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August 4, 2014

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

Re: April 28, 2014 Exposure Draft of a Proposed Accounting Standards Update (ASU), *Business Combinations (Topic 805): Pushdown Accounting, a consensus of the FASB Emerging Issues Task Force* [File Reference No. EITF-12F]

Dear Ms. Cosper:

One of the objectives that the Council of the American Institute of Certified Public Accountants (AICPA) established for the PCPS Executive Committee is to speak on behalf of local and regional firms and represent those firms' interests on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC has reviewed the ED and is providing the following comments from the nonpublic entity perspective for your consideration.

GENERAL COMMENTS

Overall, TIC is very supportive of incorporating a pushdown accounting standard into U.S. generally accepted accounting principles (GAAP). TIC believes the proposed standard will be particularly helpful for nonpublic entities that have struggled with the lack of authoritative guidance on pushdown accounting in the FASB *Accounting Standards Codification*TM (ASC). TIC appreciates the Board's efforts in developing this standard and is pleased that the recognition trigger has been reevaluated for all acquirers that wish to apply pushdown accounting. TIC believes the proposal represents an improvement over SEC Staff Accounting Bulletin Topic No. 5.J, *New Basis of Accounting Required in Certain Circumstances*, which has served as a source of guidance for many private companies for many years.

TIC generally agrees with the use of a control model as the recognition threshold for the pushdown accounting option. However, TIC requests that the Board reconsider the application of the pushdown accounting option to variable interest entities (VIEs). TIC

believes the option would not apply to VIEs that are under common control with the primary beneficiary and recommends that they be excluded from the scope of the ED. For the remaining VIEs that are not under common control, TIC recommends re-examining the relevance of pushdown accounting for the VIE accounting model. If the Board decides that the pushdown option in the ED could be relevant to VIEs that are not under common control, then TIC recommends a modification of the proposed disclosures that could be applied if the option is not adopted.

TIC is also requesting additional implementation guidance regarding the mechanics of pushdown accounting. As noted above, TIC has decided not to comment on the impact of the ED on public entities.

SPECIFIC 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, TIC believes all acquired nonpublic entities should be given an option to apply pushdown accounting if the related requirements are met. (See also TIC's response to Question 2).

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. Based on the discussion in paragraphs BC9 and BC10, TIC could not justify the adoption of the "substantially wholly owned" threshold, as defined by the SEC, to pushdown accounting for nonpublic entities. The "substantially wholly owned" threshold lacks conceptual merit, is inconsistent with ASC Topic 805, would add complexity for nonpublic entities and could create confusion among users of nonpublic company financial statements.

TIC agrees that the threshold for the option to apply pushdown accounting should be consistent with the threshold used for consolidations or a business combination in current U.S. GAAP, that is, a change in control. Using a threshold based on obtaining control of another entity is the best trigger since it is already established in U.S. GAAP and is well understood. Furthermore, TIC supports the notion discussed in paragraph BC9 of the ED that a change in control represents a significant economic event. Paragraph BC9 mentions that the Board has already determined that business combinations are deemed to be significant economic events that require a new basis of accounting for the assets acquired and liabilities assumed.

However, pushdown accounting would not be relevant to the vast majority of nonpublic variable interest entities (VIEs) because most VIEs and their primary beneficiaries are

entities under the common control of a single owner. For these VIEs, the primary beneficiary would not account for a change in control by the acquisition method. Rather, they would be considered transactions between entities under common control and would not result in a step-up in the basis of the net assets of the acquirer, as discussed in ASC 810-10-30-1. With no step-up in basis, there would be nothing to push down to the VIE.

TIC therefore recommends that VIEs that are under common control with their primary beneficiaries be excluded from the scope of the final standard. Paragraph 805-50-25-7 in the ED also should be amended as follows:

805-50-25-7 *The option to apply pushdown accounting shall be evaluated and may be elected each time there is a change-in-control event in which an acquirer obtains control of the acquiree and the acquirer and acquiree are not entities under common control.* [Proposed revisions are underlined.]

If the Board decides to retain VIEs that are under common control with their primary beneficiaries within the scope of the ED, TIC recommends that additional guidance be provided in the final standard to explain how pushdown accounting would be applied.

TIC also recommends that the Board perform some additional outreach with respect to the relevance of pushdown accounting for VIEs that are not under common control with their primary beneficiaries to determine whether a pushdown option would be elected, if offered. VIEs that are not under common control would not necessarily be aware of changes in their primary beneficiary and therefore would not even contemplate pushdown accounting. In addition, the equity structure of the VIE may be such that financial statement users, including the noncontrolling shareholders, may not derive any benefit from a pushdown accounting option.

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?

TIC believes that pushdown accounting should be optional for nonpublic entities. A requirement to apply pushdown accounting would not be meaningful to all users of nonpublic company financial statements. We believe this could create a burden in certain situations where historical cost of the assets and liabilities may be more meaningful to debt holders [or other users] as noted in the dissenting opinion in paragraph BC26.

TIC generally agrees with the Task Force's views in paragraph BC21 that, in most cases, the recognition and measurement requirements of the proposed amendments would not result in significant, incremental costs for the acquired entities. However, TIC believes significant costs could be an issue for the acquired company when the acquirer has not accounted for the acquisition under ASC Topic 805 and the acquiree has to incur the cost

to apply the measurement guidance in ASC Topic 805 to adopt pushdown accounting. For example, within TIC's constituency, it is not uncommon for a U.S. company to be acquired by a foreign entity and for the acquisition to be accounted for under the local accounting framework of the foreign parent. In many cases, U.S. GAAP financial statements of the U.S. acquiree are needed for creditors in the U.S. In these circumstances, it might be difficult and costly for the acquiree to apply the proposed standard, if pushdown accounting were required.

Therefore, application of the proposed pushdown option should be made on a case-by-case basis when the scope requirement is met. Additionally, the benefits of applying the proposed option should justify the related costs.

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.

Yes, TIC believes the acquired entity should apply the new basis of accounting established by the acquirer by applying Topic 805. TIC agrees that the final ASU should state that the basis of accounting applied by the target should be "as if" the acquirer applied Topic 805.

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.

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, TIC agrees that an entity that elects to apply pushdown accounting should not recognize a bargain purchase gain. TIC believes the recognition of such a gain would distort the results of operations of the acquired company and not provide relevant information to the users of the financial statements. In other words, TIC does not believe the recognition of the bargain purchase gain would faithfully represent the economics of the acquired entity's activities for the period presented. The bargain purchase gain should be recognized in the acquirer's financial statements to properly reflect the activities that gave rise to the gain that was transacted between the buyer and the seller.

However, if the bargain purchase gain is not to be recognized by the acquired entity, the final standard should provide specific guidance on how to record the pushdown on the acquired entity's financial statements. For example, would the amount of the gain be subsumed into equity or should it be disclosed separately as an identified element of equity? TIC does not believe that the amount of the gain should be considered part of retained earnings of the acquired entity.

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, TIC believes the requirements for the acquired entity to recognize acquisition-related debt [or any other debt] should be consistent with the requirements of Topic 405 [considering recently issued ASU 2013-04, *Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date*]. TIC supports the argument presented in paragraph BC15 of the ED that an acquired entity would recognize a liability for the debt incurred by the acquirer only if that debt is the acquired entity's liability as defined in FASB Concepts Statement 6, *Elements of Financial Statements*.

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.

TIC believes additional implementation guidance is necessary to ensure that all entities that elect to apply pushdown accounting use consistent measurement and presentation principles. The initial measurement guidance in ASC paragraph 805-50-30-10 should be expanded to describe necessary reclassifications out of retained earnings to other equity accounts and mention that the net effect of the revaluation of the entity's assets and liabilities is accounted for as a capital transaction and whether it should be included in either capital stock, additional paid-in-capital or a separately identified account within shareholder's equity. Illustrative examples, including the pushdown entries, should be provided to cover the following three scenarios relating to acquisitions of a controlling financial interest: the acquisition of a 100% interest, the acquisition of a controlling interest with a remaining noncontrolling interest, and the acquisition by an existing noncontrolling shareholder of the remaining voting interest in the acquiree.

Additional measurement guidance is also needed for VIEs that are not under common control with their primary beneficiaries. Paragraphs 810-10-30-2 and 30-3 provide specific guidance to the primary beneficiary for the valuation of assets, liabilities, and noncontrolling interests in a newly consolidated VIE. TIC believes those paragraphs could have implications for pushdown accounting to the VIE.

For example, a primary beneficiary of a VIE that does not meet the definition of a business is not permitted to recognize goodwill when control of the VIE is obtained. If the VIE elects to adopt pushdown accounting, there is a presumption that the VIE would also not recognize goodwill. Therefore, paragraphs 805-50-30-10 and 30-11 in the ED do not appear to be technically correct when applied to VIEs that are not businesses, as defined.

TIC recommends adding one or more separate paragraphs that would be applicable to pushdown accounting for VIEs. The new paragraphs should refer to paragraphs 810-10-30-2 and 30-3 for the acquirer's accounting and then discuss how VIEs that do not meet the definition of a business would apply the pushdown principles. An illustrative example should also be added to the Implementation Guidance. The discussion in paragraphs 805-50-30-10 and 30-11 should be limited to pushdown accounting principles for acquisitions of non-VIEs.

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. TIC agrees that entities adopting pushdown accounting should provide the disclosures in Topic 805.

TIC also believes the Board should require additional disclosure if pushdown accounting is applied "as if" the acquirer applied ASC Topic 805, which could occur if the acquirer is reporting under another accounting framework, as discussed under Question 3 above.

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, TIC generally agrees with the proposed disclosures for entities that do not elect the option to apply pushdown accounting and believes no other disclosures would be necessary.

However, TIC questions whether the proposed disclosures would be relevant for VIEs that are not under common control. As discussed above, TIC believes that the application of pushdown accounting to a VIE would occur infrequently, if at all. TIC could not think of a situation where pushdown would be meaningful to financial statement users of nonpublic entities, in which case, disclosure of not electing the pushdown option would be unnecessary and potentially confusing to financial statement users. (TIC is uncertain

whether pushdown accounting would be relevant for a public VIE, but requests that the Board explore this further before finalizing the standard.)

TIC also believes that a VIE not under common control would be less likely to become aware that a change in control has occurred and therefore may have difficulty complying with the proposed disclosures. The extra effort involved in making this determination may not be cost beneficial. If the Board decides to retain the proposed disclosures for VIEs not under common control, then TIC recommends those VIEs be allowed to disclose, when applicable, that they could not determine if a change-in-control event occurred.

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, in order to apply the proposed option consistently, TIC believes an entity should perform a continual assessment to determine whether or not a change in control has occurred. TIC does not believe there are significant costs or efforts involved in performing this assessment, with the possible exception of VIEs that are not under common control, as discussed in TIC's response to Question 10 above.

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, TIC believes the proposed Update should be effective prospectively, with early adoption allowed for financial statements that have not been made available for issuance.

TIC also believes the election to apply pushdown accounting should be available for each applicable acquisition.

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.

Yes, this should be an irrevocable election and should be consistent with the requirements in ASC Topic 805.

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.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

A handwritten signature in black ink that reads "Scot Phillips". The signature is written in a cursive, slightly slanted style.

Scot Phillips, Chair
PCPS Technical Issues Committee

cc: PCPS Executive and Technical Issues Committees