
**Federal Deposit Insurance Corporation
Board of Governors of the Federal Reserve System
Office of the Comptroller of the Currency**

September 5, 2014

Ms. Susan M. Cospers
Technical Director
Financial Accounting Standards Board
401 Merritt 7
Post Office Box 5116
Norwalk, Connecticut 06856-5116

RE: File Reference No. EITF-12F–*Proposed Accounting Standards Update: Business Combinations (Topic 805)–Pushdown Accounting*

Dear Ms. Cospers:

The staffs of the federal banking agencies (the agencies) that supervise insured depository institutions appreciate the opportunity to comment on the Financial Accounting Standards Board’s (FASB) *Proposed Accounting Standards Update: Business Combinations (Topic 805)–Pushdown Accounting* (the Exposure Draft).

The agencies view the regulatory reports that insured depository institutions are required to file with us as being similar in concept to separate-entity financial statements. The instructions for the preparation of these reports follow U.S. generally accepted accounting principles (GAAP) and, pertinent to our comments on the Exposure Draft, incorporate the existing guidance on pushdown accounting issued by the U.S. Securities and Exchange Commission (SEC). As a consequence, this pushdown accounting guidance currently applies to both the public and nonpublic institutions we supervise. Our regulatory reports are the foundation on which we base our evaluation of the capital adequacy of insured depository institutions and compliance with other regulatory requirements; therefore, we support accounting standards that enhance consistency and comparability.

Our main concern with the Exposure Draft is that its adoption would detract from accounting consistency and comparability by permitting an acquiring entity (acquirer) unconstrained discretion over when to establish a new basis of accounting in the separate financial statements of an acquired insured depository institution (acquiree) regardless of the degree of control the acquirer obtains. For acquirees, we believe the optionality proposed in the Exposure Draft would lead to more diversity in practice, which is inconsistent with the FASB’s stated objective for proposing the guidance. In addition, we are concerned that the financial reporting option would allow acquirers to pick and choose between new-basis accounting and carryover-basis accounting upon a change-in-

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control event according to whichever method is more beneficial to the acquiree's separate-entity capital ratios. Pushdown accounting also can affect the characterization of post-acquisition shareholder distributions by an acquiree as either dividends or returns of capital because it resets retained earnings to zero. In this situation, the legal framework governing shareholder distributions by insured depository institutions can restrict an acquiree's ability to declare dividends and require regulatory approval for return-of-capital transactions. Such constraints on an acquiree also would be a factor that an acquirer would take into account when deciding whether to have the acquiree apply pushdown accounting.

For these reasons, we do not support the Exposure Draft providing an unconstrained choice of accounting policy. Rather, we recommend that pushdown accounting be required when the acquirer obtains a high degree of control, such as the 95-percent-or-more threshold now contained in the SEC guidance. The agencies have been well served for many years by our adoption of the SEC guidance on pushdown accounting and would be less so if the Exposure Draft replaced it. The SEC guidance requires the application of pushdown accounting for those acquisitions in which control at the 95-percent-or-more level is obtained and prohibits the accounting method when control is less than 80 percent. Taken together, this narrowly limits the range in which the accounting policy choice is available. Furthermore, the agencies object to the proposed expansion of elective pushdown accounting to merely the change-in-control level (generally more than 50 percent of an acquiree's voting shares).

In response to certain questions raised in the Exposure Draft, the agencies agree that initial and subsequent accounting measurements should follow the principles of Topic 805–*Business Combinations* and other relevant GAAP when pushdown accounting is applied to an acquiree's separate-entity financial statements. The agencies also support the Exposure Draft's required recognition of an acquirer's acquisition-related debt in the acquiree's separate-entity financial statements only if the acquiree is required to recognize a liability for the debt in accordance with other applicable GAAP. In this regard, anything less than what other applicable GAAP would require understates the acquiree's balance-sheet leverage and overstates its financial performance by omitting debt and associated interest expense. Apportioning more debt to the acquiree than other applicable GAAP would require similarly distorts the acquiree's financial statements.

The agencies also support the Exposure Draft's position that a bargain-purchase gain should not be recognized in an acquiree's income statement and retained earnings. We agree with the view that the gain is not earned by the acquiree; rather, the effect of the gain should be reflected in the initial measurement of the acquiree's additional paid-in capital. This is consistent with a recent clarification of the agencies' regulatory reporting instructions. Thus, we believe the Exposure Draft's guidance would reduce the diversity in practice we previously had observed on this point.

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The agencies appreciate your consideration of our comments. We would be pleased to discuss in more detail our views on the Exposure Draft.

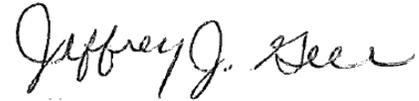
Sincerely,



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Steven P. Merriett
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