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Ms. Suzanne Q. Bielstein Director of Major Projects and Technical Activities Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116 Letter of Comment No: 85 File Reference: 1204-001

Re: Proposed Statement of Financial Accounting Standards, *Business Combinations*, a replacement of FASB Statement No. 141 (File Reference No. 1204-001)

Dear Ms. Bielstein:

Prudential is pleased to have this opportunity to comment on the FASB's Exposure Draft of the Proposed Statement of Financial Accounting Standards, *Business Combinations*, a replacement of FASB Statement No. 141. We offer the following comments, organized by numbered question as requested in the Exposure Draft:

Question 8—Do you believe that the proposed changes to the accounting for business combinations [related to measuring and recognizing the assets acquired and the liabilities assumed] are appropriate? If not, which changes do you believe are inappropriate, why, and what alternatives do you propose?

Paragraph 36 of the Exposure Draft states in part: "After initial recognition, contingencies shall be accounted for as follows: [...] "A contingency that is an asset or liability arising from an insurance contract shall be accounted for in accordance with FASB Statement No. 60, Accounting and Reporting by Insurance Enterprises, as amended (including the intangible asset, if any, recognized for the difference between the amounts recognized on the acquisition date at fair value and the amounts that would be recognized in accordance with Statement 60.)"

Paragraph 36 of the Exposure Draft should be revised to clarify the way in which the proposed *Business Combinations* standard applies to insurance contracts that are within scope not only of Statement 60, but also of Statements 97, 113, and 120.

Question 9—Do you believe that the exceptions to the fair value measurement principle [related to measuring and recognizing the assets acquired and the liabilities assumed] are appropriate? Are there any exceptions you would eliminate or add? If so, which ones and why?

Insurance contracts should be excluded at present from the specific fair value measurement requirements of the proposed Business Combinations statement. In current industry practice, insurance contract liabilities that are acquired as part of a business combination are fair-valued at acquisition through the "Value of Business Acquired (VOBA)" adjustment (also referred to as "Present Value of Future Profits (PVFP)"). This adjustment accounts for the difference between the fair-value liability amount recognized at acquisition date and the amount that would otherwise be recognized in accordance with other insurance accounting standards such as Statement 60. The VOBA (or PVFP) adjustment is sufficient in current practice to achieve fair valuation at acquisition date of insurance liabilities acquired as part of a business combination.

The IASB's Phase II initiative includes the accounting for insurance contracts. The IASB Working Group is currently deliberating insurance contract accounting and has deferred the expected completion of its insurance contract project due the need to properly address the many complex issues defined by the Working Group. Since the IASB has not yet reached conclusions on accounting for insurance contracts and what components should be included in measuring them, it is premature for the FASB to include in the Business Combinations statement a specific requirement that insurance contracts be fair valued.

When the IASB has completed its work on accounting for insurance contracts and its conclusions are available for purposes of convergence, the FASB's Business Combinations statement can be amended to reflect the IASB's conclusions.

Question 7—Do you agree that the costs that the acquirer incurs in connection with a business combination are not assets and should be excluded from the measurement of the consideration transferred for the acquiree? If not, why?

We do not agree that costs incurred by the acquirer in connection with a business combination are not assets and should be excluded from measurement of consideration transferred for the acquiree. We believe that the fair value measurement of the business acquired should include not only the consideration received by the seller, but also the acquisition-related costs paid by the buyer to third parties for legal, accounting, appraisal, actuarial, due diligence, and other work necessary to consummate the purchase of the business. Charging these acquisition-related costs to expense in the period incurred inappropriately reduces current period earnings. The economic benefit of the acquisition transaction will continue over an indefinite period of time and thereby constitutes an asset of indefinite life. Further, charging acquisition-related costs to expense in the period incurred is inconsistent with the treatment of acquisition costs associated with the purchase of individual assets such as buildings, whose acquisition costs are capitalized. The requirement to periodically test goodwill for impairment, based on fair values, should mitigate any concern about including acquisition costs as part of purchase price.

Prudential appreciates this opportunity to comment on the Business Combinations Exposure Draft. We would be pleased to discuss any questions that the FASB may have concerning our comments.

Sincerely,

Dennis G. Sullivan

Principal Accounting Officer

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