



FASB to Reconsider the Accounting for “Statement 72 Goodwill”

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In October, the Board considered requests made by several constituents and decided to undertake a limited-scope project to reconsider part of the guidance in FASB Statement No. 72, *Accounting for Certain Acquisitions of Banking or Thrift Institutions*. In particular, the Board decided to reconsider the provisions of that Statement (paragraphs 5 and 6) that require recognition and amortization of an unidentifiable intangible asset—an asset that is sometimes referred to in practice as “Statement 72 goodwill.” In this article, *Status Report* answers a number of frequently asked questions about that decision.

Q. What is the unidentifiable intangible asset that is sometimes called Statement 72 goodwill?

A. The unidentifiable intangible asset recognized under Statement 72 is the amount by which the fair value of the liabilities assumed in the acquisition of a bank or thrift exceeds the fair value of the assets acquired. For example, assume Bank B agreed to acquire the assets and liabilities of Bank A on December 1, 2001. The fair value of deposits and other liabilities assumed by Bank B is estimated to be \$100. The fair value of the loans and tangible assets acquired is estimated to be \$80. Statement 72 also requires Bank B to recognize any separately identifiable intangible assets acquired in the transaction. The fair value of those intangible assets—the depositor and borrower relationships acquired—is estimated to be \$15. In this example, the unidentifiable intangible asset to be recognized under Statement 72 is measured as \$5, the excess of the fair value of liabilities assumed (\$100) over the fair value of the assets acquired (\$95). Statement 72 requires that the unidentifiable intangible asset be amortized using methods described in that Statement.

Q. Upon adoption of FASB Statement No. 142, *Goodwill and Other Intangible Assets*, goodwill will no longer be amortized. Will amortization of the so-called Statement 72 goodwill also cease on that date?

A. No. The unidentifiable intangible asset recognized under Statement 72 is excluded from the scope of Statement 142. Therefore, entities are required to continue to amortize that asset in accordance with Statement 72 even after the date that Statement 142 is adopted.

Q. Why did the Board exclude the Statement 72 unidentifiable intangible asset from the scope of Statement 142 and require that it continue to be amortized?

A. In developing Statement 142, the Board did not reconsider the question of the accounting for the Statement 72 unidentifiable intangible asset. During that process, Board members observed that goodwill and the Statement 72 unidentifiable intangible

asset are measured similarly (both are measured as a residual). However, they agreed that additional research should be performed before deciding whether the Statement 72 unidentifiable intangible asset was in fact similar to goodwill and should be accounted for similarly (that is, by a nonamortization method). The Board decided that excluding the Statement 72 unidentifiable intangible asset from the scope of Statement 142 would allow it to conduct that research and reconsider the accounting for that asset independently of other issues. In October, the Board formally gave the FASB staff the go-ahead to begin that research.

Q. Why is the Board reconsidering the accounting guidance in Statement 72?

A. Statement 72 was developed during the early 1980s as a pragmatic solution to certain issues related to the application of the purchase method of accounting to acquisitions of financial institutions, particularly those completed during periods of high interest rates. When it developed that Statement, the Board acknowledged that reconsideration of that guidance as part of a broader business combinations project might be appropriate. During the development of Statement 142, a number of constituents recommended that the accounting for the Statement 72 unidentifiable intangible asset be reconsidered. Some of those constituents believe that the Statement 72 unidentifiable intangible asset is the same as or similar to goodwill and, therefore, should be accounted for in the same way as goodwill. At a meeting in October, the Board agreed that reconsideration of the Statement 72 guidance is appropriate at this time. (Note: the Board currently has another active project on its agenda to reconsider issues related to the application of the purchase method of accounting for a business combination. The scope and direction of that project are discussed in a related article, “FASB Addresses Purchase Accounting Issues in Joint Project with IASB,” published in the November 30, 2001 issue of *Status Report*.)

Q. Doesn't the guidance in Statement 72 *only* apply in the case of the acquisition of a troubled financial institution?

A. No, the guidance in Statement 72 applies to *any* acquisition of a banking, thrift, or similar depository institution in which the fair value of the liabilities assumed exceeds the fair value of the assets acquired.

Q. Do the provisions of Statement 72 apply to the acquisition of a branch?

A. It depends. Statement 72 applies to the “acquisition of a commercial bank, a savings and loan association, a mutual savings bank, a credit union, other depository institutions having assets and liabilities of the same types as those institutions, *and branches of such enterprises*” (paragraph 2; emphasis added). However, the provisions of that Statement that require recognition and amortization of an unidentifiable intangible asset apply only to those branch acquisitions in which the fair value of the liabilities assumed exceeds the fair value of the assets acquired (including intangible assets).

Q. When does the Board expect to complete this limited-scope project?

A. The FASB staff has commenced its initial research, and Board deliberation of the issues is expected to begin during the first quarter of 2002. Based on the current project plan, issuance of a final Statement on this narrow scope project is expected in the fourth quarter of 2002.

The views expressed in this document are those of the author. Official positions of the FASB are determined only after extensive due process and deliberations.