Navigating FASB's New Pushdown Rules for Acquired Entities
Evaluating Whether and How to Adopt Pushdown Accounting on Subsidiary Financial Statements

THURSDAY, APRIL 23, 2015, 1:00-2:50 pm Eastern

IMPORTANT INFORMATION

This program is approved for 2 CPE credit hours. To earn credit you must:

• Participate in the program on your own computer connection (no sharing) - if you need to register additional people, please call customer service at 1-800-926-7926 x10 (or 404-881-1141 x10). Strafford accepts American Express, Visa, MasterCard, Discover.

• Listen on-line via your computer speakers.

• Record verification codes presented throughout the seminar. If you have not printed out the “Official Record of Attendance”, please print it now. (see “Handouts” tab in “Conference Materials” box on left-hand side of your computer screen). To earn Continuing Education credits, you must write down the verification codes in the corresponding spaces found on the Official Record of Attendance form.

• Complete and submit the “Official Record of Attendance for Continuing Education Credits,” which is available on the program page along with the presentation materials. Instructions on how to return it are included on the form.

• To earn full credit, you must remain connected for the entire program.

WHOM TO CONTACT

For Additional Registrations:
-Call Strafford Customer Service 1-800-926-7926 x10 (or 404-881-1141 x10)

For Assistance During the Program:
-On the web, use the chat box at the bottom left of the screen

If you get disconnected during the program, you can simply log in using your original instructions and PIN.
Tips for Optimal Quality

**Sound Quality**
When listening via your computer speakers, please note that the quality of your sound will vary depending on the speed and quality of your internet connection.

If the sound quality is not satisfactory, please e-mail sound@straffordpub.com immediately so we can address the problem.

**Viewing Quality**
To maximize your screen, press the F11 key on your keyboard. To exit full screen, press the F11 key again.
Program Materials

If you have not printed the conference materials for this program, please complete the following steps:

• Click on the ^ symbol next to “Conference Materials” in the middle of the left-hand column on your screen.
• Click on the tab labeled “Handouts” that appears, and there you will see a PDF of the slides and the Official Record of Attendance for today's program.
• Double-click on the PDF and a separate page will open.
• Print the slides by clicking on the printer icon.
Navigating FASB's New Pushdown Rules for Acquired Entities

April 23, 2015

David A. Augustyn
KPMG
daugustyn@kpmg.com

Christopher Pisciotta
PricewaterhouseCoopers
christopher.g.pisciotta@us.pwc.com
Notice

ANY TAX ADVICE IN THIS COMMUNICATION IS NOT INTENDED OR WRITTEN BY THE SPEAKERS’ FIRMS TO BE USED, AND CANNOT BE USED, BY A CLIENT OR ANY OTHER PERSON OR ENTITY FOR THE PURPOSE OF (i) AVOIDING PENALTIES THAT MAY BE IMPOSED ON ANY TAXPAYER OR (ii) PROMOTING, MARKETING OR RECOMMENDING TO ANOTHER PARTY ANY MATTERS ADDRESSED HEREIN.

You (and your employees, representatives, or agents) may disclose to any and all persons, without limitation, the tax treatment or tax structure, or both, of any transaction described in the associated materials we provide to you, including, but not limited to, any tax opinions, memoranda, or other tax analyses contained in those materials.

The information contained herein is of a general nature and based on authorities that are subject to change. Applicability of the information to specific situations should be determined through consultation with your tax adviser.
Navigating FASB’s New Pushdown Rules for Acquired Entities

Pushdown Accounting
April 23, 2015

David Augustyn, KPMG & Christopher Pisciotta, PwC
Agenda

- Threshold for adopting pushdown accounting
- Measurement and disclosure of adoption of pushdown accounting
- Basis adjustments if acquirer does not adopt ASC Topic 805
- Application of new standard and financial statement presentation
- Pushdown treatment of acquisition-related goodwill, debt and costs
- Subsequent adoption of pushdown and change in accounting method application
- Other
- Question & Answer
Pushdown accounting is adjusting the financial statements of an acquired entity (the “acquiree”) to reflect the accounting basis of the acquirer.

New basis is typically the fair value of the identifiable assets acquired and liabilities assumed.

Previously, under U.S. GAAP there was limited guidance for determining when, if ever, pushdown accounting should be applied.

The SEC provided guidance applicable for SEC registrants, most of which has been rescinded.
I. Threshold for adopting pushdown accounting

Effective Date and Transition

The new standard may be applied to change-in-control events occurring:

- On or after November 18, 2014; or

- Before November 18, 2014 if financial statements for the period of the change-in-control event have not been issued or available to be issued.
New pushdown guidance

What you need to know

• Pushdown accounting optional upon a change in control
• No circumstances would require or preclude pushdown accounting
• Each change-in-control event considered separately (not an accounting policy)
• When pushdown is elected it is irrevocable
• Pushdown can be elected in a subsequent period as a change in accounting policy

Addresses the scope and threshold for applying pushdown accounting in a subsidiary’s financial statements.

Provides guidance for both public and private companies.
## Prior vs. new guidance

### Public companies
- **Required** > 95% of ownership
- **Optional** between 80% and 95% of ownership
- **Prohibited** < 80% of ownership

### Private companies
- Not required
- Analogize to SEC staff guidance (SAB Topic 5J)

### New guidance (US GAAP)
- Optional at change in control
  - >51% for voting interest entities, or
  - Change in primary beneficiary for variable interest entities
- Same as public companies

---

**I. Threshold for adopting pushdown accounting**
Recognition

An acquired entity has the option to apply pushdown accounting upon being acquired by a new controlling parent.

An acquirer might obtain control in a number of ways including:

- Transferring cash or other assets;
- Incurring liabilities;
- Issuing equity interests;
- Providing more than one type of consideration; and
- Without transferring consideration, including by contract alone as discussed in ASC Topic 805.

Acquired entity may make the election to apply pushdown each time it is acquired by a new controlling parent.
Recognition (cont.)

Each subsidiary of an acquired parent also has the option to apply pushdown accounting, irrespective of the election of the acquired parent.

~Differing elections made by acquired subsidiaries may cause additional accounting complexities.
Example

- Assume Purchase Co. acquires 70% of the voting stock of Little Co. from an unrelated third-party for consideration equal to $50 million and the acquisition results in the generation of goodwill (Little Co.’s fair value is $72 million).

- Little Co.’s book equity was $10 million prior to the acquisition and Little Co. will continue to issue separate stand-alone financial statements following the acquisition.

- If pushdown accounting is applied upon the change of control, Little Co. would establish a new basis for its net assets and liabilities within its own separate standalone financial statements at $72 million.
Initial and Subsequent Measurement

The new basis recognized by the acquired entity should be consistent with the acquirer’s basis after the application of ASC Topic 805.

The standard also provides specific guidance on how to treat:

- Acquisition-related goodwill
- Bargain purchase gains
- Acquisition-related debt

Transaction costs incurred by the acquirer are not part of the new basis of the acquired entity.

If pushdown accounting is applied, the acquired entity would follow the subsequent measurement guidance in ASC Topic 805 and other applicable topics.
II. Measurement and disclosure of adoption of pushdown accounting

Disclosure

- If pushdown accounting is applied, acquiree must disclose sufficient information to enable financial statement users to evaluate the effect of applying pushdown accounting.

- Consider disclosure requirements in other subtopics of Topic 805.

- Acquiree is not required to disclosure any information about its decision not to apply pushdown accounting.

As a minimum (not all-inclusive):

  Name and a description of the acquirer and how acquirer obtained control

  Acquisition date

  Acquisition-date fair value of the total consideration transferred by the acquirer

  Amounts recognized for each major class of assets and liabilities as a result of applying pushdown accounting

  Qualitative description of the factors that make up the goodwill recognized, intangibles that do not qualify for separate recognition, or other factors

  Information to evaluate the financial effects of adjustments to current reporting period relative to pushdown accounting that occurred in the current or previous reporting periods
III. Basis adjustments if acquirer does not adopt ASC Topic 805

If acquirer does not apply ASC Topic 805 for the assets and liabilities of the acquiree (e.g. if the acquirer is an individual or an investment company)

Acquiree may still elect pushdown accounting by applying the new basis in its separate financial statements (as if ASC Topic 805 had been applied)
Slide Intentionally Left Blank
**IV. Application of new standard and financial statement presentation**

**Presentation**

Pushdown accounting represents a termination of one basis of accounting and creation of a new basis.

A line generally separates the periods prior to and subsequent to the date pushdown accounting is applied.

The following illustrates the format of columns for acquiree’s statement of income assuming April 1st acquisition date.

<table>
<thead>
<tr>
<th>Successor</th>
<th>Predecessor</th>
<th>Predecessor</th>
</tr>
</thead>
<tbody>
<tr>
<td>April 1 – Dec 31, 20X5</td>
<td>Jan 1 - March 31, 20X5</td>
<td>20X4</td>
</tr>
<tr>
<td>Net income (loss) $XX</td>
<td>$XX</td>
<td>$XX</td>
</tr>
</tbody>
</table>
V. Pushdown treatment of acquisition-related goodwill, debt and costs

**Acquisition-Related Goodwill**

- If pushdown accounting is applied, all goodwill related to the acquisition is pushed down to the acquiree’s separate financial statements

**Practical considerations:**

- Impairments at a subsidiary
- Assignment of goodwill to reporting units
- Private company alternatives
V. Pushdown treatment of acquisition-related goodwill, debt and costs

**Acquisition-Related Debt**

- Acquisition-related liabilities incurred by acquirer are recognized by the acquiree if it is required to do so under other U.S. GAAP.
- The SEC’s previous guidance about when the acquiring entity’s debt, interest expense and debt issuance costs should be pushed down to the acquiree was rescinded.

Practical considerations:

- Debt not pushed down
- Pushdown not applied
- Pledged assets
### V. Pushdown treatment of acquisition-related goodwill, debt and costs

<table>
<thead>
<tr>
<th>Issue</th>
<th>Consideration</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Acquisition Costs of the Acquirer</strong></td>
<td>Not part of the new basis of the entity and is not pushed down</td>
</tr>
</tbody>
</table>
| **Contingent Consideration**              | - Under ASC Topic 805, the acquirer recognizes fair value of the contingent consideration issued by acquirer  
                                           - Consider which entity is legally obligated to pay                                        |
VI. Subsequent adoption of pushdown and change in accounting method application

**Pushdown elected in subsequent period**

- Demonstrate preferability
- Pushdown as of most recent change-in-control date
  - Retrospectively determine fair value of assets and liabilities
- Roll-forward accounting
  - Depreciation and amortization
  - Goodwill impairment testing
  - Long-lived and indefinite-lived asset impairment testing
VI. Subsequent adoption of pushdown and change in accounting method application

To pushdown or not to pushdown?

- Consider user needs
  - Stepped-up basis vs. historical cost
- Operational efficiencies
  - One set of books vs. two
- Tax considerations
- Regulatory requirements
VI. Subsequent adoption of pushdown and change in accounting method application

Forgoing the Election to Apply Pushdown Accounting

Be aware of practical challenges:

• Maintaining 2 sets of records

• Impairment analyses

• Depreciation and amortization tracking

• Tax balances

• Gains/losses on sales of assets
VII. Other

New standard does not change other US GAAP

- FIRST – Identify accounting acquirer
- Common control transactions
- Expenses incurred by a parent on behalf of a subsidiary
- Foreign entity translation
- Tax basis of acquired company
Identify accounting acquirer

Before

Seller

Target

Parent

NewCo.

Shares in Target

Cash

After

Parent

NewCo.

Target
Common control transaction

**Before**

Parent

- Sub. A
- Sub. B

**After**

Parent

- Sub. A
- Sub. B

VII. Other
Question and Answer Session
Thank you for joining us

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.