ILLINOIS CPA SOCIETY

July 31, 2014

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

File Reference No. EITF-12F

The Accounting Principles Committee of the Illinois CPA Society (Committee) appreciates the opportunity to provide its perspective on the Proposed Accounting Standards Update (ASU), *Pushdown Accounting – a consensus of the FASB Emerging Issues Task Force*. The Committee is a voluntary group of CPAs from public practice, industry and education. Our comments represent the collective views of the Committee members and not the individual views of the members or the organizations with which they are affiliated. The organization and operating procedures of the Committee are outlined in Appendix A to this letter.

We appreciate the Task Force's efforts and are supportive of the goal to reduce diversity in practice related to the application of pushdown accounting among non-SEC registrants and to address the many practice issues with respect to applying that what limited guidance is currently available.

We generally agree with the proposed guidance, but believe that the issue of establishing a new basis of accounting is broader than the issue addressed in the proposed ASU. Therefore, we believe the Board should consider adding a project to its agenda to holistically address new basis issues. Our responses to the questions in the proposed ASU follow.

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, although we believe that the issue of establishing a new measurement basis is broader than the scope of the proposed Update, we agree with the Task Force's decision to limit the scope of the proposed Update to an acquired entity, public and nonpublic, that is a business or nonprofit activity, upon occurrence of an event in which an acquirer obtains control of the acquired entity. However, it is our view that the FASB should consider adding a project to its agenda to address new basis issues more broadly, encompassing events such as significant investments, lending, recapitalizations, initial or subsequent public offerings, and certain common control transactions.

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 agree with the threshold. We believe that the change-in-control concept is well-understood in practice and that implementing a higher threshold such as substantially wholly-owned would significantly complicate the model without a commensurate benefit.

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 mandatory application of pushdown accounting?*

   Yes, we agree that push-down accounting should be optional. We do not believe that there should be a threshold, such as substantially wholly owned under the SEC guidance, where pushdown accounting must be applied. We believe that acquired entities should have the flexibility to utilize the measurement basis – fair value or historical – that best serves the users of their financial statements and therefore; pushdown accounting should not be mandatory

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.*

   Yes, we agree that entities applying pushdown accounting should follow the guidance in ASC 805 to establish the new basis of accounting. Since pushdown accounting involves "pushing down" the acquirer's basis to the acquired entity, we believe that the same guidance used to establish the acquirer's basis in the acquired entity should be used to establish the acquired entity's new basis of accounting.

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 agree that entities applying pushdown accounting should follow the subsequent measurement guidance in ASC 805. We believe that the subsequent measurement guidance should be consistent with the initial measurement guidance, which per our response to Question 4, we also believe should follow ASC 805.

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 applying pushdown accounting should not recognize a bargain purchase gain. We acknowledge that this might appear asymmetrical to a requirement to reflect goodwill on the acquired entity's balance sheet, but it is our view that the debit (goodwill) and credit (bargain purchase gain) are sufficiently distinct to warrant divergent accounting at the acquired entity level. Goodwill is an asset for which the benefits (synergies, cost savings, etc.) and costs (impairment, amortization for certain nonpublic entities) will accrue to all owners of the acquired entity over time. A bargain purchase gain, on the other hand, is recognized concurrent with the change-in-control transaction and, according to ASC 805-30-25-2, "shall be attributed to the acquirer."

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, a requirement to recognize acquisition-related debt in the acquired entity's separate financial statements that otherwise would not require recognition would distort the balance sheet of an acquired entity, particularly when a real estate investments is acquired with an unsecured line of credit. A requirement that acquisition-related debt be pushed down would not be operable for many acquired real estate entities.

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 believe that recognition and initial and subsequent measurement should follow the existing guidance in ASC 805, and we do not believe that additional guidance is necessary.

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 agree that an entity applying pushdown accounting should provide the disclosures in ASC 805. We note that the disclosure objectives in ASC 805-10-50 are to (1) enable users to evaluate the nature and financial effect of a business combination and (2) enable users to evaluate the financial effects of adjustments recognized in the current reporting period that relate to a business combination. We believe these objectives are consistent with the disclosure objective in the proposed Update to enable users to evaluate the nature and effect of pushdown accounting on the entity's financial statements.

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 agree with the proposed disclosure requirements for entities that elect not to apply pushdown accounting.

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?*

    Although the cost and effort to evaluate this could be substantial for some companies, the ability to implement the push-down accounting standard would require that entities evaluate whether control has been obtained by an acquirer, however, entities should be given the option to make an election as to whether or not push-down accounting will be applied on a transaction by transaction basis. This election should be irrevocable.

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 prospective treatment is the appropriate implementation methodology. In addition, we believe that an election, such as noted above in Question 11 would be an appropriate methodology for determining the application of push-down accounting on a case by case basis.

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.*

    Yes, we agree that the decision should be made in the reporting period in which the change-in-control event occurs and should be irrevocable.

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 agree with the proposed consequential amendments.

We appreciate the opportunity to offer our comments.

Sincerely,

Scott G. Lehman, CPA
Chair, Accounting Principles Committee

Amanda Rzepka, CPA
Vice-chair, Accounting Principles Committee

APPENDIX A

ACCOUNTING PRINCIPLES COMMITTEE
ORGANIZATION AND OPERATING PROCEDURES
2014-2015

The Accounting Principles Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from industry, education and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of accounting standards. The Committee's comments reflect solely the views of the Committee and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to fully study and discuss exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

Public Accounting Firms:	
Large: (national & regional)	
Ryan Brady, CPA	Grant Thornton LLP
Todd Briggs, CPA	McGladrey LLP
Frank Dery, CPA	PricewaterhouseCoopers LLP
John Hepp, CPA	Grant Thornton LLP
David Jamiolkowski, CPA	Baker Tilly Virchow Krause, LLP
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Elizabeth Prossnitz, CPA	BDO USA LLP
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Jeffrey Ellis, CPA	FTI Consulting, Inc.
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