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Technical Director
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Via e-mail – **director@fasb.org**

Re: File Reference No. EITF-12F - Proposed Accounting Standards Update: Business Combinations (Topic 805): *Pushdown Accounting – a consensus of the FASB Emerging Issues Task Force*

Plante & Moran PLLC (Plante Moran) is the 13th largest public accounting firm in the United States and serves a wide range of public and private entities in multiple industries. We appreciate the efforts of the Emerging Issues Task Force (EITF) and the Financial Accounting Standards Board (Board) to address the issue of pushdown accounting. The use of pushdown accounting is widespread in our practice areas, and while existing practice has largely converged over the years since the issuance of Statements No. 141R and 160, there are numerous areas where explicit guidance from the Board will have the effect of eliminating diversity in practice. Following, please find our responses to the specific Questions for Respondents in the above referenced Exposure Draft.

Question 1: Do you 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? If not, please explain why.

Response 1: Yes, 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?

Response 2: Yes, we agree that the threshold for the option to apply pushdown accounting should be when an acquirer has obtained control of an entity. This threshold is consistent with the application of business combination accounting in Topic 805 and the guidance related to the consolidation of variable interest entities in Topic 810.

We are concerned, however, that the scope guidance in the proposed Update will limit the application of pushdown accounting when there are multiple parties that collaborate on a change-in-control transaction, but no single entity meets the definition of an Acquirer in the proposed amendment to the Master Glossary. Paragraph BC9 in the Basis for Conclusions to the proposed Update states that the "Task Force decided that a change-in-control threshold for pushdown accounting would eliminate the need to develop a virtual acquirer concept (collaborative groups)" as "the concept of a virtual acquirer would make the guidance on pushdown accounting overly complicated." We agree with the Task Force that the virtual acquirer concept would overly complicate the pushdown accounting guidance; however, we believe that application of the pushdown accounting guidance should be permitted in situations where multiple parties collaborate on a change-in-control transaction yet no single entity meets the definition of the Acquirer. We recommend the Board consider modifying the guidance in the proposed Update to permit application of pushdown accounting when one entity does not meet the definition of an Acquirer.

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 3: Yes, we agree that pushdown accounting should be optional for an entity when control over the entity has been obtained by an acquirer. In our experience, there have been many instances where there has been a change in control, including acquisitions of all of the outstanding equity of the acquired entity, where the acquired entity has elected to continue to prepare its financial statements using its historical basis of accounting. While use of the acquirer's basis of accounting is appropriate in most instances, there are circumstances where the interests of other parties, including noncontrolling interest equity holders, lenders and other creditors, customers, and vendors would be harmed by the application of pushdown accounting. For this reason, we believe that the proposed Update should be modified to indicate it is management's responsibility to consider the needs of all financial statement users in evaluating whether the application of pushdown accounting is appropriate.

We do not believe that pushdown accounting should mandatory under any circumstances.

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 4: Yes, we 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. Similarly, we agree that if the acquirer did not establish a new basis of accounting for the individual assets and liabilities of the acquired entity, it should 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. The guidance in the proposed Update is consistent with current practice and we believe provides the most appropriate basis for the assets and liabilities of the acquired entity.

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 5: Yes, we 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. As was expressed in our response to Question 4, the proposed guidance in consistent with current practice and we have not identified any issues that would suggest an alternate approach be considered.

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

Response 6: We do not agree that an entity that elects the option to apply pushdown accounting should not recognize bargain purchase gains it its separate income statement. In current practice, bargain purchase gains are typically recognized by the acquired entity when pushdown accounting is applied. We believe that relevant information is conveyed to users of financial statements when bargain purchase gains are recognized and that information is equally relevant in the financial statements of the acquirer and the acquired entity when pushdown accounting is applied.

If the Board concludes that bargain purchase gains should not be recognized in the acquired entity's financial statements when pushdown accounting has been applied, we recommend that guidance be provided as to how the unrecognized gain should be reported. It is presumed the unrecognized gain would be reported in equity; however, it is not clear whether this would be reported as part of opening equity or as a discrete transaction in the equity statement. In addition, guidance on how to account for the unrecognized gain would also eliminate the possibility that financial statement preparers would interpret the proposed Update as allowing them to reduce the fair value of assets acquired, as was done prior to the issuance of Statement No. 141R.

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 7: We agree in concept 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. This approach ensures that only those obligations meeting the definition of a liability in U.S. GAAP are recognized in the acquired entity's financial statements. However, there are issues that have arisen in practice related to acquisition-related debt and other acquisition-related liabilities that could be adversely affected by this proposed guidance. For example, contingent consideration obligations are often the contractual obligation of the acquirer; however, when the acquirer is a holding company with no assets other than its investment in the acquired entity, the economic substance of the transaction is such that the acquired entity will fund the contingent consideration obligation. In these circumstances, the contingent consideration obligation is often pushed down to the acquired entity's financial statements, even though it may not be required to recognize the liability under U.S. GAAP, because pushdown of the liability to the acquired entity's financial statements is required for a fair presentation.

We have often used the SEC's guidance related to the pushdown of acquisition-related debt in ASC 805-50-S99-1 (SAB Topic 5.J) for evaluating whether we believe acquisition-related liabilities should be recognized in the acquired entity's financial statements when pushdown accounting has been applied. We recommend the Board consider whether similar guidance could be incorporated in the proposed Update that would allow preparers to consider whether acquisition-related liabilities should be recognized when not otherwise required by 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?

Response 8: Notwithstanding our comments in the response to Question 7 regarding acquisition-related liabilities, we do not believe that the final Accounting Standards Update on pushdown accounting should include any additional guidance on recognition and measurement of assets, liabilities, and equity instruments of the acquired entity as sufficient guidance is already provide by Topic 805 and other applicable U.S. 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 9: We 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 and that no other disclosures are necessary to meet the disclosure objective.

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 push down accounting should be required to disclose?

Response 10: Yes, we agree that the proposed disclosure should be required when an entity does not elect the option to apply pushdown accounting in the current reporting period when it has undergone a change-in-control event and elected to continue to prepare its financial statements using its historical basis that existed before the acquirer obtained control of the entity. In our experience, the fact that a change-in-control event has occurred is typically relevant to most financial statement users and should be disclosed. Furthermore, if the application of pushdown accounting is increased as a result of the final Accounting Standards Update, disclosure that the entity has elected to continue to prepare its financial statements using its historical basis will assist financial statement users in understanding the effects of the change-in-control event on the acquired entity's financial statements.

We do not believe there are any other disclosures that an acquired entity that does not elect the option to apply push down accounting should be required to provide.

Question 11: Do you agree that for purposes of the 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 a continuous assessment require?

Response 11: Yes, we agree that an assessment of whether control has been obtained by an acquirer should be performed each reporting period to meet the disclosure requirements in the proposed Update. We do not believe the incremental costs and effort associated with such an assessment would be significant. Change-in-control events are generally significant, often resulting in significant changes to governing bodies or an entity's tax status, and thus minimal effort is needed on the part of management to assess and identify these events in most situations.

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 push down 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 12: Yes, we agree that the proposed Update be applied on a prospective basis. While retrospective application of pushdown accounting is possible, it becomes more difficult as time passes. Should retrospective application be permitted in the proposed Update, the Board would most likely need to select a cutoff date, with retrospective application of pushdown accounting before that date not permitted. Any date selected would ultimately be arbitrary and, accordingly, we believe prospective application should be used under all circumstances.

We also agree that an acquired entity should be allowed to elect an option to apply push down accounting each time it has undergone a 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.

Response 13: Yes, we 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. However, we do not believe the option needs to be irrevocable. Rather, if the acquired entity chooses to apply or discontinue application of pushdown accounting in a subsequent period, it should be considered a change in accounting principle under ASC 250-10. With respect to subsequent application of pushdown accounting in periods after the change-in-control event, we have similar concerns as those expressed in our response to Question 12 that retrospective application of pushdown accounting becomes more difficult as time passes and may ultimately become impracticable. If retrospective application is permitted, we suggest the Board include guidance that pushdown accounting can be applied in subsequent periods only when it is practicable to do so.

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 14: Yes, we agree with the removal of the guidance currently in Subtopic 805-50 on application of pushdown accounting when an acquisition meets certain conditions (previously EITF Issue No. 86-9).

Thank you again for the opportunity to comment on this exposure draft. We would be pleased to respond to any questions the Board or its staff may have about these comments. Please direct any questions to David Grubb at **david.grubb@plantemoran.com** or 248.223.3745.

Very truly yours,

PLANTE & MORAN, PLLC

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