Financial Accounting Standards Board

ORIGINAL PRONOUNCEMENTS

AS AMENDED

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

an interpretation of APB Opinions No. 16 and 17

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STATUS

Issued: February 1976

Effective Date: For business combinations initiated on or after March 1, 1976

Affects: No other pronouncements

Affected by: Paragraph 8 amended by FAS 72, paragraphs 13 and 14
Paragraph 9 amended by FAS 72, paragraph 12
Footnote 1 replaced by FAS 147, paragraph B5
Superseded by FAS 141(R), paragraph E3(d)

AICPA Accounting Standards Executive Committee (AcSEC)

Related Pronouncement: PB 6

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INTRODUCTION

1. The FASB has been asked to explain how the provisions of APB *Opinions No. 16,* "Business Combinations," and *No. 17,* "Intangible Assets," should be applied to account for the acquisition of a savings and loan association[1] in a business combination accounted for by the purchase method. In this regard, the FASB has been asked (1) whether the *net-spread* method or the *separate-valuation* method is appropriate for determining the amounts assigned to the assets and liabilities of the acquired savings and loan association and (2) whether any cost not assigned to the identifiable assets acquired less liabilities assumed may be amortized using an accelerated method of amortization rather than the straight-line method of amortization.

2. Under the net-spread method, the acquisition of a savings and loan association is viewed as the acquisition of a leveraged whole rather than the acquisition of the separate assets and liabilities of the association. Therefore, if the spread between the rates of interest received on mortgage loans and the rates of interest (often called *dividends* in the industry) paid on savings accounts is normal for the particular market area, the acquired savings and loan association's principal assets and liabilities, i.e., its mortgage loan portfolio and savings accounts, are brought forward at the carrying amounts shown in the financial statements of the acquired association.

3. Under the separate-valuation method, each of the identifiable assets and liabilities of the acquired savings and loan association is accounted for in the consolidated financial statements at an amount based on fair value at the date of acquisition, either individually or by types of assets and types of liabilities.

INTERPRETATION

4. Paragraph 87 of *APB Opinion No. 16* states the general principle that "all identifiable assets acquired, either individually or by type, and liabilities assumed in a business combination. . . should be assigned a portion of the cost of the acquired company, normally equal to their fair values at date of acquisition." Because the net-spread method ignores fair value of individual assets and liabilities or types of assets and liabilities, that method is inappropriate under *APB Opinion No. 16.*

5. Paragraph 88 of *APB Opinion No. 16* provides "general guides for assigning amounts to the individual assets acquired and liabilities assumed, except goodwill." In paragraph 88(b), the general guide for receivables is "present values of amounts to be received determined at appropriate current interest rates, less allowances for uncollectibility and collection costs, if necessary." Ascertaining appropriate current interest rates (and the periods over which the receivables are to be discounted) requires an analysis of the many factors that determine the fair value of the portfolio of loans acquired.

6. In paragraph 88(e), the general guide for "intangible assets which can be identified and named, including contracts, patents, franchises, customer and supplier lists, and favorable leases" is "appraised values." A footnote to that paragraph states that "fair values should be ascribed to specific assets; identifiable assets should not be included in goodwill."

7. In paragraph 88(g), the general guide for "accounts and notes payable, long-term debt, and other claims payable" is "present values of amounts to be paid determined at appropriate current interest rates." That present value for savings deposits due on demand is their face amount plus interest accrued or accruable as of the date of acquisition. That present value for other liabilities assumed, e.g., time savings deposits, borrowings from a Federal Home Loan Bank, or other borrowings, shall be determined by using prevailing interest rates for similar liabilities at the acquisition date.

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

8. The purchase price paid for a savings and loan association may include an amount for one or more factors, such as the following:

a. Capacity of existing savings accounts and loan accounts to generate future income,
b. Capacity of existing savings accounts and loan accounts to generate additional business or new business, and
c. Nature of territory served.

If the amount paid for any such factor can be reliably[1a] determined, that amount shall not be included in goodwill. Rather, the amount paid for that separately identified intangible shall be recorded as the cost of the intangible and amortized over its estimated life as specified by *APB Opinion No. 17.* Any portion of the purchase price that cannot be assigned to specifically identifiable tangible and intangible assets acquired (see paragraph 6 above) less liabilities assumed shall be assigned to goodwill. The fair values of [identifiable] intangible assets that relate to depositor or borrower relationships (refer to paragraphs 8(a) and 8(b)) shall be based on the estimated benefits attributable to the relationships that *exist* at the date of acquisition without regard to new depositors or borrowers that may replace them. Those identified intangible assets shall be amortized over the estimated lives of those existing relationships.

9. Paragraph 30 of *APB Opinion No. 17* requires that goodwill be amortized using the straight-line method "unless a company demonstrates that another systematic method is more appropriate." An accelerated method would be appropriate and may be used to amortize goodwill when a company demonstrates that (a) the amount assigned to goodwill represents an amount paid for factors such as those listed in paragraph 8 but there is not a satisfactory basis for determining appraised values for the individual factors, and (b) the benefits expected to be received from the factors decline over the expected life of those factors. Unless both (a) and (b) are demonstrated, straight-line amortization shall be used.[1b]

EFFECTIVE DATE AND TRANSITION

10. This Interpretation shall be effective for business combinations initiated on or after March 1, 1976. Application to business combinations initiated before March 1, 1976 but consummated on or after that date is encouraged but not required. Application to a business combination consummated prior to March 1, 1976 is permitted if the annual financial statements for the fiscal year in which the business combination was consummated have not yet been issued; if applied to such a combination, financial statements for interim periods of that fiscal year shall be restated if subsequently presented. Previously issued annual financial statements shall not be restated.

This Interpretation was adopted by the unanimous vote of the seven members of the Financial Accounting Standards Board following submission to the members of the Financial Accounting Standards Advisory Council.

Marshall S. Armstrong, *Chairman*
Oscar S. Gellein
Donald J. Kirk
Arthur L. Litke
Robert E. Mays
Walter Schuetze
Robert T. Sprouse

[1a]Reliability embodies the characteristics of representational faithfulness and verifiability, as discussed in FASB Concepts Statement No. 2, *Qualitative Characteristics of Accounting Information.*

[1b]Paragraphs 5 and 6 of FASB Statement No. 72, *Accounting for Certain Acquisitions of Banking or Thrift Institutions,* specify an exception to the provisions of this Interpretation with respect to the amortization of goodwill recognized in certain acquisitions of banking or thrift institutions.