

Patricia Lapolla

From: Carl Olson [olson@lafn.org]
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Comments by

Carl Olson
Chairman
Fund for Stockowners Rights
P.O. Box 6102
Woodland Hills, California 91365
818-223-8080
FFSR is a 501(c)(3) research and education group.

File No. 1204-001 "Proposed Statement of Financial Accounting Standards—Business Combination, a replacement of FASB Statement No. 141"

1. The inclusion of mutual entities is a welcome addition to the application of GAAP. Substantially more discussion of these should be included.
2. A mutual business entity needs to be distinguished better from a stock corporation entity. A mutual does not distribute any net income to its owner-members. At the wind-up of a mutual, the net assets are distributed to its owner-members by some pre-determined formulation. The voting power is generally one vote per membership. It may be possible in some situations for a person/entity to have more than one membership, and that some memberships may have more or less than one vote.

Mutuals do produce net income/loss, or net comprehensive income/loss. There are sometimes financial maneuvers utilized to make sure that the net income be nearly zero, including the payment of rebates, refunds, or insurance "dividends" to owner-members. This net income may or may not be subject to federal and state income tax. With certain limits on the net income, a mutual may avoid taxable income.
3. The benefits received by owner-members of mutuals need to be expanded upon. The term "proportionately" is rather vague and should be explained. (The term "directly" is appropriate.) In addition to being owner-members, they can be creditors (lending money or pre-paying annual memberships), or borrowers, or consumers/buyers of goods or services produced/sold by the mutual. In addition, a mutual may sell its goods or services to non-member-owners.
4. Even though they are called "dividends" at a credit union, these payments to credit union members are not distributions of income but rather are payments of interest on member savings accounts. The

"dividends" are not declared by the credit union board, but rather are contractual obligations. The IRS code is clear on this.

In addition, the use of the term "dividends" for mutual and reciprocal insurance companies does not mean a distribution of income. It is a rebate or refund of premiums. The IRS code is clear on this.

5. Co-operative entities should be included. For co-operative apartments, a membership may be in the form of stock in the managing corporation along with a proprietary lease for the particular unit

6. Mutual entities should include mutual insurance companies and reciprocal insurance entities.

7. Sometimes people are confused by terms about mutual business entities, such as mistaking all entities labeled "nonprofit" and "not-for-profit" as being public benefit or charitable entities. Those entities have revenues which are donations, and upon winding up the assets are generally to be distributed not to any individuals but to other public benefit or charitable entities. It should be made clear in B41-42 that mutuals are not being excluded, even though they may be "nonprofit" or "not-for-profit" corporations.

The New York Stock Exchange, Inc. is a mutual business entity in the form of a New York "not-for-profit corporation". The Automobile Club of Southern California is a California "nonprofit mutual benefit corporation". Both provide goods and/or services for their owner-members.

8. Subsidiaries don't necessarily need to be acquired, i.e. existing entities purchased or otherwise come under control. They can be created or formed anew by the parent by itself or in arrangement with other entities. The terminology about "acquisition" may need to be expanded to include "creation". For created subsidiaries, the valuation method needs to be defined, possibly with the amount of capital contributed. These created subsidiaries may or may not be wholly controlled.

9. The types of legal entities which can be subsidiaries of mutuals and other entities should be enumerated: stock corporation, mutual benefit corporation, limited liability corporation, limited liability partnership, limited partnership, general partnership, reciprocal insurance company, condominiums, co-operatives, unincorporated clubs etc. (An example of a controlled reciprocal insurance company by a nonprofit mutual benefit corporation is the Interinsurance Exchange of the Automobile Club, which is controlled by the Automobile Club of Southern California.)

10. It should be explicitly determined whether subsidiary status applies to a controlled foundation, controlled charitable organization, controlled public benefit corporation, or controlled political action committee. This is not to be confused with a nonprofit controlling a for-profit entity.