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October 28, 2005

Letter of Comment No: 41
File Reference: 1204-001

Technical Director
File Reference 1204-001
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Dear Sir or Madam:

The Independent Community Bankers of America¹ (ICBA) welcomes the opportunity to comment on the Exposure Draft issued by the Financial Accounting Standards Board (FASB) entitled *Business Combinations, a Replacement of FASB Statement No. 141*. ICBA represents nearly 5,000 members including mutual institutions in thirty five states.

Background and Summary of Proposal

FASB is proposing that all business combinations involving mutual institutions be accounted for by applying the purchase method of accounting (which FASB refers to as the "acquisition method"). In accordance with the acquisition method, the acquiring mutual institution would have to measure and show on its books the fair market value of the acquired mutual institution as of the acquisition date. The Exposure Draft states that in the case of business combinations between mutual institutions in which the only consideration exchanged is the member interests of the acquiree for the member interests of the acquirer, the amount equal to the fair value of the acquiree must be recognized as a

¹ *The Independent Community Bankers of America represents the largest constituency of community banks of all sizes and charter types in the nation, and is dedicated exclusively to representing the interests of the community banking industry. ICBA aggregates the power of its members to provide a voice for community banking interests in Washington, resources to enhance community bank education and marketability, and profitability options to help community banks compete in an ever-changing marketplace.*

With nearly 5,000 members, representing more than 17,000 locations nationwide and employing over 260,000 Americans, ICBA members hold more than \$631 billion in insured deposits, \$778 billion in assets and more than \$493 billion in loans to consumers, small businesses and the agricultural community. For more information, visit ICBA's website at www.icba.org.

direct addition to capital or equity, not retained earnings. Furthermore, the amount and nature of the acquired mutual entity as well as the basis for determining the fair value of the acquired mutual entity should be disclosed in the surviving entity's balance sheet.

ICBA's Position

Currently, most business combinations involving mutual institutions are accounted for using the pooling-of-interests method of accounting. Under that method, the assets and liabilities of the acquiree are carried over and combined with the assets and liabilities of the acquirer. The retained earnings of the acquiree are also carried over and added to the retained earnings of the acquirer.

ICBA urges FASB to amend its Exposure Draft so that mutual institutions may continue using the pooling-of-interests method of accounting. ICBA believes the pooling-of-interests method of accounting is still the most accurate method of accounting for business combinations involving mutual institutions particularly when the only interests that are being exchanged are the member interests of the "acquiree" and the "acquirer." This method, which combines the assets, liabilities and retained earnings of the two institutions, accurately reflects the economics of a merger between two mutual institutions when no consideration is involved in the merger. In ICBA's opinion, there is little need to determine an "acquiree" or to compute a fair value of the acquiree in a typical mutual institution merger when no check is written or stock certificates are issued. Instead, a typical business combination involving mutual institutions should be considered as a pooling or a combination of their assets, liabilities and capital.

Furthermore, ICBA is concerned that the level of complexity and costs associated with using the acquisition method will discourage many mutual institutions, particularly smaller mutual institutions, from entering into mergers or acquisitions. For instance, the acquisition method will require the acquirer in a business combination involving mutual institutions to record the fair value of the mutual entity being acquired. Since there is no purchase price or consideration that is exchanged in a typical business combination involving mutual institutions, valuation techniques other than the value of the consideration will need to be used to confirm a fair value. In many cases, this will require the acquirer to hire an accounting or appraisal firm to perform an independent appraisal.

Furthermore, acquirers will need to incur additional legal or accounting expenses just to confirm that the correct valuation technique was used in accordance with Statement No. 141, the acquirer was properly identified, and the amount of goodwill and intangible assets was accurately accounted for. There will also be ongoing costs associated with assessing any potential impairment of goodwill and intangible assets. The acquirer will also need to account for acquisition-related costs incurred in connection with the business combination separately from the business combination.

FASB indicates in the exposure draft that business combinations involving not-for-profit organizations will not be subject to the acquisition method of accounting. We would encourage FASB to consider the similarities between mutual institution business

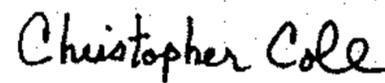
combinations and not-for-profit organization mergers and allow mutual institutions to continue using the pooling-of-interests method.

Conclusion

Because of the expense and the difficulty that mutual institutions will have using the acquisition method, ICBA urges FASB to amend its Exposure Draft so that mutual institutions may continue using the pooling-of-interests method of accounting. ICBA believes the pooling-of-interests method of accounting is still the most accurate method of accounting for business combinations involving mutual institutions.

If you have questions or need any additional information about ICBA's position, please do not hesitate to contact me at 202-659-8111 or at Chris.Cole@icba.org.

Sincerely,



Christopher Cole
Regulatory Counsel