 805, we believe that once an investor firm or group obtains "control" over the acquired company (continuing to exist as a legal entity) a new economic entity is formed. Based on this change, ASC 805 requires the acquirer to prepare consolidated financial statements. Under existing reporting standards, the stockholders' equity accounts including retained earnings of the subsidiary are eliminated in the basic consolidation entry reflecting the view that the acquisition marks the beginning of a new entity. Thus consistent with this treatment, if pushdown accounting is elected, retained earnings of the acquired firm should be zero, marking a "fresh start" for this firm. Any gain due to consideration tendered by the acquirer that is less than the fair value of the subsidiary's net assets at acquisition should be attributed to the parent company.

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.*

> **Response:** We agree that any acquisition-related debt incurred by the acquirer should be "pushed down" to the acquired entity if the entity as part of the purchase agreement assumes the debt, guarantees payment of the debt in the event of default by acquirer or collateralizes a significant amount of the debt with its own assets. Such debt along with any public debt, (e.g., bonds payable) which is significant relative to stockholders' equity, suggests that "control" by the acquiring firm is lacking and thereby, precludes the controlled entity from using pushdown accounting.

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.*

> **Response:** No, we believe that the update provides ample guidance regarding recognition and measurement of the acquired entity's assets, liabilities, and equity instruments. Other guidance is provided in Topic 805 or other relevant GAAP.

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?*

> **Response:** Yes, since an election to use pushdown accounting requires the acquired firm to use the same basis as that used by the acquiring firm in assigning values to the acquired firm's assets and liabilities for consolidation purposes, its disclosures should coincide with those in Topic 805. Assuming that the Board relaxes its requirement that the acquired company disclose what the fair value basis of the assets and liabilities would have been even though the acquiring firm did not use fair value accounting in preparing consolidated financial statements, we recommend that the acquired firm be required to explain its reasons for not having done so.

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?*

> **Response:** Yes, we agree that the entity should disclose in the current reporting period that a change-in-control event has taken place. Moreover, if the acquired firm elects not to apply pushdown accounting and continues to use its existing carrying values, it should be required to provide an explanation as to why it so elected. Assuming the acquiring firm pursuant to Topic 805 provisions used the acquisition method and assigned fair values to the assets and liabilities of the acquired company in the consolidated financial statements, the information would have been available to the acquired company. Since the use of pushdown accounting by the acquired firm would have resulted in more relevant and informative financial statements, the acquired firm should provide reasons for its not having used pushdown accounting in preparing its financial reports.

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?*

> **Response:** Yes, we concur 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. In the event, that the firm does not make such election, it should explain the reasons for not doing so, if the parent company uses the acquisition method and assigns fair values to the acquired entities assets and liabilities in preparing consolidated financial statements. In this instance, since such assignment has already been completed, continuous assessment should not impose an undue burden on the acquired company. However, if the parent company uses a historical cost basis (i.e., existing carrying values of the acquired firm at the date control is achieved) in the preparation of its consolidated financial statements for reasons warranted or unwarranted, we do not believe that the acquired company needs to disclose the reasons for not having elected the option or disclose what the “pushed down” values would have been had such election been made.

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.*

> **Response:** Yes, we believe that this proposed update should be effective prospectively to such transactions where an acquirer has obtained control. Retroactive application to transactions prior to effective adoption of this update would impose a substantial cost to the acquired firm and inject more confusion than clarity. We also concur that the acquired entity should be allowed the option to apply pushdown accounting each time it has undergone a change-in-control event. This would to some extent facilitate more uniformity in financial reporting. However, as mentioned in a previous response, we believe that divergence in applying pushdown accounting could be reduced to a greater extent if pushdown accounting were made mandatory if the parent company used the acquisition method in preparing its consolidated financial statements.

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.*

> **Response:** Yes, we agree that the decision regarding the option to apply pushdown accounting should be made in the reporting period in which the change-in-control event occurs, and that such decision should be irrevocable. This provision would discourage an overzealous management from using pushdown accounting to improve its financials in the current period if it realizes that its use in subsequent periods would make its financials look worse. Moreover, we believe that allowing firms to reverse their election to use pushdown accounting would hamper comparability.

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.*

> **Response:** Yes, we agree with the consequential amendments to remove guidance in Subtopic 805-50 on application of pushdown accounting when an acquisition meets certain conditions. The proposed consequential amendments will provide greater clarity and transparency in the application of pushdown accounting than that provided under the existing provisions.