# ASU 2015-08: Eliminating Superseded SEC Guidance On Pushdown Accounting

By: **Ken Brackney, Ph.D.**

**Abstract**

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-08, Pushdown Accounting: Amendments to SEC Paragraphs Pursuant to Staff Accounting Bulletin No. 115, in May 2015. ASU 2015-08 finalizes certain changes to the Accounting Standards Codification (ASC) triggered initially by the FASB's issuance of ASU 2014-17, Pushdown Accounting, in November 2014. The FASB issued ASU 2014-17 to establish common guidance on pushdown accounting for both public and nonpublic entities.

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# ASU 2015-08: Eliminating Superseded SEC Guidance on Pushdown Accounting

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The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-08, *Pushdown Accounting: Amendments to SEC Paragraphs Pursuant to Staff Accounting Bulletin No. 115*, in May 2015. ASU 2015-08 finalizes certain changes to the Accounting Standards Codification (ASC) triggered initially by the FASB's issuance of ASU 2014-17, *Pushdown Accounting*, in November 2014. The FASB issued ASU 2014-17 to establish common guidance on pushdown accounting for both public and nonpublic entities. For more on ASU 2014-17, see the blog titled "ASU 2014-17: Pushdown Accounting," posted in February 2015.

The prior guidance on pushdown accounting came from the Securities and Exchange Commission (SEC). Thus, it applied to public entities only. ASU 2014-17 modified the existing SEC guidance for public entities. In addition, it established guidance for nonpublic entities, the same as the new guidance for public entities. ASU 2014-17 took effect upon issuance, November 18, 2014.

Concurrent with the issuance of ASU 2014-17, the SEC released Staff Accounting Bulletin (SAB) 115 to eliminate the existing guidance (Codification of SABs, Topic 5.J) in favor of the new ASU. Of course, the GAAP Codification incorporates guidance from the SEC for public entities. These sections are denoted with an "S" (e.g., ASC 805-50-**S25**-1). ASU 2014-17 did not delete the prior guidance, applicable to SEC filers, from the Codification. With the SEC's release of SAB 115, ASU 2015-08 follows up to remove this superseded guidance. ASU 2015-08 deletes a total of eight paragraphs in ASC 805-50 applicable to SEC filers.

The Codification now aligns with the SEC's removal of guidance accomplished by its 2014 release of SAB 115. ASU 2015-08 does not change any aspects of the new pushdown accounting guidelines for pubic and nonpublic entities established by ASU 2014-17. Rather, it simply updates the Codification for a related SEC action.

Pushdown accounting refers to an acquiring company "pushing down" its new basis of accounting for the acquiree's assets and liabilities to the acquiree's books and separately issued financial statements. The resulting changes in the acquiree's assets and liabilities impact its equity too, through a net debit or credit adjustment to the Additional Paid-In Capital account.

The <u>prior</u> guidance for SEC filers was stated in Topic 5.J – *New Basis of Accounting Required in Certain Circumstances*. That guidance tied a subsidiary's application of pushdown accounting to the parent company's ownership percentage, as follows:

| **<u>Superseded</u> Guidance for Public Entities** | |
|---|---|
| **Parent's Ownership Percentage** | **Application of Pushdown Accounting** |
| 95.0 – 100.0% | Required |
| 80.0 – 94.9% | Permitted |
| 0.0 – 79.9% | Not permitted |

The presence of other financial interests in the subsidiary could raise a doubt about the appropriateness of the subsidiary applying pushdown accounting. ASU 2014-17 mentioned a few examples of other financial interests, including non-controlling interests, preferred stock and public debt (¶BC2). The prior guidance used a concept of *substantially wholly owned*, a super-control threshold (95% or 80%). The now-superseded guidance attempted to limit the potential for a stakeholder of the acquiree to be harmed by the acquiree's adoption of a new basis of accounting. In the dissenting views to ASU 2014-17, two Board members cited reasons for why a stakeholder might be harmed. The acquiree could recognize assets for which other financial interests do not have a claim (e.g., goodwill). Also, the other financial interests could be harmed through a disruption in the acquiree's time-series data.

With the FASB's issuance of several standards in recent years emphasizing the significance of control and loss of control, GAAP now draws a clear distinction between a controlling interest in a voting-interest entity (> 50%) and an ownership level that falls short of establishing control. The 95% and 80% benchmarks used in the prior guidance for public entities are no longer viewed as having meaningful economic implications (see ASU 2014-17 ¶¶BC12-BC13).

Briefly, the <u>new</u> guidance (ASU 2014-17 and SAB 115) ties the threshold for applying pushdown accounting to acquiring a controlling interest, as follows:

| **New Guidance for Public and Nonpublic Entities** | |
|---|---|
| **Parent's Ownership Percentage** | **Application of Pushdown Accounting** |
| > 50% | Permitted |
| ≤ 50% | Not permitted |

Upon being acquired, an acquiree *may elect* to apply pushdown accounting. ASU 2014-17 offers quite a bit of flexibility as the acquiree *may defer* a decision to adopt pushdown accounting until a subsequent reporting year. For more information on ASU 2014-17, see the February 2015 blog on this standard.

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