Issue No. 85-42

Title: Amortization of Goodwill Resulting from Recording Time Savings Deposits at Fair Values

Dates Discussed: December 19, 1985; March 13-14, 1986; July 24, 1986

References: FASB Statement No. 72, *Accounting for Certain Acquisitions of Banking or Thrift Institutions*
FASB Statement No. 141, *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*
APB Opinion No. 17, *Intangible Assets*

ISSUE

In an acquisition of a financial institution accounted for as a purchase, the acquired enterprise has time savings deposits that bear interest rates in excess of rates prevailing at the acquisition date. In determining the fair value of the liabilities assumed, a premium is assigned to the time savings deposits. In the acquisition, the fair value of liabilities assumed exceeds the fair value of the tangible and identifiable intangible assets acquired. That excess constitutes an unidentifiable intangible asset that is addressed by Statement 72 (referred to as "Statement 72 goodwill"). In the above transaction, the unidentifiable intangible asset exceeds the discount on the long-term, interest-bearing assets of the acquired enterprise.

The issue is how to determine the appropriate period and method for amortizing the Statement 72 goodwill.

EITF DISCUSSION

The Task Force reached a consensus that Statement 72 goodwill should be amortized to expense over a period no greater than the estimated remaining life of the long-term interest-bearing assets acquired. Amortization would follow the guidance set forth in paragraph 5 of Statement 72. [Note: See STATUS section.] Any additional goodwill recognized in the business combination would be amortized in accordance with Opinion 17. [Note: This consensus has been partially nullified by Statement 142. See STATUS section.]

STATUS

Statement 142, which supersedes Opinion 17, was issued in June 2001. Under Statement 142, goodwill is no longer amortized and is tested for impairment in accordance with Statement 142.

Statement 147 was issued in October 2002 and amends Statement 72 to remove financial institution acquisitions (except for transactions between mutual enterprises) from the scope of Statement 72. Statement 147 requires acquisitions of financial institutions (except for those between mutual enterprises) to be accounted for in accordance with Statements 141 and 142. The FASB is reconsidering the guidance in Statement 72 as it applies to transactions between mutual enterprises in a separate project.

No further EITF discussion is planned.