



Federal Deposit Insurance Corporation
550 17th Street, NW, Washington, D.C. 20429-9990

Financial Institution Letter
FIL-30-2010
June 7, 2010

BARGAIN PURCHASES AND ASSISTED ACQUISITIONS

Interagency Supervisory Guidance

Summary: The federal financial institution regulatory agencies (agencies) are issuing the attached *Interagency Supervisory Guidance on Bargain Purchases and FDIC- and NCUA-Assisted Acquisitions* to address supervisory considerations related to business combinations that result in bargain purchase gains and the impact such gains have on the acquisition approval process. Approval of an acquisition may be conditioned on the acquiring institution's commitment to maintain specified levels of capital to address the risk of significant retrospective adjustments to the bargain purchase gain or other risks.

Distribution:
FDIC-Supervised Institutions

Suggested Routing:
Chief Executive Officer
Chief Financial Officer

Related Topics:

- FDIC Regulations Governing Filing Procedures for Merger Transactions, 12 CFR Part 303, Subpart D
- Statement of Policy on Bank Merger Transactions
- Statement of Policy on Qualifications for Failed Bank Acquisitions

Attachment:
Interagency Supervisory Guidance on Bargain Purchases and FDIC- and NCUA-Assisted Acquisitions

Contact:
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Note:
FDIC financial institution letters (FILs) may be accessed from the FDIC's Web site at www.fdic.gov/news/news/financial/2010/index.html.

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Highlights:

- An acquiring institution should apply the acquisition method of accounting to all business combinations, including bargain purchase transactions and assisted acquisitions, in accordance with Accounting Standards Codification (ASC) Topic 805. Acquisition-date fair values of assets acquired, liabilities assumed, and consideration transferred should be measured in accordance with ASC Topic 820.
- A bargain purchase occurs when the fair value of the net assets acquired in a business combination exceeds the fair value of any consideration transferred by the acquiring institution. Bargain purchase gains are reported in earnings and included in the computation of regulatory capital under the agencies' capital standards.
- Fair value estimates presented in a business combination application are generally preliminary. Any estimated bargain purchase gain will be affected by retrospective adjustments made during the accounting measurement period to the acquisition-date fair values of assets acquired and liabilities assumed in the combination.
- Because of concerns about the quality and composition of capital when a bargain purchase gain is expected to result from a business combination and the related fair value estimates have not yet been validated, the agencies may impose capital preservation and other conditions in their approvals of acquisitions of institutions.
- Appendices to the guidance provide information regarding selected accounting and regulatory reporting requirements for business combinations.