NCUA Accounting Bulletin

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PURPOSE. The purpose of this Accounting Bulletin is to transmit the enclosed *Interagency Supervisory Guidance on Bargain Purchases and FDIC- and NCUA-Assisted Acquisitions*. The guidance is being issued jointly by the Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System (FRB), the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration (NCUA), and the Office of Thrift Supervision (OTS) (the Agencies).

BACKGROUND. Recent market conditions have contributed to an increase in bargain purchase gains in the mergers of financial institutions. Although accounting literature indicates that bargain purchases are not expected to be common, certain acquisitions, particularly those involving FDIC or NCUA assistance, may result in a bargain purchase due to their nature, structure, and timing. In general, a bargain purchase occurs when the fair value of the net assets acquired in a merger exceeds the fair value of the consideration transferred by the acquiring institution.

The enclosed guidance addresses supervisory considerations related to bargain purchase gains and the impact such gains have on the merger approval process. This guidance also highlights the accounting and reporting requirements unique to mergers resulting in bargain purchase gains and FDIC- and NCUA-assisted acquisitions of failed institutions (assisted acquisitions). Although this guidance principally focuses on bargain purchase gains, it is also relevant to mergers in general. However, this guidance does not provide a comprehensive discussion on all aspects of accounting for mergers.

This guidance does not add to or modify existing regulatory reporting requirements issued by the Agencies or current accounting requirements under generally accepted accounting principles (GAAP).

POLICY. See the enclosed interagency policy statement in its entirety. In summary, the Agencies encourage management to discuss applicable regulatory reporting requirements and supervisory considerations with its primary federal regulator prior to consummating a merger.

At the acquisition date, the acquiring institution generally will not have obtained all of the information necessary to measure the fair value of the assets acquired and liabilities assumed in a merger. This is particularly true in the acquisition of a failed institution where the acquiring institution can perform only limited due diligence prior to the acquisition date. Accordingly, when accounting for a merger, the acquiring institution should initially record provisional amounts for the fair value of the assets acquired and liabilities assumed based on the best information available at the acquisition date. Management should then retrospectively adjust these provisional amounts to reflect new information obtained during the measurement period (not to exceed 12 months) about facts and circumstances that existed as of the acquisition date that, if known, would have affected the acquisition-date fair value measurements. Any retrospective adjustments to acquisition-date fair values will affect the provisional amount of goodwill or bargain purchase gain recognized in a merger.

Because of concerns about the quality and composition of capital when a bargain purchase gain is expected to result from a merger and the related fair value estimates have not yet been validated, the agencies may impose certain conditions in their approval of acquisitions of institutions to maintain and protect the safety and soundness of the acquiring institution. The conditions that may be imposed on an acquiring institution in approval of a merger include:

- Capital preservation plan requiring maintenance of specified regulatory capital levels;
- Dividend limitations;
- Independent audits;
- Independent valuations; and/or
- Limitation on legal lending limit.

ENCLOSURE. **"***Interagency Supervisory Guidance on Bargain Purchases and FDIC- and NCUA-Assisted Acquisitions*"

EFFECTIVE DATE. This Bulletin is effective upon issuance.

EXPIRATION DATE. This Bulletin will expire when superseded.

Director Melinda Love
Office Examination and Insurance

Attachments

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