



OCC 1994-23

Subject: Push-down Accounting
Date: April 6, 1994

**To: Chief Financial Officers of all National Banks,
Department and Division Heads, and All
Examining Personnel**

Description: Examining Bulletin

OCC 1994-23 has been replaced by FFIEC Call Report Instructions, Bank Accounting Advisory Series and OCC 2010-19.

subsidiary banks acquired before October 1, 1989 in an acquisition accounted for by the holding company using the purchase method of accounting.

In certain circumstances generally accepted accounting principles (GAAP) requires the application of a form of push down purchase accounting when a bank holding company merges one or more of its subsidiary banks with another subsidiary bank. GAAP requires this accounting when a bank holding company acquires a bank and subsequently merges it into another subsidiary bank. GAAP would require this only if the bank holding company accounted for the acquisition using the purchase accounting method and the resulting purchase accounting adjustments have not already been reflected on the acquired bank's financial records.

Regulatory accounting requires push down purchase accounting for acquisitions occurring after October 1, 1989 and meeting specified criteria. Hence, purchase accounting adjustments would be reflected on an acquired bank's books for transactions after that date. Accordingly, this GAAP requirement generally would not affect mergers of banks acquired after that date.

Because of these accounting requirements, any goodwill recorded on the holding company's books must be reflected on those of the merged bank when the merger occurs. Because regulatory policy directs that goodwill be amortized over a shorter period than that required either by GAAP or the Securities and Exchange Commission (SEC), a "catch-up" adjustment is required. The "catch-up" adjustment is the difference between the remaining calculated amortized goodwill balance using an original regulatory 15-year amortization calculation and that actually used by the bank holding company.

This "catch-up" adjustment creates a disparity between holding company and bank financial records. It also reduces bank capital and future annual bank earnings. Often, no supervisory concerns exist regarding the amount of goodwill and period of amortization. Accordingly, the current policy is being revised to allow conforming goodwill amortization periods absent any related supervisory concerns.

Policy

A surviving bank in an affiliated merger must account for the reorganization in accordance with GAAP. Accordingly, all purchase adjustments (adjusted for subsequent asset dispositions and amortization) recorded on the parent holding company's books also must be included on the surviving bank's books after the merger.

Further, for acquisitions which occurred prior to October 1, 1989, the supervising OCC district office may allow the surviving bank to continue the same amortization period for goodwill that is being used by the

parent holding company in its published GAAP financial statements. This policy, which permits increased uniformity between bank and holding company financial records, will be applied on a case by case basis.

Normally the surviving bank may continue using the parent holding company's remaining goodwill balance and amortization period. (1) If supervisory concerns exist regarding the related goodwill amount and amortization period: and, (2) such amortization period conforms to GAAP and SEC guidelines (typically 25 years).

Originating Office

Questions regarding this examining bulletin may be directed to the Office of the Chief Accountant, Chief National Bank Examiner's Office at (202) 874-5180.

Donald G. Coonley
Chief National Bank Examiner