Letter of Comment No: 112 File Reference: 1204-001



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Financial Accounting Standards Board of the Financial Accounting Foundation 401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Sent via email

RE: FILE REFERENCE 1204-001

Dear Board Members:

The Pennsylvania Credit Union Association (PCUA) appreciates this opportunity to provide comments to the Exposure Draft that would significantly change accounting practices in FASB Statement No. 141 related to mergers of credit unions and other mutual institutions ("Exposure Draft"). The PCUA is a statewide trade association that represents over eighty-five percent (85%) of the approximately sixhundred forty-nine (649) credit unions located within the Commonwealth of Pennsylvania.

To respond to this request for comments, the PCUA consulted with its Regulatory Review Committee (the Committee). The Committee consists of twelve (12) credit union CEOs who lead the management teams of Pennsylvania federal and state-chartered credit unions. Members of the Committee also represent credit unions of all asset sizes. The comments contained in this letter reflect the input of the Committee and the PCUA staff.

Comments:

As indicated in the Exposure Draft, comments are most helpful if they:

- a. Comment on the questions as stated;
- b. Indicate the specific paragraph or paragraphs to which the comments relate;
- c. Contain a clear rationale; and
- d. Include any alternative the Boards should consider.

The comments generated by our Committee most closely fall under Question 9 included in the Exposure Draft.

Question Stated and Related Paragraphs:

The Exposure Draft proposes limited exceptions to the fair value measurement principle. Therefore, some assets acquired and liabilities assumed (for example, those related to deferred taxes, assets held for sale, or employee benefits) would continue to be measured and recognized in accordance with other generally accepted accounting principles rather than at fair value. (See paragraphs 42-51 and paragraphs B143-B155.)

Question 9—Do you believe that these exceptions to the fair value measurement principle are appropriate? Are there any exceptions you would eliminate or add? If so, which ones and why?

Rationale:

Simply stated, the Exposure Draft proposes to amend the FASB Statement No. 141 to require an acquirer to measure the fair value of the acquiree, as a whole, and the assets acquired and the liabilities assumed at their fair values as of the acquisition date.

When determining the fair value of a non-surviving credit union, that measurement would be required to be based on observable prices for a business that is similar to the non-surviving credit union. If such information is not available, the surviving credit union would be required to estimate the fair value using multiple valuation techniques consistent with the market approach or income approach, which are both similar to the standard approaches used in commercial real estate appraisals.

While our Committee recognizes that it may be appropriate in some mergers between larger credit unions to apply the fair value measurement principle, this requirement would significantly discourage credit unions to participate in mergers with smaller credit unions that are in need of merger partners due to regulatory problems or the desire to provide more products and services to their members.

It is common in the credit union movement for smaller credit unions to seek merger partners when faced with regulatory requirements or restrictions imposed upon them by the National Credit Union Administration ("NCUA") or their state regulator or when they realize that they are unable to provide the products and services needed by their membership. In these circumstances, an acquiring credit union that is willing to acquire the small credit union will generally accept the value of the assets and liabilities as listed in the smaller credit union's books and records.

It is the opinion of our group that credit unions will be less willing to participate in these types of transactions as an acquirer if the acquiring credit union is required to validate or certify the values listed in the acquiree's books and records. This practice often involves significant expense related to the cost of obtaining the opinions of professionals such as accountants and appraisers. The additional expense would make such acquisitions difficult to justify to the acquirer credit union's board of directors and membership. The result is that smaller credit unions seeking merger partners would be forced to liquidate or flounder until the NCUA or its state regulator is obligated to take the troubled credit union into receivership.

Alternatives:

Based upon the above, the PCUA requests that the Board consider creating exemptions from the fair value measurement principle in the following situations:

- 1. A merger between two credit unions where the acquiree is a small credit union with assets listed on its books and records that are equal to or less than ten million dollars; and
- 2. A merger between two credit unions where the acquiree credit union is under supervisory action and/or order of the NCUA or a state regulator and the merger is considered a "mercy merger" or "supervisory merger" due to the immediate potential that acquiree credit union will be placed into receivership by its primary regulator.

The two exemptions from the fair value measurement principle would allow credit unions to participate in merger transactions with smaller or troubled credit unions, thereby, allowing uninterrupted financial services to acquiree credit union's membership. In addition, the exemption noted in paragraph two would continue to assist regulators in resolving problem institutions by merging them into safe and sound credit unions without unnecessary costs or expense.

As credit unions are owned by their membership and do not issue stock, the need to ensure that investors are provided the most accurate financial information possible is inapplicable in credit union mergers. Accordingly, the two exceptions noted above do not cause harm to potential users of the acquirer credit union's financial statements.

Thank you again for this opportunity to comment on behalf of Pennsylvania credit unions. Please feel free to contact me or any of the PCUA staff at 1-800-932-0611 if you have any questions or if you would like to discuss our comments.

Sincerely,

Pennsylvania Credit Union Association

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Laurie S. Kennedy Associate Counsel

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Attachment

cc: Association Board

Regulatory Review Committee

J. McCormack

R. Wargo

M. Dunn, CUNA