



# BANKING ISSUANCE

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Comptroller of the Currency  
Administrator of National Banks

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Type: Banking Circular

Subject: **Push Down Policy**

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TO: Chief Executive Officers of All National Banks, Deputy Comptrollers, District Administrators, Division Directors, and All Examining Personnel

## PURPOSE

The Federal Financial Institutions Examination Council (the "FFIEC") has approved a reporting requirement, effective October 1, 1989, to use push down accounting in certain acquisitions of national banks, state member banks and insured state nonmember banks. This reporting requirement is an addition to the Glossary to the Instructions to the Consolidated Reports of Condition and Income ("Call Report"). This banking circular explains the policy and provides an illustration of the application of push down accounting.

## BACKGROUND

Push down accounting establishes a new accounting basis for the financial statements of an acquired bank. Under push down accounting, when a bank is acquired by another entity either directly or indirectly (e.g., a bank holding company) in a purchase acquisition, yet retains its separate corporate existence, the assets and liabilities of the acquired bank are restated to fair value as of the acquisition date. In addition, the equity accounts of the acquired bank are restated to equal the purchase price paid by the buyer.

## POLICY

A bank is required to use push down accounting in preparing its Call Report if an unaffiliated arm's-length purchase acquisition of at least 95 percent of its voting stock has occurred, and it does not have an outstanding issue of publicly traded debt or preferred stock.

In these circumstances, a bank must use push down accounting if it has been acquired in a business combination accounted for as a purchase acquisition in accordance with Accounting Principles Board Opinion 16, "Business Combinations". Banks acquired in business combinations accounted for as a pooling of interests are prohibited from using push down accounting because there is no adjustment to the historical cost basis under generally accepted accounting principles. Reference should be made to the glossary entry in the Call Report entitled



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"Business Combinations" for additional information on a purchase acquisition versus a pooling of interests.

Push down accounting will also be required for Call Reports if the bank's financial statements are presented on a push down basis in reports filed with the Securities and Exchange Commission.

In addition, push down accounting may be used in an arm's-length purchase of at least 80 percent of the voting stock of an acquired bank, where the OCC and the bank's independent accountant concur that the use of push down accounting is appropriate.

To apply push down accounting, capital accounts of the acquired bank must be adjusted to equal the purchase price. The purchase price is the total cash, stock, debt and other consideration paid to acquire the voting stock of the bank. After the push down adjustments, total capital -- stock and surplus -- of the bank will equal the price paid by the purchaser. Undivided profits must be recorded at zero as in the formation of a new bank.

Asset and liability accounts of the acquired bank are adjusted to equal their fair value amounts. To the extent the purchase price exceeds those fair value amounts, the excess should be recorded on the books of the acquired bank as intangible assets. However, in no case should the net assets recorded at fair value exceed the purchase price. An illustration of the application of push down accounting is attached.

For Call Reports, a bank will report the initial increase or decrease occurring in its equity capital from the application of push down accounting on Schedule RI-A, "Changes in Equity Capital."

In purchase acquisitions not meeting the criteria above, purchase adjustments would be recorded on the books of the consolidated company. The acquired bank would retain its original historical based cost account balances.

Push down accounting may be used to record acquisitions consummated between December 31, 1988, and the date of this policy that meet the criteria for push down accounting. In these circumstances, banks should contact the Bank Accounting Division of the Office of the Chief National Bank Examiner (202) 874-5180.



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Originating Office:

Chief National Bank Examiner  
Bank Accounting Division  
Washington, D.C. 20219

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Chief National Bank Examiner

Attachment