

EITF ABSTRACTS

Issue No. 85-41

Title: Accounting for Savings and Loan Associations under FSLIC Management
Consignment Program

Date Discussed: November 7, 1985

References: FASB Statement No. 72, *Accounting for Certain Acquisitions of Banking or Thrift Institutions*
FASB Statement No. 96, *Accounting for Income Taxes*
FASB Statement No. 109, *Accounting for Income Taxes*
FASB Statement No. 141, *Business Combinations*
FASB Statement No. 141 (revised 2007), *Business Combinations*
FASB Statement No. 142, *Goodwill and Other Intangible Assets*
FASB Statement No. 147, *Acquisitions of Certain Financial Institutions*
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*
AICPA Accounting Research Bulletin No. 43, Chapter 7A, *Quasi-Reorganization or Corporate Readjustment*
APB Opinion No. 16, *Business Combinations*
APB Opinion No. 17, *Intangible Assets*
AICPA Issues Paper, "Push Down" Accounting, dated October 30, 1979
SEC Staff Accounting Bulletin No. 54, *Application of "Push Down" Basis of Accounting in Financial Statements of Subsidiaries Acquired by Purchase*

ISSUE

The Federal Savings and Loan Insurance Corporation (FSLIC) has instituted the Management Consignment Program (MCP) to manage troubled thrift institutions taken over by the FSLIC. Under the MCP, the financial institution is closed and substantially all the assets and liabilities of the former institution are transferred to a newly chartered federal mutual association.

The issue is what the appropriate basis of accounting for the newly chartered institution should be at the date of its creation and on an ongoing basis.

EITF DISCUSSION

The Task Force reached a consensus on the following issues:

- The same accounting treatment should apply whether the former institution was a stock or mutual institution.
- The transfer of assets and liabilities to the newly chartered institution does not constitute a business combination as defined in Opinion 16. [Note: See STATUS section.]
- The FSLIC's actions do, however, constitute a significant event that warrants a reevaluation of the assets and liabilities transferred to the newly chartered institution.
- Carry-over of the historical cost basis of the assets and liabilities is inappropriate.
- In valuing the assets and liabilities of the newly chartered institution, the measurement guidelines of paragraphs 87-89 of Opinion 16 should be followed. [Note: See STATUS section.]
- In addition to recognizing the fair values of the tangible assets and liabilities, the newly chartered institution should recognize the fair value of those identifiable intangibles that can be reliably measured, for example, servicing rights on loans owned by others. [Note: See STATUS section.]
- Any amount resulting from liabilities in excess of identified assets transferred should be classified as deficit equity, not as goodwill. This deficit should be presented separately from subsequent retained earnings. [Note: See STATUS section.]
- The new values assigned should become the new cost basis, and subsequent accounting should follow generally accepted accounting principles; assets should not be marked to market on a continuing basis.
- Accounting for the ultimate disposition of the institution (sale, liquidation, or emergence as a viable enterprise outside FSLIC control) should be consistent with the current accounting for similar events.

The Task Force Chairman inquired whether there was a need for the FASB to reconsider the accounting for FSLIC Net Worth Certificates, which the FASB has previously indicated do not qualify as assets and equity under generally accepted accounting principles. The Task Force generally agreed that the FASB does not need to reconsider this issue.

Discussion of the accounting for income taxes regarding the MCP was deferred to permit the staff of the Federal Home Loan Bank Board time to determine the tax status of the newly chartered thrift institution.

STATUS

In December 1987, the FASB issued Statement 96, which modifies some of the measurement guidelines of paragraphs 87-89 of Opinion 16. Statement 96 indicates in paragraph 205(c) that “the tax basis of an asset or liability shall not be a factor in determining its fair value” in conjunction with recording assets acquired and liabilities assumed in a business combination. Furthermore, paragraph 23 of Statement 96 states that “a deferred tax liability or asset shall be recognized in accordance with the requirements of this Statement for differences between the assigned values and the tax bases of the assets and liabilities (except goodwill, unallocated ‘negative goodwill,’ and leveraged leases) recognized in a purchase business combination.”

Paragraph 54 of Statement 96 indicates that regardless of whether the reorganization is labeled as a quasi reorganization, if prior losses were charged directly to contributed capital, the subsequent recognition of a tax benefit for a prior operating loss carryforward for financial reporting is reported as a direct addition to contributed capital. Paragraph 206 indicates that the phrase *operating loss carryforward for financial reporting* includes the amount of temporary differences that will result in net tax deductions for which a tax benefit has not been recognized in the financial statements.

In February 1992, the FASB issued Statement 109, which supersedes Statement 96 and modifies some of the measurement guidelines of paragraphs 87-89 of Opinion 16. Under Statement 109, assets and liabilities recognized in a business combination are not recorded at net-of-tax amounts. Further, paragraph 30 of Statement 109 indicates that a deferred tax liability or asset shall be recognized in accordance with the requirements of the Statement for differences between the assigned values and tax bases of the assets and liabilities (except nondeductible goodwill, unallocated negative goodwill, and leveraged leases) recognized in a purchase business combination.

Paragraph 36(g) of Statement 109 indicates that the tax effects of deductible temporary differences and carryforwards that existed at the date of a quasi reorganization are credited directly to shareholders' equity. As indicated in paragraph 146, the Board concluded that after a quasi reorganization, an enterprise's accounting should be substantially similar to that appropriate for a new enterprise. The income reported by a new enterprise would not include tax benefits attributable to deductible temporary differences and carryforwards that arose prior to its organization date.

Statement 142, which supersedes Opinion 17, was issued in June 2001. Statement 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets.

Statement 147 was issued in October 2002 and amends Statement 72 to remove all financial institution acquisitions (except for transactions between mutual enterprises) from the scope of Statement 72; however, Statement 147 does not change any of the consensuses reached in this Issue.

Statement 141(R), issued in December 2007, nullifies Statement 147 and replaces Statement 141, which superseded Opinion 16. Refer to Statement 141(R) for guidance pertaining to assigning amounts to assets acquired and liabilities assumed.

No further EITF discussion is planned.

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