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# To the Point

**FASB — final guidance**

# FASB makes pushdown accounting optional

Pushdown accounting is permitted when an acquirer obtains control of an acquiree.

## What you need to know

- The FASB issued final guidance that allows all acquired entities to choose to apply pushdown accounting (i.e., reflect the acquirer's basis of accounting for the acquired entity's assets and liabilities) when an acquirer obtains control of them.
- The SEC staff responded by rescinding its guidance on pushdown accounting, meaning SEC registrants and non-registrants will now follow the new US GAAP guidance.
- The new guidance is effective immediately.

## Overview

The Financial Accounting Standards Board (FASB or Board) issued final guidance that gives acquired entities that are businesses or nonprofit activities the option to apply pushdown accounting in their separate financial statements when an acquirer obtains control of them.

In pushdown accounting, an acquired entity's separate financial statements reflect the acquirer's new basis of accounting for the acquiree's assets and liabilities. The guidance also allows any subsidiary of an acquired entity to apply pushdown accounting to its separate financial statements, regardless of whether the acquired entity elects to apply pushdown accounting.

The Securities and Exchange Commission (SEC) staff, as expected, responded by rescinding its guidance on pushdown accounting,[1] which had required registrants to apply pushdown accounting in certain circumstances. As a result, the new US GAAP guidance will apply to both SEC registrants and non-registrants. The FASB noted that, until now, US GAAP has offered limited guidance on the topic and that there has been diversity in practice among entities that aren't SEC registrants.

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## Key considerations

The FASB guidance will significantly change practice for SEC registrants. The now-rescinded SEC staff guidance required them to apply pushdown accounting in certain circumstances, made it optional in other circumstances and prohibited it in still other circumstances.

The new US GAAP guidance was developed by the Emerging Issues Task Force (EITF), which acknowledged during deliberations that making pushdown accounting optional may reduce comparability between entities' financial statements. The EITF nevertheless decided to make the guidance optional to allow entities to make a choice based on their facts and circumstances, including the needs of the users of their financial statements. In doing so, the EITF noted that comparisons have long been difficult because SEC registrants in certain circumstances have had the option to apply pushdown accounting.

Users of an acquired entity's financial statements may find pushdown accounting useful because the acquired entity's financial statements would reflect the fair value of the entity's assets and liabilities established by the acquirer.

### When pushdown accounting can be applied

The final guidance gives all acquirees the option of applying pushdown accounting in their separate financial statements when an acquirer obtains control of them. An acquired entity can elect to apply pushdown accounting upon each event in which an acquirer obtains control of it.

The SEC staff rescinded its guidance on pushdown accounting.

If the acquiree elects not to apply pushdown accounting at the time an acquirer obtains control of it, the acquiree can later elect to apply pushdown accounting retrospectively to the most recent event in which an acquirer obtained control of the acquiree. Such an election will be treated as a change in accounting principle in accordance with Accounting Standards Codification (ASC) 250.[2] In reaching this decision, the EITF concluded that if the acquiree's circumstances change (e.g., if there is a significant change in the investor mix that would make pushdown accounting more relevant to current investors), the acquiree should not be prohibited from applying pushdown accounting to the most recent event in which an acquirer obtained control of the acquiree. Once an entity elects to apply pushdown accounting, its decision is irrevocable.

The EITF concluded that a threshold of obtaining control is the most appropriate trigger for applying pushdown accounting because it is consistent with the thresholds of obtaining control in ASC 810[3] and ASC 805.[4]

The new US GAAP requirements also will be simpler for registrants to apply than the now-rescinded SEC staff guidance, which required pushdown accounting for stakes of 95% or more, encouraged pushdown accounting for stakes between 80% and 95% and prohibited it for stakes of less than 80%. Registrants were also required to consider whether they had been acquired by investors acting as a collaborative group.

### How we see it

Other than the effect of removing the SEC collaborative group guidance, we believe this lower threshold would generally increase the number of instances in which an acquiree is eligible to apply pushdown accounting.

### Recognition, measurement and disclosure

An acquiree that elects to apply pushdown accounting will reflect the new basis of accounting established by the acquirer through its application of ASC 805 to the individual assets and liabilities of the acquiree. If an acquiree is acquired by an acquirer that does not apply ASC 805 (e.g., an investment company that accounts for the acquiree at fair value), and the acquiree elects to apply pushdown accounting, the acquiree will reflect in its financial statements the new basis that would have been hypothetically established if the acquirer had applied ASC 805.

If applying ASC 805 (whether by the acquirer or hypothetically by the acquiree) would result in a bargain gain, the guidance precludes the acquiree from recognizing the gain in its income statement. Instead, the acquiree will recognize any such gain as an adjustment to additional paid-in capital (or net assets of a not-for-profit acquiree).

Further, the guidance clarifies that any acquisition-related liability incurred by the acquirer is recognized in the acquiree's separate financial statements only if it represents an obligation of the acquiree, and it must be recognized in accordance with other applicable GAAP (e.g., joint and several liability arrangement under ASC 405-40[5]). This may result in a change from the now-rescinded SEC staff guidance that required SEC registrants to reflect debt incurred by the acquirer to finance the acquisition of substantially all of the common stock of the acquiree in the acquiree's separate financial statements in certain circumstances.

The guidance requires the acquiree to subsequently measure its assets and liabilities in accordance with ASC 805-10-35-1 or other applicable GAAP.

An acquiree that elects to apply pushdown accounting is required to provide certain disclosures similar to those required by the acquirer in ASC 805. In a change from the proposal, the final guidance does not require an acquiree to disclose that it did not elect to apply pushdown accounting when an acquirer obtained control of it.

### How we see it

The requirement to hypothetically apply ASC 805 in instances in which it was not applied by the acquirer but pushdown accounting has been elected by the acquiree promotes consistency in the application of pushdown accounting.

## Transition

The guidance is effective immediately. Acquired entities may elect to apply it to any future transaction or to their most recent event in which an acquirer obtains or obtained control of them. However, if the financial statements for the period encompassing the most recent event in which an acquirer obtained control of the acquired entity have already been issued or made available to be issued, the application of pushdown accounting will be accounted for retrospectively as a change in accounting principle.

**Endnotes:**

1 While the SEC staff rescinded SAB Topic 5.J, *New Basis of Accounting Required in Certain Circumstances*, that guidance and the guidance formerly in EITF D-97, *Push-Down Accounting,* remain in paragraphs ASC 805-50-S99-1 through S99-2. The SEC staff is expected to instruct the FASB to delete these paragraphs.

2 ASC 250, *Accounting Changes and Error Corrections*.

3 ASC 810, *Consolidation*.

4 ASC 805, *Business Combinations*.

5 ASC 405-40, *Obligations Resulting from Joint and Several Liability Arrangements*.