CenturyLink, Inc.
Mr. Lyle J. Hippen, VP Assistant Controller
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July 29, 2014

Ms. Susan Cosper
Technical Director
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Sent via email:director@fasb.org

Subject: File Reference No. EITF 12F – Business Combinations – Pushdown Accounting

Dear Ms. Cosper,

We appreciate the opportunity to comment on the proposed accounting standards update "Business Combinations – Pushdown Accounting" and support the effort to provide accounting guidance on pushdown accounting. CenturyLink is one of the largest telecommunications company in the United States and has grown throughout our history by acquisitions, including three large acquisitions since 2009 which more than tripled the size of our company. Since 2009, our financial reporting requirements for the companies we have acquired range from filing consolidated SEC-compliant financial statements for one of the acquired companies and one of its subsidiaries to preparing private company financial statements for certain subsidiaries of other acquired companies. We therefore believe that we can contribute to the debate based upon our experiences.

In the discussion below, we address the specific questions the Board requested that respondents address in the proposed accounting standards update.

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 should apply to public entities, including subsidiaries of public entities issuing private company financial statements. We withhold comment on other nonpublic business entities and nonprofits as we have no experience in these areas.

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 believe that the proposed threshold of obtaining control is the correct threshold. We support this threshold since in an acquisition scenario, this is the threshold that would trigger a complete new basis by the acquirer. It is our opinion that anytime new basis is required to be established by an acquirer, at a minimum, the option should exist to reflect the new basis in the stand alone financial statements of the 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?

The option to apply pushdown accounting does provide flexibility to the acquiring entity. The ability to continue to use historical basis accounting in the acquired entity's separate company financial statements does provide for financial statements on a consistent basis with periods prior to the acquisition and potentially avoids additional demands upon the acquiring entity's staff in the immediate period after the acquisition.

We understand the concern of some financial statement users about the lack of comparable information if pushdown accounting is applied as noted in the basis for conclusions. We believe that this is a short term issue and over the longer term, we would expect that most financial statement users will want to review the performance and financial position of an entity using the same information as the controlling shareholder. In the basis of conclusions for Statement of Financial Accounting Standard Number 141(R) "Business Combinations" (SFAS 141(R)), the Board concluded that "... the acquisition method includes in the financial statements more information about the market's expectation of the value of the future cash flows associated with those assets and liabilities, which enhances the relevance of that information." We agree with the Board's basis for conclusion in SFAS 141(R) and therefore are concerned with the Task Force's conclusion to prevent pushdown accounting from being adopted in periods subsequent to the year of acquisition. In our view, we see no real benefit to enforcing a short window of opportunity in which a determination and all relevant adjustments must be made. The ability to apply pushdown accounting on a retrospective basis in periods after the year of the acquisition may allow existing financial statements users to benefit from the more relevant information associated with acquisition accounting while still having access to comparable prior year information.

We note that in paragraph BC18 of the proposed update, the Task Force was concerned about allowing retrospective transitions because it "would have required the use of hindsight for significant fair value estimates". This rationale confuses us since, as discussed in Question 4, the proposed update requires that the pushdown financial statements reflect the new basis of the acquirer. Since this new basis is required to be determined during the period allowed under Topic 805, we fail to understand how the retrospective application of pushdown accounting would ever require new fair value estimates measured with the use of hindsight. We therefore disagree that this statement provides a basis for concluding that the transition should be only for acquisitions completed after the adoption of the final update or that pushdown accounting can only be elected in the period of the acquisition.

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.

As a general rule, we agree that there should not be a difference in the basis of individual assets and liabilities used by the acquirer and the amount recognized in the separate company financial statements of the acquired entity. However, our experience indicates that there should be at least one exception for deferred taxes.

We apply a separate return tax allocation policy in accordance with Topic 740, "Income Taxes". Although not explicitly discussed in Topic 740, we use this separate return allocation policy when determining the deferred tax assets and liabilities recognized by our subsidiaries in their stand alone financial statements. In this situation, there are often entries required in consolidation to reflect the difference between the deferred tax assets or liabilities that a subsidiary recognizes on a separate return basis and the deferred tax assets or liabilities required in the consolidated financial statements. The most basic example of this situation would be a net operating loss ("NOL") associated with an acquired entity that had a history of cumulative losses acquired by a profitable entity in a transaction that would allow the new parent to use the NOL against consolidated income. In this situation, the separate company financial statements of the entity with cumulative losses may include a valuation allowance for the NOL but the consolidated financial statements of the acquiring entity may not need this valuation allowance. We historically recognized this difference as either an intercompany receivable or payable transaction or an equity transaction between the subsidiary applying pushdown accounting and the parent company since we believe that all the goodwill associated with the acquisition needs to be included in the pushdown financial statements.

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 the subsequent measurement guidance in Topic 805 and other applicable U.S. GAAP should be followed in the pushdown financial statements. We do wish to highlight the following subsequent measurement issues that we have encountered after completing acquisitions. We acknowledge that these issues may not be caused by the application of pushdown accounting, but they often are exacerbated by it.

The first issue related to subsequent measurement involves goodwill impairment testing. Under Subtopic 350-20, "Intangibles – Goodwill and Other", goodwill impairment testing is performed at the reporting unit level. Subtopic 350-20 contains guidance on impairment testing at a subsidiary level in ASC 350-20-35-47:49 and specifically requires that the subsidiary testing be done based upon its' own reporting units. We interpret these paragraphs to mean that the goodwill impairment testing by a parent and a subsidiary are independent calculations. We however note that the referenced paragraphs all discuss goodwill impairment from the perspective of a subsidiary impairment loss compared to a potential consolidated impairment loss. We have been concerned with the inverse situation where there was potential goodwill impairment at the consolidated level but there was no impairment at the subsidiary level. The Task Force may want to provide additional guidance if this was not the intent of the board.

The second subsequent measurement issue that we have encountered relates to pension and other post retirement plans. We have acquired companies that sponsor pension and other post retirement plans. We often merge the plans of the acquired companies with our existing plans which results in the

acquired company no longer being the plan sponsor. The merged plans are not a multiple-employer plan as the assets are not maintained in separate accounts for the benefit of any participating entity's employees. We interpret the guidance in ASC 715-30-55-64 to indicate that in the above scenario, the pension plan should be accounted for prospectively as a multiemployer plan under Subtopic 715-80 "Compensation – Retirement Benefits – Multiemployer Plans". We believe that this multiemployer plan accounting also applies to other postretirement defined benefit plans. The accounting ramifications of these plan mergers and switch to multiemployer plan accounting is however unclear to us. Should the separate company financial statements no longer reflect a liability for an underfunded plan or an asset for an overfunded plan? If the answer is no, how should the asset or liability associated with the plan be subsequently eliminated from the separate company financial statements? Does ASC 715-80-55-3 apply to this situation and result in the acceleration of the prior service cost deferred in accumulated other comprehensive income? Would the elimination of the pension or other postretirement defined benefit plan asset or liability benefit the financial statement users if the controlling entity intends on continuing to have the acquired company settle any plan obligations in the same manner as before the plan merger?

The third subsequent measurement issue relates to the deferred income tax accounting referenced in our response to question 4. The issue is whether a deferred tax asset can be recognized for a tax attribute or basis difference in the separate company financial statements of a subsidiary if the tax attribute or basis difference no longer exists in the consolidated income tax return that includes the separate company? Although potentially broader in scope than this, the NOL example discussed above can illustrate the issue. Can the separate company financial statements of the acquired company still reflect a deferred tax asset related to the NOL, ignoring the issue of a valuation allowance, if the NOL has already been utilized by the new parent entity against income generated by other subsidiaries?

Additional guidance on the accounting for the above issues would be helpful as all three have caused us some concern in the past.

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 concur with the conclusion of the Task Force related to bargain purchase gains.

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 the separate company financial statements of an acquired entity should only reflect liabilities that qualify for recognition in accordance with 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.

We would appreciate additional guidance on how to apply pushdown accounting when the acquired entity is a consolidated entity consisting of multiple subsidiaries. As we understand the proposed ASU, the pushdown financial statements should reflect the acquired assets and liabilities at the basis of the acquirer. In the case of a single acquisition involving multiple entities, the purchase consideration is available only for the consolidated entity. Since under Topic 805 "Business Combinations", goodwill is the difference between the purchase consideration and the net fair value of the identifiable assets and liabilities, how should this calculation be done for the acquired subsidiaries?

In one of our recent acquisitions, we acquired 100% of a public company that included multiple consolidated subsidiaries, including one that continues to be a SEC registrant. We applied pushdown accounting to all the subsidiaries' separate company financial statements. We used different approaches in our answer to the above question. For the subsidiary that was a SEC registrant, we hired a 3rd party to perform a valuation of the separate entity and computed goodwill for the entity as the difference between the entity fair value and the fair value of the entity's identifiable assets and liabilities. For the remainder of the entities, we allocated the remaining goodwill using a reasonable but simpler, less costly approach.

We believe that the inclusion of some practical expedient guidance in the situation described above would be helpful. We believe that the cost to perform a valuation of each separate entity could far exceed the benefit of the information.

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 concur that the disclosures of Topic 805 should be included in any financial statements that reflect pushdown accounting and do not believe that any additional disclosures are necessary.

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?

As noted above in our response to question 3, we believe that over the long term most financial statement users will prefer to see the performance of the reporting entity on the same basis as the controlling entity. If the Task Force proceeds with the proposal to allow for the optional application of pushdown accounting, we believe that at a minimum, the separate company financial statements should disclose any impairment charges related to the acquisition of the reporting entity. In our view, this disclosure would at least provide some warning to the separate company financial statement users that the reporting entity is not performing up to the market based expectations of the acquirer at the date of acquisition and allow them to evaluate the ramifications of this situation to their investment decisions.

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 agree that an entity should assess if there was a change in control during the reporting period, and we do not believe such an assessment would be difficult or costly to apply.

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.

Assuming that a final ASU allows companies to have an election as to whether to apply pushdown accounting, we agree that the proposed ASU should be prospectively applied. We further agree that the election to apply pushdown accounting should be available to 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.

As mentioned above, we disagree that the election to not apply pushdown accounting should be irrevocable but agree that the election to apply pushdown accounting should be irrevocable. In our view, pushdown accounting is an accounting principle election and the use of pushdown accounting should be considered the preferred method of accounting. As with other accounting principle changes, we believe that an entity should be allowed to change from an acceptable accounting method to a preferred method in certain instances. We do believe that the retrospective application of an accounting principle change required by Topic 250 "Accounting Changes and Error Corrections" is appropriate in this situation.

As discussed above, the basis for conclusions notes that one of the reasons some users did not prefer pushdown accounting was so that the historical trends are not distorted. We understand these concerns but note that if pushdown accounting is applied in periods subsequent to the year of the change in control, these concerns may be alleviated by retroactive application of pushdown accounting which would allow the users to see historical trends using the new basis of accounting as well as compare those trends to the trends previously reported under the historical cost basis.

We understand that as a result of the EITF addressing this topic, the SEC may eliminate their current guidance on the use of pushdown accounting when this new accounting standard update is adopted. We do however note that if for whatever reason this does not occur, the issuance of this proposed update with the current prohibition of changing the pushdown election could create complexity for an entity in the transition to becoming an SEC registrant.

As mentioned above, we have acquired entities in the past and continued to produce financial statements issued for the benefit of existing debt holders. In some instances, we decided to continue to use the historical cost basis rather than issuing pushdown financial statements due to both the

consistency of historical trends discussed in paragraph BC11 of the proposed update and our cost-benefit evaluation made at the time of the acquisition. We note that several years after some of these acquisitions, our perceptions of the costs have changed, and if we decided to have these entities issue new debt either as an addition to or as a replacement of the existing debt the benefits could be very different too. The prohibition against changing a pushdown election in the proposed accounting standard update would result in this being irrelevant, even if we believe the benefits to the potential new debt holders of using pushdown financial statements vastly exceeds the cost of producing them.

We believe that the above situations support our position that adoption of pushdown accounting after the year of the change in control should be allowed.

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 proposed elimination of the guidance in Subtopic 805-50, but would encourage the Task Force to go further and eliminate all of EITF Issue No. 86-9 from the codification. The remaining portion of EITF No. 86-9 after the proposed update, ASC 805-740-25-13, is in our opinion inconsistent with the requirements of Topic 740. We therefore encourage the Task Force to simplify the codification by eliminating all of EITF No. 86-9.

Please contact me at 318-330-6064 if you have any questions on our comments or if I can provide any additional information regarding our experience with pushdown accounting.

Sincerely,

Lyle J. Hippen
VP Assistant Controller