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America's Credit Unions

October 28, 2005

Letter of Comment No: 83
File Reference: 1204-001

Technical Director
Financial Accounting Standards Board
P.O. Box 5116
Norwalk, Connecticut 06856-5116

RE: File Reference – 1204-001

To Whom It May Concern:

The Georgia Credit Union League (GCUL) appreciates the opportunity to comment on Financial Accounting Standards Board's (FASB's) Exposure Draft for Business Combinations.

GCUL is the state trade association and one of the network of state leagues that make up the Credit Union National Association (CUNA). The Georgia League serves approximately 195 credit unions that have over 1.7 million members. This letter reflects the views of our Regulatory Response Committee, which has been appointed by the GCUL Board to provide input into proposed regulations such as this.

<u>Executive Summary</u>:

FASB, along with the International Accounting Standards Board, has released its Exposure Draft (proposal) that would significantly change accounting practice for mergers of credit unions and mutual institutions (including thrifts and mutual banks). The proposal would implement the FASB merger rule that eliminates the pooling-of-interests method of accounting for business combinations (simple combination of the balance sheets of the merging entities), the approach presently used in the majority of credit union mergers. Instead, the proposal requires the use of the purchase method of accounting (which FASB terms the acquisition method).

Summary of GCUL's Position:

While we understand FASB is committed to requiring the use of the acquisition method approach to accounting for credit union mergers, we remain steadfast in our position that the acquisition method is not the best representation of what occurs in a typical credit union merger.

A credit union merger represents the joining of the credit union fields of membership. This is quite different from other industries whereby one entity acquires, or purchases, another. By eliminating the pooling-of-interests method, in our view, FASB will be applying non-mutual entity guidelines to the combinations of mutual entities. In doing so, this will 1) create substantial regulatory burdens on credit unions that desire to merge, 2) cause unnecessary expenses to be incurred by the merging credit unions, and 3) likely prevent many credit unions desiring to merge from doing so. By not using the pooling-of-interest method, two smaller, but financially sound credit unions could become one larger, financially 'unsound' credit union because they are not able to add reserves/capital together. This would not be a true and accurate reflection of the financial position of the new institution but instead a flaw in the methodology. Much like a marriage, by pooling-of-interests, the new entity should be stronger after the merger than the two individuals were before the merger. If the accounting method used weakens the surviving entity, it should not be used.

We would like to see reconsideration by FASB of a potential exception in the case of mutual institution mergers.

Thank you for the opportunity to comment on the Exposure Draft for Business Combinations. If you have questions about our comments, please contact Cynthia Connelly or me at (770) 476-9625.

Respectfully submitted,

Richard Ellis
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Georgia Credit Union League