

EITF ABSTRACTS

Issue No. 93-1

Title: Accounting for Individual Credit Card Acquisitions

Dates Discussed: January 21, 1993; March 16, 1993; May 20, 1993

References: FASB Statement No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*
FASB Special Report, *A Guide to Implementation of Statement 91 on Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases: Questions and Answers*
APB Opinion No. 16, *Business Combinations*
APB Opinion No. 17, *Intangible Assets*
AICPA Proposed Statement of Position, *Reporting on Advertising Costs*, dated June 22, 1992

ISSUE

An enterprise (credit card issuer) may acquire credit card accounts by paying an amount to a third party. The credit card accounts are acquired individually ("one-at-a-time") by paying an amount for each approved credit card agreement. The third party may be (1) a direct marketing specialist, (2) an affinity group (a professional, cultural, or other organization), or (3) a co-branding (an airline company, automobile manufacturing company, hotel company, or other commercial or retailing company). Under a co-branding arrangement, the third party's name is included on the credit card, and the third party has a continuing obligation to provide goods or services, such as product discounts, to cardholders for an extended period that directly or indirectly benefits the credit card issuer. The credit card accounts typically have no outstanding receivable balances at the time acquired. The Task Force previously addressed the acquisition of a credit card portfolio in Issue No. 88-20, "Difference between Initial Investment and Principal Amount of Loans in a Purchased Credit Card Portfolio," and originations in Issue No. 92-5, "Amortization Period for Net Deferred Credit Card Origination Costs."

The issue is whether an enterprise should account for these transactions as (1) purchases of individual credit card or other relationships (hereinafter referred to as purchases) under Opinion 17 and Issue 88-20 or (2) originations/acquisitions of credit card accounts (hereinafter referred to as originations or self-originations) under Statement 91 and Issue 92-5.

EITF DISCUSSION

The Task Force discussed the nature of those arrangements in which enterprises acquire credit card accounts individually. Task Force members observed that those arrangements take many different forms and the terms of the arrangements are individually negotiated. The Task Force discussed various factors that might distinguish an individual credit card purchase from an origination.

The Task Force noted that the response to question 32 in the Special Report on Statement 91 applies to those credit card solicitations where the issuer pays a fixed fee to an independent third party to solicit a group of preselected consumers for the purpose of obtaining new cardholders.

The Task Force reached a consensus that credit card accounts acquired individually should be accounted for as originations under Statement 91 and Issue 92-5. Amounts paid to a third party to acquire individual credit card accounts should be deferred and netted against the related credit card fee, if any, and the net amount should be amortized on a straight-line basis over the privilege period. If a significant fee is charged to the cardholder, the privilege period is the period that the fee entitles the cardholder to use the credit card. If there is no significant fee, the privilege period should be one year. Significance for this purpose should be evaluated based on the amount of the fee relative to the acquisition cost of the card.

STATUS

No further EITF discussion is planned.