FASB Emerging Issues Task Force

Issue No. 12-F

Title: Recognition of New Accounting Basis (Pushdown) in Certain Circumstances

Document: Issue Summary No. 1, Supplement No. 2* (Revised)

Date Prepared: ~~August 30~~October 31, 2013

FASB Staff: Gupta (203.956.5317) / Or (203.956.5212)

EITF Liaison: Charles Evans

Date previously discussed: January 17, 2013; March 14, 2013

Previously distributed EITF materials: Issue Summary No. 1, dated October 17, 2012; Issue Summary No. 1, Supplement No. 1, dated February 26, 2013

Background

1. At its January 17, 2013 meeting, the Task Force discussed the following three alternative views regarding the application of pushdown accounting:

   a. A new accounting basis should be established when an acquirer obtains *substantially all* (defined in the Master Glossary in the context of the concepts underlying the leases classification criteria of Topic 840 as 90 percent) of the controlling financial interest in a reporting entity and thereby obtains control over the form of ownership of the reporting entity

   b. A new accounting basis should be established when an acquirer obtains control of the reporting entity

   c. A new accounting basis should not be established in an acquired entity's separate financial statements.

*** The alternative views presented in this Issue Summary Supplement are for purposes of discussion by the EITF. No individual views are to be presumed to be acceptable or unacceptable applications of Generally Accepted Accounting Principles until the Task Force makes such a determination, exposes it for public comment, and it is ratified by the Board.**

2. The Task Force expressed a preference for the application of pushdown accounting and directed the FASB staff to perform user outreach to understand the relevance of pushdown accounting in the standalone financial statements of an acquired entity. The Task Force also asked the staff to solicit feedback from private company preparers and users as well as from the Private Company Council members.

3. At its March 14, 2013 meeting, the Task Force discussed the feedback received from users of both public- and nonpublic-entity financial statements and the Private Company Council that indicated mixed views on whether the new basis in the separate financial statements of an acquired entity provides beneficial financial information for investment decision making (Issue Summary No.1, Supplement No. 1, provides a summary of the feedback received). To assist in its decision-making, the Task Force directed the FASB staff to develop a model in which pushdown accounting could be optionally applied by an acquired entity when an acquirer has obtained control of the acquired entity. The Task Force decided that once it has discussed the optional model with the change-in-control threshold, it would then consider whether pushdown accounting should be made mandatory and, if so, at what level it should be made mandatory.

4. This Issue Summary Supplement provides a summary of an optional change-in-control-based pushdown accounting model (Appendix 12-FA) developed by the FASB staff and discusses the related accounting issues and alternatives for the Task Force's consideration. The pushdown accounting model discussed in Appendix 12-FA will be updated to reflect the decisions reached by the Task Force on the related accounting issues. Issues 1 through 5 of this Supplement are specific to the optional change-in-control-based pushdown accounting model. Issue 6 discusses whether pushdown accounting should be mandatory and, if so, at what threshold it should be mandatory (that is, at the change-in-control level or the substantially-all level). The staff acknowledges that Issue 6 is the most fundamental question in this paper but believes that the Task Force would benefit from first discussing and developing the key aspects of a change-in-control-based model before addressing Issue 6.

5. In developing the change-in-control-based model for pushdown accounting, the staff has largely relied on the accounting principles for business combinations in Topic 805. Some

stakeholders have expressed conceptual and operational concerns regarding some of the principles in Topic 805, such as identifying an acquirer when a new entity (newco) is formed to effect a business combination, and stated that they should be addressed during the development of pushdown accounting guidance. This Supplement does not attempt to address such issues or other issues related to identifying an acquirer or identifying a business that are covered by Topic 805.

6. Some stakeholders also commented that the guidance should address issues relating to collaborative groups, that is, when a reporting entity is acquired by multiple investors who mutually promote the acquisition and collaborate on the subsequent control of the acquired entity. The FASB staff has not addressed issues relating to collaborative groups in this Supplement because the change-in-control-based model would only apply to transactions in which an acquirer can be identified under the existing guidance of Topic 805. If an acquirer cannot be identified under that guidance, the transaction would not fall in the scope of model, and therefore pushdown accounting would be precluded. However, as discussed in Issue 6, if the Task Force chooses an alternative that requires pushdown accounting at a higher threshold than change-in-control (such as the substantially wholly-owned threshold), the staff would develop the related collaborative group guidance and present it to the Task Force at a future meeting.

Accounting Issues and Alternatives Pertaining to the Change-In-Control-Based Model

Issue 1: Whether an acquired entity whose control is obtained by an acquirer without transfer of consideration (such as, a change in the primary beneficiary of a variable interest entity or a change-in-control by contract alone) should apply pushdown accounting in its separate financial statements.

View A: Pushdown accounting should be applied even if control is obtained without transfer of consideration.

7. Proponents of View A believe that since acquirers are not exempted from applying business combination guidance when there is no purchase consideration, the acquired entity should also not be excluded from the scope and prohibited from applying pushdown accounting if its control

is obtained without transfer of purchase consideration. They state that business combinations guidance already exists under Topic 805 to help an acquired entity apply pushdown accounting in the absence of purchase consideration.

8. Proponents of View A also believe that limiting the scope of pushdown accounting to purchase transactions would create an arbitrary distinction among entities that have all been through a change-in-control event. Those proponents cite the basis-for-conclusions paragraphs B78 and B79 of FASB Statement No. 141 (revised 2007), *Business Combinations*, in which the Board acknowledged that difficulties may arise in applying the acquisition method to business combinations achieved by contract alone because of the absence of readily measurable consideration and, in rare circumstances, the difficulty in identifying an acquirer. However, the Board concluded that the acquisition method can and should be applied to business combinations achieved by contract alone, since:

a. Difficulties in identifying the acquirer are not a sufficient reason to justify a different accounting treatment, and no further guidance is necessary for identifying the acquirer for combinations by contract alone.
b. In the U.S., those transactions are already being accounted for by the acquisition method and insurmountable issues have not been encountered.

9. Proponents of View A also observe that if pushdown accounting at the change-in-control level is optional, the acquired entity would be able to determine whether pushdown accounting should be applied to its separate financial statements based on the information needs of its users. Therefore, explicitly excluding entities whose control is obtained without transfer of consideration would prevent new basis accounting even though users could benefit from the new basis of the acquired entity's financial statements.

View B: Pushdown accounting should not be applied when control is obtained without transfer of consideration.

10. Proponents of View B state that SEC staff guidance on pushdown accounting, which is the basis for current practice, applies to purchase transactions and believe that such a distinction should continue to apply in any guidance that is developed for pushdown accounting. Some proponents of this view believe that the application of pushdown accounting should be limited and therefore not expanded to include change-in-control events. But if the threshold for applying pushdown accounting were to be lowered to change-in-control events, some proponents of View B prefer precluding pushdown accounting when the change-in-control event involves no purchase consideration. In the absence of an explicit purchase consideration, the proponents of View B also believe that it would be inappropriate to apply a new basis of accounting because the new basis would have to be determined based on a fair value measurement that is less observable than a fair value measurement based on a purchase consideration.

11. Proponents of View B also state that when control is obtained without a transfer of consideration, carryover basis would more appropriately reflect the economic interest of the acquirer since the acquirer did not pay any explicit consideration for gaining control. Opponents of View B, however, state that even in those circumstances there is an implicit consideration that is exchanged for the change-in-control and that, therefore, all transactions involving change-in-control should fall within the scope of pushdown accounting.

12. Proponents of View B also state that in certain circumstances the acquired entity and other users of financial statements, including noncontrolling interest holders and creditors, may not be aware that a change-in-control event occurred for accounting purposes when there is no explicit purchase transaction or purchase consideration. Therefore, pushdown accounting may not be considered by the acquired entity unless notified by the acquirer (who may or may not be preparing U.S. GAAP financial statements). In addition, users of financial statements may not expect or prefer a change in the basis of financial statements when no explicit purchase transaction has occurred.

Issue 2: Whether acquisition-related debt incurred by the acquirer should be recognized in the acquired entity's separate financial statements.

View A: Acquisition-related debt incurred by the acquirer should be recognized in the acquired entity's separate financial statements.

13. Proponents of View A believe that acquisition-related debt should be recognized in an acquired entity's separate financial statements since the acquired entity ultimately would be servicing that debt, even though the acquirer may be the legal counterparty to the debt arrangement. They believe that financial statement users would not be able to assess the leverage (and therefore not be able to properly assess future cash flows) of the acquired entity unless such debt is recognized by the acquired entity.

14. Opponents of View A state that requiring an acquired entity to recognize acquisition-related debt in all situations would in some circumstances provide misleading information to the users of the acquired entity's separate financial statements. In some circumstances the acquirer might have its own resources to service such debt and may not be relying on the acquired entity to service that debt. They also point to the SEC staff guidance codified in paragraph 805-50-S99-1, which requires the debt only to be recognized by an acquired entity when certain facts and circumstances are present, such as when (a) the acquired entity assumes the debt either presently or in a planned transaction in the future, (b) the proceeds of the debt or equity offering by the acquired entity will be used to retire all or a part of the acquirer's debt, or (c) the acquired entity guarantees or pledges its assets as collateral for the acquirer's debt.

15. Opponents of View A also state that it would be difficult for entities to properly identify the portion of the debt that is acquisition related because the acquisition may be funded by an acquirer's general pool of borrowings.

View B: Acquisition-related debt incurred by the acquirer should not be recognized in the acquired entity's separate financial statements unless the acquired entity is required to recognize the liability for the debt in accordance with other applicable U.S. GAAP.

16. Proponents of View B focus on the definition of a liability in FASB Concepts Statement No. 6, *Elements of Financial Statements*, which states that "liabilities are probable future sacrifices of

economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events" (footnote references omitted). Proponents of View B believe that an acquired entity should only recognize a liability for the debt incurred by the acquirer if such debt is the acquired entity's liability as defined the concept statement. They further believe that the guidance in pushdown accounting may clarify (similar to the SEC staff guidance codified in paragraph 805-50-S99-1) when the debt could be the liability of the acquired entity; however, they believe that such guidance should not be overly prescriptive.

Issue 3: Whether goodwill should be recognized in the separate financial statements of the acquired entity.

View A: Goodwill should be recognized in the separate financial statements of the acquired entity.

17. Proponents of View A believe that even though goodwill is the residual asset in a business combination, conceptually, goodwill arises due to the future benefits that would result from the business combination, such as operating synergies and cost savings. They believe that such benefits are realized not only by the acquirer, but also by other interest holders in the acquired entity, such as noncontrolling interest holders. Such future benefits that may accrue to the acquired entity would provide relevant information to the users of the separate financial statements of the acquired entity and, therefore, goodwill should be recognized in the separate financial statements of the acquired entity as well as in the consolidated financial statements of the acquirer.

18. Proponents of View A also state that it would be difficult for users of the acquired entity's separate financial statements to analyze the separate financial statements if no goodwill is recognized because the equity of the acquired entity on the date of acquisition would no longer reflect the acquisition date fair value of that entity.

View B: *Goodwill should not be recognized in the separate financial statements of the acquired entity.*

19. Proponents of View B state that, conceptually, the economic rationale for recognition of goodwill is that it is the excess payment for a business by an acquirer with the expectation that the acquirer will receive the future benefits through operating synergies and cost savings. Therefore, proponents of View B believe that on a standalone basis the acquired entity would not benefit from such savings and therefore goodwill only should be recognized in the consolidated financial statements of the acquirer. Opponents of View B state that goodwill is not just about synergies that are accretive to the acquirer, but also includes the fair value of the going concern element of the acquired entity's existing business and therefore should be recognized by the acquired entity.

20. Proponents of View B also believe that an acquired entity recognizing goodwill contradicts the principle of not allowing recognition of internally generated intangible assets. They also state that an acquired entity recognizing goodwill would conflict with the existing definition of goodwill in the Master Glossary, which is "an asset representing the future economic benefits arising from other assets acquired in a business combination."

Issue 4: **Whether bargain purchase gains should be recognized in the separate financial statements of the acquired entity.**

View A: *Bargain purchase gains should be recognized in the separate financial statements of the acquired entity.*

21. Proponents of View A believe that recognition of bargain purchase gain in the separate financial statements of an acquired entity would result in symmetry with the acquired entity's financial information consolidated in the financial statements of the acquirer. Proponents of View A also support goodwill being recognized by the acquired entity and believe that correspondingly, bargain purchase gains also should be recognized to achieve symmetry between the accounting treatment of the excess value and the treatment of the shortfall.

22. Proponents of View A also believe that recognition of the bargain purchase gain would provide users of the acquired entity's financial statements with more transparent information about a distressed sale or a forced liquidation. If the bargain purchase gain is not recognized in the separate financial statements, the amount would have to be reflected in the equity of the acquired entity.

~~23. Proponents of View A also refer to the interpretation of generally accepted accounting principles by the Comptroller of the Currency Administrator of National Banks that are issued as a Bank Accounting Advisory Series and state that bargain purchase gains should be reflected in the separate financial statements of an acquired bank.~~

View B: Bargain purchase gains should not be recognized in the separate financial statements of the acquired entity.

23. Proponents of View B refer to the guidance in paragraph 805-30-25-2, which states that the bargain purchase gain should be attributed to the acquirer. They further cite paragraph B372 of Statement 141R, which states that "The Boards observed that an economic gain is inherent in a bargain purchase. At the acquisition date, the acquirer is better off by the amount by which the fair value of what is acquired exceeds the fair value of the consideration transferred (paid) for it. The Boards concluded that, in concept, the acquirer should recognize that gain at the acquisition date."

24. Proponents of View B also believe that any gain that results from a bargain purchase should be recognized by the acquirer, and that reflecting such gains in the separate financial statements of the acquired entity would be contradictory to users' understanding that the entity was sold in a distressed sale; a transaction that would not ordinarily result in a gain.

25. Proponents of View B also refer to the interpretations of U.S. GAAP by the Comptroller of the Currency Administrator of National Banks that are issued as a Bank Accounting Advisory Series. The most recent interpretation on this subject states that the bargain purchase gain

amount should be reflected in the separate balance sheet of the bank as paid-in capital. It further states that bargain purchase gain should be reflected in the consolidated income statement of the bank holding company but not in the acquired bank's separate income statement.

Issue 5: Whether there are any circumstances in which pushdown accounting is not appropriate and, therefore, should be precluded

View A: Push down accounting can be applied in all circumstances in which the acquired entity falls within the scope of the change-in-control-based optional model.

~~24.~~26. Proponents of View A state that any scope exceptions would create unnecessary complexity particularly if the Task Force decides to make pushdown accounting optional at the change-in-control level. They believe that if an acquired entity's users do not believe that pushdown accounting is relevant, an entity, in consultation with its investors and other interest holders, can choose the option not to apply pushdown accounting. Proponents of that view also believe that there should be as much symmetry as possible between the business combinations guidance and the pushdown accounting guidance, such that all transactions that would result in the parent applying purchase accounting should also have the potential to result in pushdown accounting in the acquired entity's separate financial statements.

View B: There should be circumstances in which push down accounting should be prohibited (for example, when significant noncontrolling interests, publicly traded debt securities, or preferred stock exist).

~~25.~~27. The current SEC staff guidance does not require mandatory application of pushdown accounting in certain circumstances, such as when significant noncontrolling interests, publicly traded debt securities, or preferred stock exist, on the basis that such outside interests would preclude the parent from being able to control the form of the acquired entity. Consistent with current practice and SEC staff guidance on pushdown accounting (codified in paragraphs 805-50-S99-1 through S99-4), proponents of View B believe that in certain circumstances an entity should be prohibited from applying pushdown accounting because there may be other significant owners or interest holders in the entity (apart from the acquirer) who would prefer to see the historical trends of the acquired entity's operations, and pushdown accounting would distort those trends.

~~26.~~28. Opponents of this view note that the SEC staff guidance exceptions were developed on the basis that such outside interests would preclude the parent from being able to control the form of the acquired entity. Since *control over form of the acquired entity* is not being considered by the Task Force as part of the optional change-in-control-based model, exceptions to the model need not be considered by the Task Force. However, if the Task Force were to require pushdown accounting at the change-in-control level (instead of keeping it optional), opponents acknowledge that certain exceptions to pushdown accounting may need to be developed by the FASB staff and presented to the Task Force at a future meeting to ensure that pushdown accounting is not required when there are circumstances in which new basis would not produce useful information to investors and creditors.

Issue 6: Whether pushdown accounting should be required or optional. If required, the circumstances in which it should be required.

~~27.~~29. The current SEC staff guidance indicates that if a purchase transaction results in an entity becoming substantially wholly owned, pushdown accounting should be applied. That guidance further states that pushdown accounting is (a) required when 95 percent or more of an entity's ownership is acquired, (b) permitted when 80 to 95 percent is acquired, and (c) prohibited when less than 80 percent is acquired. The existence of other interests, such as public debt, however, may provide exceptions to the pushdown accounting requirement. The SEC staff guidance also indicates that the holdings of investors who both mutually promote the acquisition and collaborate on the subsequent control of the acquired entity should be aggregated for the purpose of determining whether the acquired entity has become substantially wholly-owned.

~~28.~~30. The following paragraphs discuss the four alternative views developed by the FASB staff based on the discussion at the January 2013 and March 2013 EITF meetings.

*View A: Pushdown accounting should be **optional** for all acquired entities that fall within the scope of this guidance (a change-in-control event).*

*View B: Push down accounting should be **required** when the acquired entity becomes substantially wholly owned as a result of a business combination and should be **optional** for all other acquired entities that fall within the scope of this guidance (a change-in-control event).*

*View C: Pushdown accounting should be **required** for all acquired entities that fall within the scope of this guidance (change-in-control events).*

*View D: Pushdown accounting should be **required** only when the acquired entity becomes substantially wholly owned as a result of the business combination and should be prohibited otherwise.*

~~29.~~31. If the Task Force tentatively concludes on View B (pushdown optional at the change-in-control level, but required at the substantially-wholly owned level) or View D (pushdown required at the substantially wholly-owned level with no separate optional level), the staff would have to bring back to the Task Force additional follow-on issues at a future meeting, such as the following:

a. Definition of "substantially wholly-owned" including the related issue of "collaborative groups"
b. Potential exceptions for mandatory application of pushdown accounting at the substantially wholly-owned level, such as when there is public debt or other significant interest holders
c. Whether pushdown accounting should also be required for nonpublic entities at the substantially wholly-owned threshold level (currently, pushdown accounting is optional for nonpublic entities)
d. Application of pushdown accounting when an entity becomes substantially wholly-owned as a result of a series of transactions over time (step acquisitions).

*View A: Pushdown accounting should be **optional** for all acquired entities that fall within the scope of this guidance (a change-in-control event).*

~~30.~~32. Proponents of this view prefer to give entities an option to apply pushdown accounting based on the needs of their users without a mandatory threshold. For example, if the acquirer is the primary user of the acquired entity's separate financial statements and it will be operationally more effective for consolidation purposes for the acquired entity to apply pushdown accounting (to eliminate the need to keep two sets of books), the entity may opt to apply pushdown accounting. On the other hand, if there are significant carryover shareholders or other interest holders, the acquired entity may choose to carry over its historical basis and not apply pushdown accounting. Proponents of this view do not believe that there is any basis for precluding an entity from applying pushdown accounting if it has been acquired and the acquirer would be eligible to apply purchase accounting under Topic 805 (whether or not the acquirer is a U.S. GAAP preparer, it would be in the scope of Topic 805). They also do not believe that pushdown accounting should be made mandatory because many users would prefer not to distort historical trends by applying new basis of accounting. Allowing an option to apply pushdown accounting would give entities the ability to make decisions based on the specific information needs of their users.

~~31.~~33. Additionally, some proponents of View A (and of View C) believe that linking the pushdown accounting threshold to change-in-control events would eliminate a majority of today's practice issues caused by the identification of "collaborative groups" because Topic 805, which also has a control threshold, requires the identification of an acquirer in all business combination transactions and thus generally eliminates the need to determine whether a group of investors acts as a single investor.

~~32.~~34. The proponents of this view also prefer that the guidance remain optional at the lower (change-in-control) threshold because they are concerned that mandatory pushdown accounting at the change-in-control threshold would result in a substantial increase in the number of entities applying pushdown accounting and an increase in the frequency of pushdown accounting by the same entity, an outcome that may not be beneficial to many users of financial statements and a costly exercise for many preparers of financial statements.

~~33.~~35. Opponents of View A believe that this alternative would significantly reduce comparability among entities that go through acquisitions because of its optional nature. Other opponents believe that pushdown accounting is not appropriate in every change-in-control event because not all such events result in an observable change in the investors and therefore the basis of the entity's financial reporting. Accordingly, they believe that pushdown accounting should be precluded unless there has been a substantial change in ownership as a result of a purchase transaction in which the acquired entity is substantially-wholly owned.

View B: Push down accounting should be ***required*** *when the acquired entity becomes substantially wholly owned as a result of a business combination and should be* ***optional*** *for all other acquired entities that fall within the scope of this guidance (a change-in-control event).*

~~34.~~36. This alternative would **require** pushdown accounting when the acquired entity is substantially wholly owned by the acquirer consistent with the current SEC staff guidance, and provide an option to apply pushdown accounting when there is a change-in-control event that does not meet the required threshold. This alternative would effectively expand the current optional threshold range provided in the SEC staff guidance of 80 to 95 percent to all change-in-control events that do not meet the substantially wholly owned threshold. Proponents of View B agree that pushdown accounting should be required only when the acquiring entity obtains substantially all of the acquired entity, which generally results in the acquiring entity controlling the form of ownership of the acquired entity. However, they acknowledge that there may be other change-in-control situations in which pushdown accounting would result in more relevant information for the users and therefore pushdown accounting should not be precluded when there is a change-in-control event.

~~35.~~37. Opponents of View B believe that diversity would increase as a result of expanding the range in which pushdown accounting is made optional. In addition, the perceived complexities of the current two-threshold guidance (separate optional and required thresholds) would survive. Some opponents believe that a required threshold at the substantially-wholly-owned level would provide opportunities for companies to structure transactions to achieve a certain financial reporting outcome.

View C: Pushdown accounting should be ***required*** *for all acquired entities that fall within the scope of this guidance (change-in-control events).*

~~36.~~38. Proponents of View C believe that change-in-control is a significant event and should require an acquired entity to reflect such an event in its financial statements. Proponents of View C also refer to paragraph BC9 of FASB Accounting Standards Update No. 2010-02, *Accounting and Reporting for Decreases in Ownership of a Subsidiary—a Scope Clarification*, in which the Board concluded that the gain or loss of control of a business is considered to be a significant economic event for which remeasurement of a preexisting interest or retained investment to fair value is a more representationally faithful depiction of the transaction.

~~37.~~39. Proponents of View C agree in principle with a required threshold for pushdown accounting, but they consider the threshold of "substantially wholly owned" to be too high. They believe that symmetry between the consolidated financial statements of the acquirer and the standalone financial statements of the acquired entity is desirable as soon as the acquirer obtains control. They also believe, consistent with proponents of View A, that the pushdown accounting threshold should be consistent with the existing guidance for change-in-control events (such as Topic 805 on business combinations and Topic 810 on consolidation), rather than a separate threshold, such as the "substantially wholly owned" threshold.

~~38.~~40. Opponents of View C believe that mandatory application of pushdown accounting at change-in-control would significantly increase its applicability even in those circumstances in which the users of an acquired entity would prefer to not apply pushdown accounting in order to preserve the trend information.

*View D: Pushdown accounting should be **required** only when the acquired entity becomes substantially wholly owned as a result of the business combination and should be prohibited otherwise.*

~~39.~~41. Consistent with the current SEC staff guidance, View D would require a new basis of accounting when a transaction results in the reporting entity becoming substantially wholly owned, which generally results in the acquiring entity controlling the form of ownership of the acquired entity. That is, pushdown accounting would be applied and the acquired entity's separate financial statements would reflect the new basis of accounting recorded by the acquirer upon acquisition.

~~40.~~42. The rationale for a "substantially wholly owned" threshold is that when the ownership interest of the acquiring entity gives it the power to control the form of ownership of the acquired entity, the accounting basis of the reporting entity should be the same as the acquiring entity's accounting basis regardless of whether the reporting entity continues to exist as a separate entity or is merged into the acquiring entity's operations. This alternative presumes that a level of ownership that is less than "substantially wholly owned" would generally not give the acquirer sufficient power to control the form of ownership of the entity. Therefore, proponents of View D believe that gaining control of an acquired entity alone—without substantial ownership—is generally not sufficient to require pushdown accounting. Other proponents of this view do not conceptually object to pushdown accounting at a lower threshold, but prefer View D because it has the effect of limiting the number of transactions under which pushdown accounting would be required and eliminating the optional threshold range that exists today, and that would exist under Views A and B.

~~41.~~43. Proponents of View D believe that the price paid by the acquirer for its ownership interest is most relevant for measuring the assets and liabilities of the acquired entity when there is a substantial change in ownership. They further believe that transactions in which substantially all of the ownership of an entity is acquired are in substance the same as the purchase of a group of net assets that constitutes a business.

~~42.~~44. Some proponents of View D agree with the proponents of View B; however, they believe that allowing optional application of pushdown accounting would significantly increase diversity in practice and therefore pushdown accounting should only be required (and not optional) when a substantial ownership has been acquired.

~~43.~~45. Similar to opponents of View B, opponents of View D believe that developing a required threshold would result in complexity in the guidance. They also believe that any such threshold would result in bright-line rules that entities can structure around to achieve a certain financial reporting outcome.

Disclosures

~~44.~~46. The FASB staff believes that the guidance should provide the disclosure objective to enable users of financial statements of the acquired entity to evaluate the nature and effect of the pushdown accounting on its financial statements. The staff recommends that the Task Force require entities to apply the existing disclosure requirements in Topic 805 to meet the stated objective.

Transition

~~45.~~47. The FASB staff recommends that an acquired entity should apply pushdown accounting guidance prospectively to all change-in-control events that occur after the effective date of the final Accounting Standards Update. If the change-in-control model is made optional, a mandatory retrospective transition would still provide entities with an option to either apply pushdown accounting or not apply it to past change-in-control events. The FASB staff believes that applying the guidance on a retrospective basis would require entities to recast the financial statements for all periods and, therefore, could become very costly and burdensome to apply to change-in-control events in the distant past. The staff, however, recommends that entities should be allowed to apply the guidance retrospectively. Allowing the guidance to be applied retrospectively would allow entities with a recent change-in-control event to apply pushdown accounting.

~~46.~~48. The FASB staff also recommends that the acquired entity should evaluate the option to apply pushdown accounting at each change-in-control event separately, and the guidance should not be treated as a one-time accounting policy election. The staff believes that every change-in-control event is a distinct event and therefore an entity shall assess its pushdown accounting policy election based on the facts and circumstances, and the needs of its users based on that distinct change-in-control event.

Appendix 12-FA

NEW BASIS OF ACCOUNTING (PUSHDOWN)

FASB Emerging Issues Task Force

Issue No. 12-F

Title: Change-in-Control-Based Pushdown Accounting Model

Document: Accounting model for application of pushdown accounting

Date Prepared: August 30, 2013

FASB Staff: Gupta (203.956.5317) / Or (203.956.5212)

Overview and Background

1. The New Basis of Accounting (Pushdown) Subsections provide guidance on when and how an acquired entity should apply a new basis of accounting in its separate financial statements.

Scope

2. The guidance in the New Basis of Accounting (Pushdown) Subsections applies to an acquired entity that is a business, of which an acquirer obtains control and elects the option to apply pushdown accounting.

Glossary

Acquirer

An entity or individual that obtains control of the acquired entity. However, in a business combination in which a variable interest entity (VIE) is acquired, the primary beneficiary of the acquired entity always is the acquirer.

Business

An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs, or other economic benefits directly to investors or other owners, members, or participants. Additional guidance on what a business consists of is presented in paragraphs 805-10-55-4 through 55-9.

Control

The possession, direct or indirect, of the power to direct or cause the direction of the management and policies of an entity through ownership, by contract, or otherwise.

Pushdown Accounting

The application of a new basis of accounting in an acquired entity's separate financial statements based on the acquirer's basis in the acquired entity as determined under Topic 805.

Recognition

3. An acquired entity that is a business shall have the option to apply pushdown accounting in its separate financial statements when the **acquirer** has obtained **control** of the acquired entity (the acquisition date). An acquirer might obtain control of an acquired entity in a variety of ways, including by transferring cash or other assets, by incurring liabilities, by issuing equity interests, by providing more than one type of consideration, or without transferring consideration including by contract alone as discussed in paragraph 805-10-25-11.

4. The guidance in the General Subsections of Subtopic 810-10 related to determining the existence of a controlling financial interest shall be used to identify the acquirer—the entity or individual that obtains control of the acquiree. If a business combination has occurred but applying that guidance does not clearly indicate which of the combining entities is the acquirer, the factors in paragraphs 805-10-55-11 through 55-15 shall be considered in identifying the acquirer. However, if the acquired entity is a variable interest entity (VIE), the primary beneficiary of that entity always is the acquirer. The determination of which party, if any, is the primary beneficiary of a VIE shall be made in accordance with the guidance in the Variable Interest Entities Subsections of Subtopic 810-10, not by applying either the guidance in the General Subsections of that Subtopic relating to a controlling financial interest or the guidance in paragraphs 805-10-55-11 through 55-15.

5. Pushdown accounting shall be applied as of the **acquisition date**, which is the date on which the acquirer obtains control of the acquired entity.

Initial Recognition and Measurement

6. The acquired entity shall follow the initial recognition and measurement guidance in Topic 805 for its assets, liabilities, and equity instruments, as applicable.

[Staff will draft additional guidance on the issues of bargain purchase gain and acquirer debt based on Task Force decisions]

Subsequent Measurement

7. The acquired entity shall 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 applicable.

Disclosure

8. The acquired entity shall disclose information that enables users of financial statements to evaluate the nature and effect of the pushdown accounting on its financial statements.

9. To meet the disclosure objectives, the acquired entity shall provide the disclosures required in Topic 805 as if the entity were the acquirer.