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AN ALERT FROM THE BDO NATIONAL ASSURANCE PRACTICE

BDO FLASH REPORT
FASB

SUBJECT:
FASB ISSUES ASU ON PUSHDOWN ACCOUNTING

SUMMARY:
The FASB recently issued a new ASU allowing a reporting entity to apply pushdown accounting in its standalone financial statements when an acquirer obtains control of the reporting entity. The option is available to both public and private companies. If elected, the reporting entity would adjust its standalone financial statements to reflect the acquirer's new basis in the acquired entity's assets and liabilities, and would provide relevant disclosures under the business combinations literature in Topic 805. The option to apply pushdown accounting takes effect immediately. The standard is available here.

MAIN PROVISIONS:
The ASU[1] amends Topic 805[2] so that a reporting entity that is a business or nonprofit activity (an "acquiree") has the option to apply pushdown accounting to its separate financial statements when an acquirer obtains control of the acquiree. The option is available for each individual change-in-control event. Control has the same meaning as a "controlling financial interest" under Topic 810, such that pushdown accounting may be applied if an acquirer obtains control through a simple majority of the outstanding voting shares of the acquiree (e.g., 51%). Similarly, a Variable Interest Entity (VIE) is considered an "acquiree" of its primary beneficiary and may also elect pushdown accounting.

As a companion to the new ASU, the SEC staff issued Staff Accounting Bulletin No. 115 to rescind its legacy pushdown guidance for SEC registrants in Topic 5.J.[3] Consequently, SEC registrants are not required to apply pushdown accounting in any circumstance, even when the change of control is greater than 95% of the outstanding equity. In addition, the "collaborative group"

[1] *Pushdown Accounting*

[2] Business Combinations

[3] New Basis of Accounting Required in Certain Circumstances. An additional ASU is expected shortly to rescind other related SEC staff guidance on pushdown accounting in ASC 805-50-S99-1 and S99-2.

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concept no longer applies, under which two or more investors' holdings in an acquiree may have been aggregated under Topic 5.J to evaluate pushdown accounting in the past.

If the acquiree elects to apply pushdown accounting, it must do so as of the acquisition date of the change-in-control event. Further, any subsidiary of the acquiree may elect to apply pushdown accounting to its separate financial statements, regardless of whether the acquiree elects to apply pushdown accounting. For example, assume A acquires B, including B's wholly-owned subsidiary C. In that scenario, C may elect pushdown accounting even if B does not, assuming C is also a business or nonprofit activity.

Upon the election to apply pushdown accounting, an acquiree must prepare its separate financial statements using the acquirer's new basis of accounting under Topic 805. This is true even if the acquirer is not required to apply Topic 805, for example, if the acquirer is an individual or an investment company under Topic 946.[4] Goodwill is recognized in pushdown accounting, however bargain purchase gains are not. Instead, a bargain purchase gain recognized by an acquirer would be recorded as an adjustment to additional paid-in-capital of the acquiree. Additionally, any acquisition-related liability incurred by the acquirer (e.g., debt) would only be recognized if it represents and obligation of the acquiree.

Deferred income taxes would also be recognized and measured consistent with the requirements of Subtopic 805-740 and related provisions in ASC 740.

The ASU requires disclosures under Topic 805, as applicable, when pushdown accounting is elected to enable users to evaluate the effect of pushdown accounting. There are no new disclosure requirements for acquirees that do not elect pushdown accounting.

▶SCOPE, EFFECTIVE DATE AND TRANSITION:

ASU 2014-17 applies to all entities and became effective upon issuance on November 18, 2014.

After the effective date, an acquired entity can make an election to apply the guidance to future change-in-control events or to its most recent change-in-control event. However, if the financial statements for the period in which the most recent change-in-control event occurred already have been issued or made available to be issued, the application of this guidance would be considered a change in accounting principle. That is, applying pushdown accounting to the most recent change-in-control transaction would be permitted if it is considered preferable under Topic 250.[5] A change in accounting principle is applied retrospectively, unless it is impracticable to do so. The tax effects of adjustments to the opening balance of retained earnings from a change in accounting principle would also be recognized in the opening balance of retained earnings.[6] Prior decisions to apply pushdown accounting may not be reversed.

[4] Financial Services—Investment Companies

[5] Accounting Changes and Error Corrections

[6] 740-20-45-11(a)