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# New Developments Summary

## FASB issues guidance on pushdown accounting

**ASU 2014-17 provides option upon change-in-control for all entities**

### Summary

The FASB recently issued ASU 2014-17, *Pushdown Accounting – a consensus of the Emerging Issues Task Force*, making pushdown accounting optional for all entities upon a change-in-control. Pushdown accounting refers to adjusting the measurement basis in an acquiree's financial statements based on the acquirer's application of the guidance in ASC 805, *Business Combinations*.

Previously, the SEC had provided guidance about when an SEC registrant was required or had the option to apply pushdown accounting, but there was limited guidance on pushdown accounting for other entities. The SEC has rescinded that guidance on pushdown accounting concurrent with the issuance of ASU 2014-17.

The guidance in ASU 2014-17 was effective upon issuance on November 18, 2014. All entities now can elect to apply pushdown accounting as of their most recent change-in-control. If an entity elects to apply pushdown accounting as of a change-in-control date that occurred during a reporting period for which the financial statements have been issued or made available for issuance, it should treat the election as a change in accounting principle under ASC 250, *Accounting Changes and Error Corrections*.

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## A. Background

Before the issuance of ASU 2014-17, *Pushdown Accounting – a consensus of the Emerging Issues Task Force*, U.S. GAAP contained limited guidance about when an acquiree should adjust the carrying amounts of its assets and liabilities to those established by the acquirer, a process known as "pushdown accounting." Under SEC Staff Accounting Bulletin (SAB) Topic 5.J, "New Basis of Accounting Required in

Certain Circumstances," an SEC registrant was required to apply pushdown accounting upon becoming substantially wholly owned. The pushdown accounting guidance for non-SEC registrants in U.S. GAAP was limited to addressing certain situations in which pushdown accounting would *not* be required, resulting in diversity in practice.

To address application issues associated with the guidance for SEC registrants as well as the lack of guidance for other entities, the EITF undertook a project to provide guidance on when and how to apply pushdown accounting for all entities. In November 2014 the FASB issued ASU 2014-17 to codify the guidance developed by the Task Force.

## B. When is pushdown accounting permitted?

Under the guidance codified by ASU 2014-17, pushdown accounting is optional for any acquiree in its separate financial statements upon a change-in-control event in which an acquirer obtains control of the acquiree. Loss of control of an entity by another entity or individual does not in and of itself result in a change-in-control event. In other words, another party must *obtain* control for the acquiree to be eligible for pushdown accounting.

In addition, an entity can choose to apply pushdown accounting as of the date of its most recent change-in-control event, but that choice does not need to be made concurrent with or even in the same reporting period as the change-in-control. Also, the decision about whether to apply pushdown accounting for a particular change-in-control event does not establish an accounting policy. An entity could choose to apply pushdown accounting as of one change-in-control event, and choose not to apply pushdown accounting as of a subsequent change-in-control event.

For example, suppose XYZ Company has a change-in-control event on January 1 and decides not to apply pushdown accounting in its March 31 financial statements. For its June 30 financial statements, XYZ can change its previous election and choose to apply pushdown accounting as of the January 1 change-in-control, provided that the application of pushdown accounting is deemed a "preferable" accounting policy, as described in ASC 250-10-45-12. In this example, since XYZ issued its March 31 financial statements without applying pushdown accounting, it would account for the decision to apply pushdown accounting in its June 30 financial statements as a change in accounting principle under ASC 250. If XYZ is an SEC registrant, it would be required to file a preferability letter from its independent accountant with its first applicable filing following the change in accounting principle. Once an entity elects to apply pushdown accounting, that election is irrevocable. Therefore, XYZ cannot change its June 30 election to apply pushdown accounting in a subsequent reporting period.

An acquiree's subsidiary is permitted to apply pushdown accounting upon a change-in-control regardless of whether the acquiree elects to apply pushdown accounting. For example, Entity A acquires Entity B, and Entity B elects not to apply pushdown accounting. Entity B's wholly owned subsidiary, Entity C, could nevertheless elect to apply pushdown accounting in its separate financial statements.

**SEC guidance on pushdown accounting**

Concurrent with the issuance of ASU 2014-17, the SEC rescinded its guidance on pushdown accounting in SAB Topic 5.J. In addition to specifying when pushdown accounting is required, Topic 5.J included guidance on when an acquirer is required to push down acquisition-related debt to the acquiree's financial statements.

Applying this guidance on pushdown accounting was often challenging, in part, because it might require an entity to consider whether it has become substantially wholly owned by a collaborative group (if not by a single acquirer). In addition, the SEC's guidance was inflexible, requiring pushdown accounting if an acquirer obtained at least 95 percent ownership, prohibiting pushdown accounting if less than 80 percent ownership was obtained, and making it optional if between 80 and 95 percent ownership was obtained.

These practice issues contributed to the EITF's decision to simplify and make optional the decision to apply pushdown accounting.

## C. How should pushdown accounting be applied?

To apply pushdown accounting, an acquiree or a subsidiary of the acquiree should adjust the carrying amounts of its assets and liabilities in accordance with the initial measurement guidance in ASC 805, *Business Combinations*. If the acquirer measures the assets and liabilities of the acquiree based on the guidance in ASC 805 and then elects to apply pushdown accounting, the acquiree's measurement basis should match the acquirer's measurement basis for the acquiree's assets and liabilities. If the acquiree experiences a change-in-control in which the acquirer does not apply the initial measurement guidance in ASC 805, then the acquiree, upon electing to apply pushdown accounting, should nevertheless measure its assets and liabilities using the measurement guidance in ASC 805. This might be the case if the acquirer is an individual, an investment company, or an entity that does not prepare financial statements in accordance with U.S. GAAP.

An acquiree that applies pushdown accounting should reflect goodwill that results from applying the measurement guidance in ASC 805, but should not recognize a bargain purchase gain as a component of its net income. Rather, a bargain purchase gain should be recognized by the acquiree as a component of additional paid-in capital.

Upon applying pushdown accounting, an acquiree should recognize acquisition-related debt on its statement of financial position only if it is required to do so under other guidance in U.S. GAAP, such as the guidance on joint and several liabilities in ASC 405-40, *Liabilities: Obligations Resulting from Joint and Several Liability Arrangements*. This guidance represents a change from the extant guidance in SAB Topic 5.J., which established criteria for recognizing acquisition-related debt in the acquiree's financial statements.

After applying pushdown accounting, an entity should follow the subsequent measurement guidance in ASC 805.

## D. What disclosures are required?

An entity that applies pushdown accounting must disclose sufficient information in the period when pushdown accounting is applied to enable financial statement users to evaluate the effect of applying pushdown accounting. To satisfy this objective, an entity should consider disclosing the information required under ASC 805, including the following items:

- The name and a description of the acquirer and a description of how it obtained control of the acquiree
- The acquisition date

- The acquisition-date fair value of the consideration transferred by the acquirer
- Amounts recognized by the acquiree at the acquisition date by major class of assets and liabilities as a result of applying pushdown accounting
- A qualitative description of the factors that comprise the goodwill recognized, such as expected synergies, or the amount of the bargain purchase gain recognized in additional paid-in capital and the reasons why the transaction resulted in a gain
- Information to evaluate the effects of adjustments recognized in the current reporting period related to applying pushdown accounting that occurred in the current or previous reporting period(s)

## E. Transition and effective date

The guidance in ASU 2014-17 became effective upon issuance on November 18, 2014.

An entity is permitted to elect pushdown accounting as of the acquisition date of its most recent change in control. An entity should treat the election as a change in accounting principle under ASC 250 if (1) it chooses to apply pushdown accounting as of an acquisition date occurring prior to November 18, 2014, and (2) its financial statements for the period including the acquisition date have been issued or made available for issuance.

If an entity elected to apply pushdown accounting before the effective date of the guidance in ASU 2014-17, that decision is irrevocable.

**Transitioning to the new guidance**

**Example 1**

Entity A acquires Entity B on October 15, 2014. Entity B, an SEC registrant, will issue stand-alone financial statements for its fiscal year ended December 31, 2014. Under SAB Topic 5.J, Entity B was required to apply pushdown accounting in connection with its acquisition by Entity A. Entity B can elect *not* to apply pushdown accounting in its December 31, 2014 financial statements.

**Example 2**

Entity C acquires Entity D on September 15, 2014. Entity D, an SEC registrant, applied pushdown accounting in its stand-alone financial statements for the quarter-ended September 30, 2014. Entity D must continue to apply pushdown accounting in its stand-alone financial statements for its fiscal year ended December 31, 2014.

**Example 3**

Entity E acquires Entity F on September 15, 2014. Entity F, an SEC registrant, was not permitted to apply pushdown accounting in its stand-alone financial statements for the quarter-ended September 30, 2014, which were issued before November 18, 2014. If it determines that applying pushdown accounting is a preferable accounting principle, Entity F can elect to apply pushdown accounting as of September 15, 2014 in its stand-alone financial statements for its fiscal year ended December 31, 2014. Entity F should treat this election as a change in accounting principle, subject to the guidance in ASC 250, and is required to file a preferability

letter from its independent accountant in its first applicable filing following the change in accounting principle.

**Example 4**

Entity G acquires Entity H on December 1, 2013. Entity H, a private company, did not apply pushdown accounting in its stand-alone financial statements for its fiscal year ended December 31, 2013, which were available for issuance before November 18, 2014. If it determines that applying pushdown accounting is a preferable accounting principle, Entity H can elect to apply pushdown accounting as of December 1, 2013 in its stand-alone financial statements for its fiscal year ended December 31, 2014. Entity H would treat this election as a change in accounting principle, subject to the guidance in ASC 250.

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