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From: Jack LaGue [mailto:jacklague@charter.net]
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To: Director - FASB
Subject: File Reference No. 1204-001

Technical Director
File Reference No. 1204-001

This letter is in response to the Proposed Statement of Financial Accounting Standards on Business Combinations.

I have two general comments and one specific comment.

My general comments are brief since I have no doubt that other constituents will be more eloquent and convincing that I with respect to the expensing of transaction costs and the recording of acquired contingent assets and liabilities at fair value.

I do not favor the expensing of transaction costs because it would create an inconsistency between accounting for acquired assets and acquired businesses. Most assets acquired are recorded at the total cost of acquiring the asset. For example, if we acquire a bond or equity securities, we include commission costs associated with acquiring that asset as part of the cost of the asset. Same for acquired property used in the business. In assessing economics of an investment, one compares what they subsequently get from the investment to what they originally paid to acquire those cash flows - if accounting is to reflect the economic substance of transactions shouldn't it include all costs in the investment?

With respect to acquired contingencies, I do not believe that acquired contingent assets or liabilities can be measured with sufficient reliability given the current state-of-the-art of valuation practice to justify recording them at fair value. Valuation inconsistencies will be rampant and it will be difficult if not impossible for auditors to audit these valuations. We already have too many subjective valuations in purchase accounting without adding items that are even more subjective. Additionally, in the case of contingent liabilities, many of these risks might be subject to indemnifications from the seller, they would still need to be valued since right of offset generally would not exist. Recording a contingent liability at fair value and a related indemnification receivable from the seller would enrich valuation professionals and add confusion to financial statements but it would not significantly improve financial reporting.

My more specific comment relates to the bifurcation of the fair value of acquired insurance contracts as described in paragraphs 36.b. and paragraph A49.d. I suggest that the total referred to in paragraph A49.d. should consist of three components rather than two components. The first component would be as described in paragraph A49.d.(1). The second component would be a contra-liability to adjust the first component to its fair value (or an adjunct-liability if fair value exceeded the recorded value). The sum of the first two components would be the fair value of the acquired insurance contracts. The

third component would be an intangible asset representing the value of expected future renewals of the acquired insurance contracts.

The first two components would be reported as a liability consistent with Statement 141's requirement to record assumed liabilities at fair value. The third component would be reported as an amortizable intangible asset.

This would result in the appropriate accounting and reporting of short duration insurance contracts. For example, under Statement 60 an insurer would have an unearned premium liability representing the unexpired portion of the premium for short duration contracts in force which would be the first component. The second component would be a contra or adjunct liability, as the case may be, that adjusts the unearned premium liability to its fair value (to the amount of cash the insurer would expect to have to pay a typical marketplace participant to assume the remaining contractual obligations related to the unexpired coverage period). The sum of these first two components would represent the fair value of the unearned premium liability and would be reflected in income in future periods as the underlying insurance coverage expires. In addition, an intangible asset (the third component) would be established for the value of expected renewals of the acquired short-duration insurance contracts.

For long duration insurance contracts, the first component, liabilities computed under Statements 60, 97 and 120 include expected renewal premiums, either explicitly or implicitly. As a result, the second component that adjusts those recorded liabilities to fair value would implicitly include renewals for long duration insurance contracts so there would be no third component/intangible asset.

While I acknowledge that this is a relatively minor issue, my suggestion is offered principally to reduce confusion as to whether certain purchase accounting adjustments are fair value adjustments of an existing liability or are intangible assets recorded in purchase accounting.

Sincerely,

John L. LaGue, Jr.
Barre, VT USA