1500-100

January 25, 2007

LETTER OF COMMENT NO. 2

Financial Accounting Standards Board
Technical Director—File Reference Nos. 1500-100 and 1500-200
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

Re: Exposure Drafts – Not-for-Profit Organizations: Mergers and Acquisitions and Not-for-Profit Organizations: Goodwill and Other Intangible Assets Acquired in a Merger or Acquisition.

Ladies and Gentlemen:

The Accounting Practices Committee of the United States Conference of Catholic Bishops (USCCB) is pleased to offer its comments on the above referenced documents.

Our response is on behalf of 195 (Arch) dioceses and 634 religious institutes of the USCCB, Leadership Conference of Women Religious, and Conference of Major Superiors of Men. These organizations operate and sponsor thousands of religious, educational, charitable and other not-for-profit entities throughout the United States collectively known as the Catholic Church.

The USCCB Accounting Practices Committee consists of eleven members with an (Arch) diocesan affiliation, four members representing religious orders, and five advisors from certified public accounting firms.

At a recent meeting, the Committee spent considerable time discussing the aforementioned Exposure Drafts. The Committee concurs with most of the guidance provided in the Exposure Drafts, but does have one significant concern.

A Catholic diocese or other organization may merge with, or acquire another not-for-profit ministry for non-economic reasons. This happens when an unrelated entity is struggling financially but provides a needed service in the community and the diocese/Catholic organization would like to see the ministry continue even though it is not economically viable. Most organizations would not enter into a merger or acquisition in this situation, but would seek other means to keep the ministry alive in the community.

In these instances, it may be necessary for the acquirer to recognize goodwill based on the fair value of the identifiable assets compared with the fair value of the liabilities assumed and the consideration transferred for the acquiree (if any). Goodwill is an intangible asset representing expected benefits from synergies of a merger or acquisition. In the scenario described above, it is possible that no such synergies will be generated and, thus, no real basis for recording goodwill. While the proposed statement (File Reference No. 1500-200) does provide for goodwill to be reduced when impairment

has been determined, it is not clear if this can be done at the time of the merger/acquisition.

It is our opinion that, if there are no expected benefits from synergies of a merger or acquisition, that goodwill does not exist and that a charge should be recorded on the statement of activities *at the time of the merger of acquisition* rather than at a later reporting date.

We respectively request that this be addressed in the pronouncements.

Thank you for your attention and consideration of this matter of concern to our Committee. If we can be of any further input or assistance, please do not hesitate to contact me.

Very truly yours,

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file id: Goodwill considerations.doc