



WORLD-CLASS INVESTMENT MANAGER[®]

Letter of Comment No: 105
File Reference: 1204-001

October 28, 2005

Technical Director
File Reference No. 1204-001
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

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

Dear Technical Director:

We appreciate the opportunity to comment on proposed Statement of Financial Accounting Standards, "Business Combinations, a replacement of FASB Statement No. 141" (the "Exposure Draft"). Federated is one of the largest investment managers in the United States, managing over \$207 billion in assets as of September 30, 2005. Federated's primary operations include advising and administering Federated mutual funds, separately managed accounts and other Federated-sponsored products, in both domestic and international markets.

We support the Board's efforts to improve financial reporting while promoting the international convergence of accounting standards. However, we have concerns about the underlying principle of the Exposure Draft. That is, we do not agree that a business combination should result in the recognition of the acquired business at its fair value. This is a significant departure from the traditional cost-based foundation for business combinations and other non-financial asset purchase transactions under current literature. As a result of this departure, we believe companies will be required to record many more acquisition-related charges as period expenses and will experience significant increases in volatility in earnings in the periods following an acquisition transaction. Though our concern with this change in principle is wide-ranging, we will focus our remaining comments on the following changes in practice that this Exposure Draft would trigger.

Contingent Consideration

The Exposure Draft proposes that contingent consideration should be recognized at fair value on the acquisition date, with subsequent changes to fair value being recorded through the income statement.

Contingent consideration is a typical form of consideration offered in the acquisition of investment advisory businesses which include customer relationship-related intangible assets.

The value of an investment advisory business is heavily dependent upon the retention and growth rates associated with the underlying managed assets, including the effects of market appreciation and depreciation. The benefit of structuring an acquisition of this nature with contingent consideration as compared to 100% upfront consideration is that the buyer's risk of loss is minimized in the event that asset redemption rates or declines in market conditions are significantly higher than acquisition-date expectations. In general, contingent consideration is paid out over a period of several years following the acquisition closing date.

Fund shareholder behavior and changes in market conditions are key assumptions used to estimate the fair value of an investment advisory business that require significant judgment. Attempting to determine and recognize the fair value of the contingent consideration at the acquisition date will significantly increase the complexity of our valuation models and the assumptions used to estimate initial fair value of acquired assets due to the inherent uncertainties regarding several key assumptions being applied over a multiple-year period.

In addition, we believe this accounting would produce financial results over the period of contingency that contradict the substantive economics of the transaction. That is, if we pay more in contingent consideration than we originally estimated at the acquisition date due to the assets acquired having performed better than originally anticipated, the excess consideration will result in higher current period expenses. By contrast, if our original assumptions to value the contingent consideration were too optimistic, the reversal of the overstated contingent consideration obligation will produce a current period gain in the financial statements. We believe this counterintuitive financial reporting result will be confusing to readers of our financial statements in the years that follow an acquisition.

Direct Costs of Acquisition and Restructuring Costs

The Exposure Draft proposes that direct costs of the acquisition and any restructuring costs should be expensed at the time they are incurred. We do not agree with the Board's rationale that such costs should be expensed because they are not part of the consideration exchanged between the buyer and seller. We believe that the indicator of fair value should not exclusively be the value of consideration exchanged between the buyer and seller. From the buyer's perspective, all costs necessary to consummate the acquisition are considered when determining the fair value of the business for purposes of offering a bid, regardless of whether the costs represent payments to the seller or others directly involved in the sale (accountants, legal counsel, investment banker, severance payments to employees of seller, etc.).

* * *

We welcome any questions you may have regarding our comments. Please contact Stacey Friday at (412) 288-1244 or Perry Harrop at (412) 288-8478.

Sincerely,

/s/ Denis McAuley III
Denis McAuley III
Principal Accounting Officer