

October 28, 2005

**Letter of Comment No: 95**  
**File Reference: 1204-001**

Ms. Suzanne Bielstein  
Director, Major Projects and Technical Activities  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

**File Reference No. 1204-001**

**FASB Exposure Draft of the Proposed Statement of Financial Accounting Standards, "Business Combinations, a replacement of FASB Statement No. 141"**

Dear Ms. Bielstein:

The Principal Financial Group (PFG) is pleased to have the opportunity to submit our comments on the Exposure Draft of the proposed Statement of Financial Accounting Standards, "Business Combinations, a replacement of FASB Statement No. 141." PFG is a publicly held financial services organization, providing retirement and investment services, life and health insurance and banking services.

We support the Board's effort to improve financial reporting while promoting international convergence of accounting standards. However, we do have some concerns with the issuance of the Exposure Draft in its current form, thus, we have provided our proposed alternatives or requested further clarification as noted in the specific questions listed below:

***Question #5 – Is the acquisition-date fair value of the consideration transferred in exchange for the acquirer's interest in the acquiree the best evidence of the fair value of that interest? If not, which forms of consideration should be measured on a date other than the acquisition date, when should they be measured, and why?***

We disagree with the Board's proposal to include fair value of contingent consideration as part of the valuation of a business acquired at the time of acquisition. Parties do not necessarily agree to the same value of the contingent consideration and there is no transparent agreed-upon evidence to support a valuation. Under the proposal, the acquirer is charged with determining and assigning the value. In absence of a reference market or other substantive evidence, this is highly subjective and difficult to determine with reliability. In today's accounting environment, this puts a burden on the acquirer and its auditors to document and agree upon a consistent and reliable valuation. As facts and circumstances are unique with each acquisition, it will be difficult to develop a consistent and rational model to support the valuation. We believe this will increase the overall costs related to acquisition accounting, with little benefit to the users of the financial statements.

We do not believe the fair value of contingent consideration meets the definition of a liability under U.S. GAAP. Per paragraph 35 of Financial Accounting Standards Board ("FASB") Concept Statement 6, *Elements of Financial Statements – A Replacement of FASB Concepts Statement No. 3*, liabilities are probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events. The fair value of a contingent consideration obligation involves "future" events that are typically highly uncertain on the date of acquisition.

We believe that the guidance in paragraph 8 of Statement of Financial Accounting Standards (“SFAS”) 5 (“SFAS 5”), *Accounting for Contingencies*, is appropriate for determining when to recognize a liability related to contingent consideration. Contingent consideration should be recognized as an adjustment to the acquisition cost when payment becomes probable and can be reliably measured.

We believe SFAS 5, paragraph 10, provides guidance that is most useful to the users of financial statements, as it requires disclosure of the contingency and potential future financial impact of the obligation, including an assessment of probability.

***Question 6 – Is the accounting for contingent consideration after the acquisition date appropriate? If not, what alternative do you propose and why?***

As discussed in our response to Question 5, we do not believe the fair value of contingent consideration meets the definition of a liability under U.S. GAAP. Accordingly, until the criteria of SFAS 5 have been met, reporting the change as an adjustment to a liability is misleading to the users of financial statements.

***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 with the proposal that costs incurred as part of the transaction should be excluded from the measurement of consideration. These costs, whether contingent on the deal occurring or not, are an integral part of the valuation of an entity. By including the costs in the valuation, acquirers understand and price these incremental expenses into their valuation models, which could ultimately reduce the amount actually paid to the seller. Expensing items related to the acquisition as services are rendered would inappropriately result in a financial statement impact in the current period while the benefit is received in future reporting periods.

We also believe expensing costs incurred by the acquirer in connection with a business combination should be treated similarly to other costs that are capitalized for GAAP and amortized over the benefit period (similar to certain costs capitalized as part of internally developed software under Statement of Position No. 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use* and, for insurance operations and acquisition costs related to selling a life, annuity or retirement product under SFAS No. 60, *Accounting and Reporting by Insurance Entities* and SFAS No. 97, *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments*, etc.). These costs incurred as part of the business combination are considered a necessary expense to acquire the business, are factored into the valuation, and should therefore be capitalized as part of the purchase price.

***Question 8 – Do you believe that these proposed changes to the accounting for business combinations are appropriate? If not, which changes do you believe are inappropriate, why, and what alternatives do you propose?***

We do not believe the fair value of contingencies acquired meets the definition of a liability under U.S. GAAP. Per FASB Concept Statement 6, paragraph 35, liabilities are probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events. The fair value of a contingency obligation involves “future” events that are typically highly uncertain on the date of acquisition.

We believe that SFAS 5, paragraph 8 guidance is appropriate for determining when to recognize a liability related to contingencies acquired as they are not probable or reliably measurable at the date of acquisition.

We believe SFAS 5, paragraph 10, provides guidance that is most useful to the users of financial statements, as it requires disclosure of the contingency and potential future financial impact of the obligation, including an assessment of probability.

In addition, we do not agree with the proposal that will require restructuring and exit costs to be expensed at the time they are incurred. These costs are a significant component in evaluating an acquisition and determining the value for the acquirer. Restructuring costs are necessary to achieve planned synergies, which can be reflected in both the purchase price and the business strategy of pursuing the transaction. We feel that if the restructuring or exit costs are identified at the time of the acquisition and a plan is in place, these costs should be included as part of the purchase price.

***Question 13 – Do you agree that comparative information for prior periods presented in financial statements should be adjusted for the effects of measurement period adjustments? If not, what alternative do you propose and why?***

We disagree with the Board's proposal that comparative information for prior periods presented in financial statements should be adjusted for the effects of measurement period adjustments. We believe that adjustments made to provisional values recorded within one year of the closing date should be accounted for prospectively.

As noted in paragraph 10 of Accounting Principles Board Opinion 20, *Accounting Changes* ("APB 20"), changes in estimates used in accounting are necessary consequences of periodic presentations of financial statements. We feel the principles of APB 20 should also be applied to business combinations. The estimates prevalent in a business combination (i.e. value of business acquired, market value of tangible assets acquired, etc.) are no different than any other estimate within a company's financial statement (i.e. uncollectible receivables, inventory obsolescence, periods benefits by a deferred cost, claims experience on an insurance product, etc.). With the exception of this proposal, changes in estimates are refined as new information becomes available and do not require retrospective adjustments. We feel that estimates inherent in business combinations should be treated similarly to any other financial statement estimate and believe that prior period results should only be adjusted in the event of an error.

Information about the assets acquired and liabilities assumed often changes during the measurement period. To require restatement for each change creates administrative costs, which we feel outweigh the benefit of comparability between periods. Thus, we feel that an alternative approach would be to disclose any significant changes to estimates that occur during the measurement period.

If you would like to discuss this letter with us in more detail, please feel free to contact me at (515) 247-6945.

Sincerely,

Greg Elming  
Vice President and Controller  
Principal Financial Group