Statement of Financial Accounting Standards No. 147

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FAS147 Summary

Acquisitions of Certain Financial Institutions

an amendment of FASB Statements No. 72 and 144 and FASB Interpretation No. 9

October 2002

Financial Accounting Standards Board
of the Financial Accounting Foundation
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Statement of Financial Accounting Standards No. 147

Acquisitions of Certain Financial Institutions

an amendment of FASB Statements No. 72 and 144 and FASB Interpretation No. 9

October 2002

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FAS 147: Acquisitions of Certain Financial Institutions

an amendment of FASB Statements No. 72 and 144 and FASB Interpretation No. 9

FAS 147 Summary

FASB Statement No. 72, *Accounting for Certain Acquisitions of Banking or Thrift Institutions,* and FASB Interpretation No. 9, *Applying APB Opinions No. 16 and 17 When a Savings and Loan Association or a Similar Institution Is Acquired in a Business Combination Accounted for by the Purchase Method,* provided interpretive guidance on the application of the purchase method to acquisitions of financial institutions. Except for transactions between two or more mutual enterprises, this Statement removes acquisitions of financial institutions from the scope of both Statement 72 and Interpretation 9 and requires that those transactions be accounted for in accordance with FASB Statements No. 141, *Business Combinations,* and No. 142, *Goodwill and Other Intangible Assets.* Thus, the requirement in paragraph 5 of Statement 72 to recognize (and subsequently amortize) any excess of the fair value of liabilities assumed over the fair value of tangible and identifiable intangible assets acquired as an unidentifiable intangible asset no longer applies to acquisitions within the scope of this Statement. In addition, this Statement amends FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* to include in its scope long-term customer-relationship intangible assets of financial institutions such as depositor- and borrower-relationship intangible assets and credit cardholder intangible assets. Consequently, those intangible assets are subject to the same undiscounted cash flow recoverability test and impairment loss recognition and measurement provisions that Statement 144 requires for other long-lived assets that are held and used.

Scope of This Statement

The provisions of this Statement that relate to the application of the purchase method of accounting apply to all acquisitions of financial institutions, except transactions between two or more mutual enterprises. The provisions of this Statement that relate to the application of Statement 144 apply to certain long-term customer-relationship intangible assets recognized in an acquisition of a financial institution, including those acquired in transactions between mutual enterprises.

Reasons for Issuing This Statement

Following the issuance of Statements 141 and 142, constituents asked the Board to reconsider the need for the guidance in Statement 72 and Interpretation 9; in particular, the special accounting for the unidentifiable intangible asset recognized under paragraph 5 of Statement 72. In developing this Statement, the Board concluded that the guidance in Statement 72 and Interpretation 9 is no longer necessary because:

a. For a transaction that is a business combination, the unidentifiable intangible asset that is required to be recognized under paragraph 5 of Statement 72 represents goodwill that should be accounted for under Statement 142.
b. Statement 141 provides sufficient guidance for assigning amounts to assets acquired and liabilities assumed; therefore, the specialized industry guidance in Interpretation 9 and paragraph 4 of Statement 72 is no longer necessary.

In addition, constituents asked the Board to clarify whether the acquisition of a less-than-whole financial institution (often referred to as a branch acquisition) should be accounted for as a business combination or in some other manner. This Statement clarifies that a branch acquisition that meets the definition of a business should be accounted for as a business combination, otherwise the transaction should be accounted for as an acquisition of net assets that does not result in the recognition of goodwill.

How the Changes in This Statement Improve Financial Reporting

The industry-specific guidance in Statement 72 will no longer apply to transactions in the scope of this Statement. Therefore, comparability of financial reporting will improve because Statement 141 will be used to account for financial institution acquisitions except transactions between mutual enterprises.

The Effective Date of This Statement

Paragraph 5 of this Statement, which relates to the application of the purchase method of accounting, is effective for acquisitions for which the date of acquisition is on or after October 1, 2002. The provisions in paragraph 6 related to accounting for the impairment or disposal of certain long-term customer-relationship intangible assets are effective on October 1, 2002. Transition provisions for previously recognized unidentifiable intangible assets in paragraphs 8–14 are effective on October 1, 2002, with earlier application permitted.

INTRODUCTION

1. This Statement addresses the financial accounting and reporting for the acquisition of all or

part of a financial institution, [1] except for a transaction between two or more **mutual enterprises**. [2] This Statement removes acquisitions of financial institutions, other than transactions between two or more mutual enterprises, from the scope of FASB Statement No. 72, *Accounting for Certain Acquisitions of Banking or Thrift Institutions,* and FASB Interpretation No. 9, *Applying APB Opinions No. 16 and 17 When a Savings and Loan Association or a Similar Institution Is Acquired in a Business Combination Accounted for by the Purchase Method.* This Statement also provides guidance on the accounting for the impairment or disposal of acquired long-term customer-relationship intangible assets (such as depositor- and borrower-relationship intangible assets and credit cardholder intangible assets), including those acquired in transactions between two or more mutual enterprises.

2. The provisions of Statement 72, as amended by this Statement, and those of Interpretation 9 continue to apply to transactions between financial institutions that are mutual enterprises. The Board intends to provide guidance on the accounting and reporting for those transactions in a separate Statement, and that Statement may further amend or rescind Statement 72 and Interpretation 9.

3. Appendix A to this Statement provides background information and the basis for the Board's conclusions. Appendix B lists other pronouncements that are amended by this Statement. Appendix C provides a glossary of terms as used in this Statement.

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

Scope

4. Paragraph 5 of this Statement applies to the acquisition of all or part [3] of a financial institution, except for a transaction between two or more mutual enterprises. Paragraph 6 of this Statement applies to certain long-term customer-relationship intangible assets recognized in an acquisition of a financial institution, including a transaction between mutual enterprises.

Method of Accounting

5. Statement 72 and Interpretation 9 shall not apply to acquisitions in the scope of this Statement. The acquisition of all or part of a financial institution that meets the definition of a business combination shall be accounted for by the purchase method in accordance with FASB Statement No. 141, *Business Combinations*. If the acquisition is not a business combination [4] because the transferred net assets and activities do not constitute a business, [5] that transaction shall be accounted for in accordance with paragraphs 4–8 of Statement 141. As discussed in

paragraph 9 of FASB Statement No. 142, *Goodwill and Other Intangible Assets,* such transactions do not give rise to **goodwill.**

Impairment and Disposal Accounting for Certain Acquired Long-Term Customer-Relationship Intangible Assets

6. The provisions of FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* apply to long-term customer-relationship intangible assets, except for servicing assets, [6] recognized in the acquisition of a financial institution.

Effective Date

7. The provisions in paragraph 5 of this Statement shall be effective for acquisitions for which the date of acquisition [7] is on or after October 1, 2002. The provisions in paragraph 6 shall be effective on October 1, 2002. Transition provisions for previously recognized **unidentifiable intangible assets** in paragraphs 8–14 are effective on October 1, 2002, with earlier application permitted.

Transition

Previously Recognized Unidentifiable Intangible Assets

8. The carrying amount of an unidentifiable intangible asset shall continue to be amortized as set forth in paragraph 5 of Statement 72 after October 1, 2002, unless the transaction in which that asset arose was a business combination.

9. If the transaction that gave rise to the unidentifiable intangible asset was a business combination, the carrying amount of that asset shall be reclassified to goodwill [8] (reclassified goodwill) as of the later of the date of acquisition or the date Statement 142 is applied in its entirety [9] (Statement 142 application date). The carrying amounts of any recognized intangible assets that meet the recognition criteria in paragraph 39 of Statement 141 that have been included in the amount reported as an unidentifiable intangible asset and for which separate accounting records have been maintained (as discussed in footnote 25 of Statement 141) shall be reclassified and accounted for as assets apart from the unidentifiable intangible asset and shall not be reclassified to goodwill.

10. The reclassified goodwill shall be accounted for and reported prospectively as goodwill under Statement 142. In addition:

a. If the Statement 142 application date preceded October 1, 2002, any previously issued interim or annual financial statements that reflect amortization of the unidentifiable intangible asset subsequent to the Statement 142 application date shall be restated to remove that amortization expense. When financial information is presented that includes those periods, that financial information shall be presented on the restated basis.
b. If the Statement 142 application date falls after October 1, 2002, the unidentifiable intangible asset shall continue to be amortized in accordance with paragraph 5 of Statement 72 until the Statement 142 application date.

Transitional Impairment Testing for Reclassified Goodwill

11. As described in paragraphs 12–14 of this Statement, reclassified goodwill shall be tested for impairment as of the Statement 142 application date. Paragraphs 12–14 apply only to reclassified goodwill for which the date of acquisition precedes the Statement 142 application date.

12. If an entity has no goodwill other than reclassified goodwill, the transitional impairment testing provisions in paragraphs 54–58 of Statement 142 shall be completed for the reclassified goodwill by the end of the fiscal year in which the transition provisions of this Statement are applied.

13. If an entity has other goodwill in addition to reclassified goodwill, and it has not completed the transitional impairment testing provisions in paragraphs 54–58 of Statement 142 as of October 1, 2002, the reclassified goodwill shall be combined with other goodwill in applying those transition provisions.

14. If an entity has other goodwill in addition to reclassified goodwill, and it has completed the transitional impairment testing provisions in paragraphs 54–58 of Statement 142 as of October 1, 2002, the following transition provisions shall be applied for each reporting unit that includes reclassified goodwill:

a. If the fair value of the reporting unit exceeded its carrying amount (including the unidentifiable intangible asset) at the Statement 142 application date, [10] additional impairment testing related to the reclassified goodwill is not required.
b. If the first step of the transitional goodwill impairment test indicated a potential impairment of goodwill at the Statement 142 application date, the amount of the goodwill impairment loss (if any) shall be remeasured based on the revised carrying amount of goodwill. [11] The revised carrying amount of goodwill used in remeasuring the loss equals the amount of previously recognized goodwill and the amount of any unidentifiable intangible asset reclassified as goodwill under the transition provisions of this Statement. Any adjustment to the impairment loss shall be recognized as the effect of a change in accounting principle in accordance with paragraph 56 of Statement 142.

Transition for Impairment Accounting for Certain Acquired Long-Term Customer-Relationship Intangible Assets to Be Held and Used

15. Impairment losses resulting from the application of Statement 144 to acquired long-term customer-relationship intangible assets to be held and used shall be reported in the period in which the impairment loss recognition criteria in that Statement are first applied and met and shall not be reported as a cumulative effect of a change in accounting principle.

Transitional Disclosures for Reclassified Goodwill

16. In the period that the transition provisions are first applied, an entity shall disclose the following in the notes to the financial statements:

a. The carrying amount of previously recognized unidentifiable intangible assets reclassified as goodwill
b. The effect of any restatement on net income for each period for which restated financial statements are presented pursuant to paragraph 10(a)
c. The amount of any adjustment to the previously recognized goodwill impairment loss recognized pursuant to paragraph 14(b).

17. For each period presented that precedes the Statement 142 application date, the amount of amortization expense related to reclassified goodwill shall be disclosed, either separately or as part of the transitional disclosure requirements of Statement 142 (paragraph 61).

The provisions of this Statement need not be applied to immaterial items.

This Statement was adopted by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Robert H. Herz, *Chairman*
G. Michael Crooch
John M. Foster
Gary S. Schieneman
Katherine Schipper
Edward W. Trott
John K. Wulff

Appendix A

BACKGROUND INFORMATION AND BASIS FOR CONCLUSIONS

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Appendix A: BACKGROUND INFORMATION AND BASIS FOR CONCLUSIONS

Introduction

A1. This appendix summarizes considerations that Board members deemed significant in reaching the conclusions in this Statement. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

Background

A2. FASB Statement No. 72, *Accounting for Certain Acquisitions of Banking or Thrift Institutions,* and FASB Interpretation No. 9, *Applying APB Opinions No. 16 and 17 When a Savings and Loan Association or a Similar Institution Is Acquired in a Business Combination Accounted for by the Purchase Method,* provided interpretive guidance related to the application of the purchase method to the acquisition of a financial institution. In the deliberations that led to FASB Statements No. 141, *Business Combinations,* and No. 142, *Goodwill and Other Intangible Assets,* the Board decided that reconsideration of that specialized industry guidance was beyond the scope of those Statements. Thus, the provisions of Statement 72 and Interpretation 9 were largely unaffected by the issuance of Statements 141 and 142.

A3. After Statements 141 and 142 were issued, constituents asked the Board to reconsider the guidance in Statement 72, in particular, the requirement to amortize the unidentifiable intangible asset recognized pursuant to paragraph 5 of that Statement. Those constituents expressed the belief that the unidentifiable intangible asset represents goodwill and, therefore, should be accounted for as goodwill under Statement 142 (that is, by a nonamortization approach). In response to those requests, the Board decided to reconsider the guidance in Statement 72 and Interpretation 9. In May 2002, the Board issued an Exposure Draft, *Acquisitions of Certain Financial Institutions.* The Board received 24 comment letters on the Exposure Draft. The Board concluded that on the basis of existing information, it could reach an informed decision on the matters addressed in this Statement without a public hearing.

Basis for Conclusions

Scope

A4. The scope of Statement 72 included the acquisition of any financial institution, whether investor-owned or organized as a mutual enterprise (such as a savings bank or a credit union).

Because the Board has a separate project on its agenda to provide guidance on the accounting and reporting for transactions between mutual enterprises, the Board decided to reconsider the guidance in Statement 72 and Interpretation 9 as it applies to transactions between mutual enterprises in that separate project. As a result, the Exposure Draft proposed that the guidance in this Statement related to the application of the purchase method (paragraph 5) should apply to all acquisitions of financial institutions, except for transactions between two or more mutual enterprises.

A5. In developing the Exposure Draft, the Board noted, however, that transactions between mutual enterprises may give rise to recognition of long-term customer-relationship intangible assets. The scope of the Board's project on acquisitions of mutual enterprises does not include consideration of impairment and disposal guidance for those assets. Therefore, the Exposure Draft proposed that the guidance in paragraph 6 of this Statement related to the impairment and disposal accounting for certain acquired long-term customer-relationship intangible assets should apply to all such assets of financial institutions, including those acquired in transactions between mutual enterprises.

A6. Respondents agreed with the scope of the Exposure Draft, and the Board affirmed that scope in its redeliberations.

Reconsideration of Statement 72 and Interpretation 9

A7. In the deliberations that led to the Exposure Draft, the Board concluded (for the reasons discussed in paragraphs A8–A23) that the guidance in Statement 72 and Interpretation 9 should not apply to transactions in the scope of this Statement. Respondents to the Exposure Draft generally agreed with that conclusion and the reasons for it. Accordingly, this Statement removes those transactions from the scope of both Statement 72 and Interpretation 9.

Reconsideration of Statement 72

A8. Statement 72 was developed and issued in the early 1980s when economic and competitive conditions were adversely affecting financial institutions. That Statement provided a pragmatic resolution of specific reporting issues that arose when applying the purchase method to the acquisition of a financial institution when the fair value of liabilities assumed exceeded the fair value of assets acquired. [12] Statement 72 required that excess to be recognized as an unidentifiable intangible asset other than goodwill and also required that asset to be amortized over a specified period.

Method of accounting

A9. Statement 72 applied to acquisitions of all financial institutions, including acquisitions of less-than-whole financial institutions (such as the acquisition of a branch). During the development of the Exposure Draft, constituents asked the Board to clarify whether acquisitions of less-than-whole financial institutions should be accounted for as business combinations or in some other manner. This Statement clarifies that acquisitions of financial institutions, including branch acquisitions that meet the definition of a business combination, should be accounted for by the purchase method under Statement 141. In the deliberations that led to this Statement, some Board members expressed their belief, however, that for those acquisitions, proper application of the provisions of Statement 141 will often result in a relatively small amount of goodwill. As did the Exposure Draft, this Statement also clarifies that an acquisition that does not meet the definition of a business combination because the transferred net assets and activities do not constitute a business is an acquisition of net assets. Those acquisitions should be accounted for in the same manner as any other net asset acquisition and do not give rise to goodwill.

A10. For an acquisition to meet the definition of a business combination, the transferred net assets and activities must constitute a business. Statement 141 refers to EITF Issue No. 98-3, "Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business," for guidance in making that determination. During the development of the Exposure Draft, constituents suggested that the Board supplement the guidance in Issue 98-3 to identify specific elements to be considered in evaluating whether the net assets and activities transferred in the acquisition of a financial institution are a business. For example, some constituents noted that a financial institution cannot conduct business without a charter and deposit insurance coverage. Those constituents suggested that the Board clarify whether an acquisition of net assets that did not include the transfer of the charter or deposit insurance coverage would be considered the acquisition of a business.

A11. The Board observed that determining whether the transferred net assets and activities constitute a business under Issue 98-3 requires analysis of all facts and circumstances and the exercise of professional judgment. Board members concluded that reconsideration of Issue 98-3 was beyond the scope of this Statement. Thus, as it did in developing the Exposure Draft, the Board concluded that this Statement should not provide supplemental guidance for determining whether transferred net assets and activities constitute a business. The Board noted, however, that deposit insurance coverage is not transferable. In addition, the Board indicated that in evaluating whether the net assets transferred in the acquisition of a financial institution represent a business, neither the presence nor the absence of a charter should be the sole deciding factor; all facts and circumstances need to be considered in applying Issue 98-3.

An unidentifiable intangible asset

A12. In developing this Statement, the Board considered whether an excess of the fair value of liabilities assumed over the fair value of assets acquired (an unidentifiable excess) should continue to be recognized as an unidentifiable intangible asset other than goodwill and amortized as required by paragraph 5 of Statement 72.

A13. The Board noted that the condition giving rise to the recognition of an unidentifiable intangible asset in Statement 72—an unidentifiable excess of the fair value of liabilities assumed over the fair value of assets acquired—is not unique to acquisitions of financial institutions. The Board noted that when business combinations involving entities other than financial institutions are accounted for under Statement 141, an unidentifiable excess would be included in the amount recognized as goodwill. During the deliberations that led to this Statement, the Board did not identify any differences between acquisitions of financial institutions and acquisitions of other types of entities that would justify the different accounting treatment for the unidentifiable excess required by paragraph 5 of Statement 72. Therefore, this Statement requires that for the acquisition of a financial institution that meets the definition of a business combination, the amount of any unidentifiable excess should be recognized and accounted for as goodwill.

A14. Some respondents to the Exposure Draft suggested that the Board provide guidance on accounting for the impairment and disposal of an unidentifiable intangible asset that is not reclassified as goodwill upon adoption of this Statement. The Board concluded that such guidance is not necessary because that unidentifiable intangible asset is included in the scope of FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*.

Identifiable intangible assets

A15. Paragraph 4 of Statement 72 required that separately identifiable intangible assets acquired be assigned a portion of the total cost of the acquired entity and cited depositor- and borrower-relationship intangible assets as examples of such identifiable intangible assets. The Board noted that removing certain acquisitions of financial institutions from the scope of Statement 72 would mean that that guidance would no longer apply to those transactions. The Board noted, however, that paragraph 39 of Statement 141 requires that intangible assets that meet certain criteria be recognized separately from goodwill. In addition, paragraph A21 of that Statement cites depositor-relationship intangible assets as an example of an intangible asset that meets the criteria for recognition apart from goodwill. The Board noted that borrower-relationship and credit cardholder intangible assets are other examples of finite-lived intangible assets that meet the criteria for recognition apart from goodwill. Therefore, the Board affirmed its previous decision that because Statement 141 provides the necessary guidance for determining the acquired intangible assets to be recognized separate from goodwill, the specialized industry guidance in paragraph 4 of Statement 72 is no longer needed.

Impairment and disposal accounting for certain acquired long-term customer-relationship intangible assets

A16. Paragraph 5 of Statement 144 excluded long-term customer relationships of financial institutions, such as depositor- and borrower-relationship intangible assets and credit cardholder intangible assets, from that Statement's scope because "they have characteristics that make their measurements similar to measurements that are used for financial instruments."[13] Paragraph 4 of Statement 72, as amended by Statement 142, provided some limited impairment guidance for those assets.

A17. Because the Exposure Draft proposed removing certain acquisitions of financial institutions from the scope of Statement 72, the Board considered the appropriate impairment guidance for acquired long-term customer-relationship intangible assets. The Board noted that (a) the impairment guidance for long-term customer-relationship intangible assets was incomplete, (b) the measurement of those relationship assets is similar to that of financial assets, and (c) measuring financial assets at fair value is a longer-term project of the Board. For those reasons, and in the interest of simplifying the accounting guidance, the Exposure Draft proposed that Statement 144 should be amended to include in its scope depositor- and borrower-relationship intangible assets and credit cardholder intangible assets. Respondents to the Exposure Draft agreed with the proposed amendment to Statement 144, and the Board affirmed that amendment during its redeliberations.

Regulatory-assisted transactions

A18. The Board noted that by removing acquisitions of certain financial institutions from the scope of Statement 72, existing guidance on the accounting for regulatory assistance would no longer apply to those transactions. Therefore, the Exposure Draft proposed that, except for changes related to the issuance of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities,* this Statement would carry forward without reconsideration the provisions in Statement 72 related to regulatory-assisted acquisitions.

A19. After considering respondents' comments to the Exposure Draft, the Board decided to amend Statement 72 to delete the guidance on accounting for regulatory assistance. The Board concluded that this guidance is not needed because the types of regulatory-assistance agreements addressed by Statement 72 are not used in current transactions. Also, the Board noted that the business combinations–purchase method procedures project may provide sufficient guidance for regulatory-assistance agreements that might be included in future transactions.

Reconsideration of Interpretation 9

A20. Consistent with the Exposure Draft, this Statement reflects the Board's conclusion that the guidance in Interpretation 9 should no longer apply to transactions in the scope of this Statement. Most respondents agreed with that conclusion.

A21. Interpretation 9, issued in 1976, provided specific guidance related to the application of the purchase method to acquisitions of financial institutions. The primary purpose for issuing Interpretation 9 was to resolve a practice question about whether the net-spread method [14] or the separate-valuation method was appropriate for determining the amounts assigned to assets and liabilities of acquired financial institutions. That Interpretation clarified that the net-spread method should *not* be used and provided limited guidance on how to allocate the purchase price to a portfolio of acquired loans and assumed deposit liabilities.

A22. The Board observed that the net-spread method continues to be inappropriate. However, the Board noted that Statement 141 requires that assets acquired and liabilities assumed in a business combination be measured at their fair values. Thus, the clarifying guidance in paragraphs 2–7 of Interpretation 9 (which stipulates the use of the separate-valuation method) is no longer needed for transactions in the scope of this Statement.

A23. Interpretation 9 also included interpretive guidance related to the requirement in APB Opinion No. 16, *Business Combinations,* to recognize acquired intangible assets separately from goodwill. Specifically, paragraph 8 of Interpretation 9 listed several identifiable intangible assets that, if acquired, may meet the recognition criteria in that Opinion. During development of the Exposure Draft, the Board noted that Statement 141 superseded the provisions of Opinion 16 related to the recognition of acquired intangible assets. The Board concluded that in light of the recognition criteria provided in Statement 141, the interpretive guidance in paragraph 8 of Interpretation 9 is not needed for transactions in the scope of this Statement.

Effective Date and Transition

A24. The Board noted that the principal change resulting from this Statement's issuance is the requirement to recognize an unidentifiable excess in a business combination as goodwill rather than as a separate unidentifiable intangible asset and that this change would not create any significant implementation issues. Thus, the Exposure Draft proposed that the provisions in paragraph 5 of this Statement should be effective for acquisitions for which the date of acquisition is on or after the date this Statement is issued. It also proposed that the provisions in paragraph 6 related to the impairment and disposal accounting for certain acquired long-term customer-relationship intangible assets be effective immediately upon issuance. Respondents to the Exposure Draft were generally supportive of the proposed effective dates, and the Board affirmed those dates during its redeliberations.

A25. The Exposure Draft proposed that the unidentifiable intangible asset recognized in a past transaction should be reclassified as goodwill and accounted for in accordance with Statement 142 prospectively, if both of the following criteria were met: (a) the transaction in which the unidentifiable intangible asset arose was a business combination and (b) intangible assets acquired in that business combination that met the criteria in paragraph 39 of Statement 141 (in particular, long-term customer-relationship intangible assets) were recognized and accounted for apart from the unidentifiable intangible asset following the date of acquisition.

A26. In developing Statement 142, the Board concluded that goodwill arises only in a business combination. Thus, during deliberations that led to the Exposure Draft, the Board concluded that an unidentifiable intangible asset recognized in a past transaction that was not a business combination is not goodwill and should not be reclassified as goodwill upon adoption of this Statement. The Board noted that because an asset acquisition that is not a business combination does not give rise to goodwill, the unidentifiable intangible asset recognized in that transaction represents finite-lived identifiable intangible assets that were not separately recognized, errors in measuring the fair values of recognized assets acquired and liabilities assumed, or both. Therefore, the Exposure Draft required that the unidentifiable intangible asset continue to be amortized if the transaction that gave rise to the asset was not a business combination. Respondents to the Exposure Draft were generally supportive of this requirement, and the Board affirmed the requirement during its redeliberations.

A27. During development of the Exposure Draft, the Board noted that the unidentifiable intangible asset arises only in combinations in which the fair value of liabilities assumed exceeds the fair value of the assets acquired. Board members stated that in such transactions, a primary motivation is often to acquire identifiable intangible assets such as long-term customer-relationship intangible assets. Therefore, except in those cases in which identifiable intangible assets were separately recognized, the unidentifiable intangible asset likely represents an identifiable, finite-lived asset that should be amortized. Accordingly, the Exposure Draft proposed that amortization of the unidentifiable intangible asset should continue after the date this Statement is adopted unless the other finite-lived intangible assets acquired in the transaction had been recognized apart from the unidentifiable intangible asset (separate recognition criterion).

A28. Most of the respondents disagreed with the proposed separate recognition criterion, mainly because they disagreed that the motivation for a business combination in the scope of Statement 72 was to acquire intangible assets other than goodwill. Many of those respondents commented that a business combination in the scope of Statement 72 is undertaken for the same reasons as any other business combination and, therefore, often gives rise to goodwill.

A29. Some of those respondents suggested that the Board eliminate the separate recognition criterion so that the transition provisions in this Statement would be consistent with the transition provisions of Statements 141 and 142. Those respondents commented that upon adoption of Statements 141 and 142, entities were required to cease amortization of the amount recorded as goodwill *regardless* of whether they had separately recognized all acquired intangible assets. During the development of Statements 141 and 142, the Board noted that some entities had included acquired intangible assets in the amount recognized as goodwill and subsequently amortized that asset over a period reflecting its composite useful life. [15] Those entities concluded that their financial statements were fairly presented in accordance with U.S. generally accepted accounting principles because the goodwill amortization expense recorded under that approach was not materially different from the amount that would have been recognized had the acquired intangible assets been separately recognized. The Board decided not to require entities to disaggregate existing intangible assets from goodwill in those circumstances unless separate accounting records were maintained for those assets.

A30. In their comment letters, respondents noted that for that same reason, many financial institutions had recognized acquired intangible assets in the amount recorded as an unidentifiable intangible asset. Moreover, respondents noted that for acquisitions of financial institutions, the staff of the Securities and Exchange Commission (SEC) did not object to the practice of recognizing the core deposit intangible asset and the unidentifiable intangible asset as a composite asset as long as the useful life assigned to that asset did not exceed 15 years. [16] For those reasons, those respondents indicated that the transition provisions in this Statement should be similar to the transition provisions in Statements 141 and 142. That is, the carrying amount of the unidentifiable intangible asset should be reclassified as goodwill (and amortization should cease) upon adoption of this Statement even if entities had included acquired intangible assets in that amount. Upon consideration of those respondents' comments, the Board decided to eliminate the separate recognition criterion.

A31. During redeliberations of the Exposure Draft, the Board also considered and rejected another alternative to transition suggested by some respondents. Under that alternative, entities would be allowed to retroactively determine the portion of the unidentifiable intangible asset that represents goodwill and reclassify that amount as goodwill upon adoption of the final Statement. The Board concluded, as it did in the deliberations that led to the Exposure Draft, that that alternative would be impractical or burdensome for many enterprises to apply, principally because the information needed to identify those intangible assets may not exist or may no longer be obtainable.

A32. The Board decided during development of the Exposure Draft that comparability would be improved if amortization of previously recognized unidentifiable intangible assets reclassified as goodwill ceased as of the date that Statement 142 was applied in its entirety. In addition, the Exposure Draft proposed that reclassified goodwill should be tested for impairment under the transition provisions of Statement 142. Respondents to the Exposure Draft supported those provisions, and the Board affirmed the provisions during its redeliberations.

A33. Consistent with the Exposure Draft, this Statement does not require a transitional impairment test for acquired long-term customer-relationship intangible assets of financial institutions that, effective with the issuance of this Statement, are included in the scope of Statement 144. The Board noted that if those intangible assets had originally been within the scope of FASB Statement No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of* , [17] a transitional impairment test would not have been required when Statement 121 was adopted. None of the respondents to the Exposure Draft disagreed with this provision, and the Board affirmed the provision during its redeliberations.

Benefits and Costs

A34. The Board's mission statement charges the Board to determine that a standard will fill a significant need and that the costs it imposes will be justified in relation to the overall benefits. The Board concluded that the changes made by this Statement will not impose significant costs on preparers or auditors and that the removal of certain financial institutions from the scope of Statement 72 and Interpretation 9 simplifies the accounting literature. The Board concluded that the changes required by this Statement are consistent with its goal of improving the usefulness of financial reporting by focusing on the primary characteristics of relevance and reliability and on the qualities of comparability and consistency.

International Accounting Standards

A35. The International Accounting Standard, IAS 22, *Business Combinations,* does not provide industry-specific guidance for acquisitions in which the fair value of liabilities assumed exceeds the fair value of tangible and identifiable intangible assets acquired. At the time this Statement was developed, IAS 22 was under reconsideration; however, it seemed unlikely that industry-specific guidance like that provided in Statement 72 would be added to the new international business combinations standard. Therefore, the elimination of paragraphs 5 and 6 of Statement 72 for acquisitions of financial institutions in the scope of this Statement broadly promotes international convergence.

Appendix B: AMENDMENTS TO EXISTING PRONOUNCEMENTS

B1. FASB Statement No. 72, *Accounting for Certain Acquisitions of Banking or Thrift Institutions,* is amended as follows:

a. Paragraph 2 is amended as follows:

(1) The first sentence is replaced by the following:

> As of October 1, 2002, this Statement applies only to acquisitions between two or more mutual enterprises that are financial institutions.

(2) The last sentence is replaced by the following:

> The provisions of paragraph 4 apply to all transactions within the scope of this Statement.

b. Paragraph 3 is deleted.

c. The first sentence of paragraph 4, as amended by FASB Statement No. 141, *Business Combinations,* is replaced by the following:

> In a business combination accounted for by the purchase method, intangible assets acquired that can be separately identified shall be assigned a portion of the total cost of the acquired enterprise if the fair values of those assets can be reliably[1] determined.

d. The last three sentences of paragraph 4, which were added by FASB Statement No. 142, *Goodwill and Other Intangible Assets,* are replaced by the following:

> Identified intangible assets shall be reviewed for impairment in accordance with FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.*

e. In the penultimate sentence of paragraph 5, *paragraphs 6 and 7* is replaced by *paragraph 6.*

f. Paragraph 7, as amended by Statement 142, is deleted.

g. Paragraphs 8 and 9, as amended by Statement 141, and paragraphs 10 and 11 are deleted.

B2. FASB Statement No. 141, *Business Combinations,* is amended as follows:

a. In item (2) of paragraph 61(b), *and required to be amortized in accordance with paragraph 8 of FASB Statement No. 147, Acquisitions of Certain Financial Institutions,* is added after *FASB Statement No. 72, Accounting for Certain Acquisitions of Banking or Thrift Institutions*.

b. Paragraph E20 is deleted.

B3. FASB Statement No. 142, *Goodwill and Other Intangible Assets,* is amended as follows:

a. In item (2) of paragraph 49(b), *and required to be amortized in accordance with paragraph 8 of FASB Statement No. 147, Acquisitions of Certain Financial Institutions,* is added after *in accordance with paragraph 5 of Statement 72.*

b. Paragraph D11 is deleted.

B4. FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* is amended as follows:

a. In item (c) of paragraph 5, *long-term customer relationships of a financial institution, such as core deposit intangibles, credit cardholder intangibles, and* is deleted.

b. Appendix D is amended as follows:
   (1) The reference to Statement 72 is deleted.

   (2) The following is added to the table:

		Apply Requirement in This Statement
FASB Statement No. 147	*Acquisitions of Certain Financial Institutions*	
• Depositor- and borrower-relationship intangible assets		X

• Credit cardholder intangible assets	X

B5. Footnote 1 of FASB Interpretation No. 9, *Applying APB Opinions No. 16 and 17 When a Savings and Loan Association or a Similar Institution Is Acquired in a Business Combination Accounted for by the Purchase Method,* is replaced by the following:

> As of October 1, 2002, this Interpretation applies only to acquisitions between two or more mutual enterprises that are financial institutions.

Appendix C: GLOSSARY

C1. This appendix contains definitions of certain terms used in this Statement.

Goodwill
: The excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed. The amount recognized as goodwill includes acquired intangible assets that do not meet the criteria in FASB Statement No. 141, *Business Combinations,* for recognition as assets apart from goodwill.

Mutual enterprise
: An entity other than an investor-owned entity that provides dividends, lower costs, or other economic benefits directly and proportionately to its owners, members, or participants. Credit unions are an example of a mutual enterprise (FASB Concepts Statement No. 4, *Objectives of Financial Reporting by Nonbusiness Organizations,* paragraph 7).

Unidentifiable intangible asset
: The amount by which the fair value of liabilities assumed exceeds the fair value of tangible and identified intangible assets acquired (FASB Statement No. 72, *Accounting for Certain Acquisitions of Banking or Thrift Institutions,* paragraph 5).

Footnotes

FAS147, Footnote 1--Hereafter, the term *financial institution* as used in this Statement includes *all or part of* a commercial bank, a savings and loan association, a credit union, or other depository institution having assets and liabilities of the same types as those institutions.

FAS147, Footnote 2--Terms defined in Appendix C, the glossary, are set forth in **boldface** type the first time they are used.

FAS147, Footnote 3--Some transactions involve the acquisition of a less-than-whole, or part of a, financial institution. Those transactions are sometimes referred to as branch acquisitions.

FAS147, Footnote 4--Refer to paragraph 9 of Statement 141 for determining when an acquisition is a business combination.

FAS147, Footnote 5--EITF Issue No. 98-3, "Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business," provides guidance on determining whether an asset group constitutes a business.

FAS147, Footnote 6--Examples of long-term customer-relationship intangible assets include depositor- and borrower-relationship intangible assets, credit cardholder intangible assets, and servicing assets. Servicing assets, however, are tested for impairment under FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*.

FAS147, Footnote 7--Refer to paragraph 48 of Statement 141 for guidance on determining the date of acquisition.

FAS147, Footnote 8--If the amortization of the unidentifiable intangible asset is not deductible for tax purposes, any deferred tax liabilities related to that asset also shall be reclassified to goodwill.

FAS147, Footnote 9--Statement 142 applies in its entirety in fiscal years beginning after December 15, 2001. However, early application was permitted for entities with fiscal years beginning after March 15, 2001, in certain circumstances, as indicated in paragraph 48(a) of Statement 142.

FAS147, Footnote 10--That is, the first step of the transitional goodwill impairment test indicated no impairment.

FAS147, Footnote 11--The fair value of the reporting unit and related assets and liabilities used in calculating the implied fair value of goodwill shall not be remeasured for purposes of applying this transition provision.

FAS147, Footnote 12--The assets acquired may include financial assets, tangible assets, or identifiable intangible assets.

FAS147, Footnote 13--Refer to paragraph 50 of FASB Statement No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*. Statement 144 supersedes Statement 121; however, Statement 144 retains the fundamental provisions of Statement 121 for (a) recognition and measurement of the impairment of long-lived assets to be held and used and (b) measurement of long-lived assets to be disposed of by sale.

FAS147, Footnote 14--Under the net-spread method, the acquisition of a financial institution was viewed as the acquisition of a leveraged whole rather than the acquisition of the separate assets and liabilities of the institution. Therefore, if the spread between the rates of interest received on mortgage loans and the rates of interest paid on savings accounts was normal for the particular market area, then the acquired mortgage loan portfolio and savings accounts were brought forward at the carrying amounts shown in the financial statements of the acquired institution. Application of that method is not consistent with the requirements of Statement 141.

FAS147, Footnote 15--Entities might not have adhered strictly to the purchase price allocation requirements in Opinion 16 because APB Opinion No. 17, *Intangible Assets,* required amortization of all acquired intangible assets and limited the maximum amortization for both goodwill and other intangible assets to 40 years.

FAS147, Footnote 16--As SEC Staff Accounting Bulletin Topic 2.A.3, “Acquisitions Involving Financial Institutions,” states, “The allocation to goodwill of significant amounts of the purchase price, which appeared to be the result of a failure to properly identify and quantify all intangible assets purchased, was often a factor which influenced these decisions.”

FAS147, Footnote 17--Refer to footnote 13.