

Letter of Comment No: 76 File Reference: 1204-001

October 26, 2005

Technical Director - File Reference 1204-001 Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

www.theaccu.org

Via E-mail: director@fasb.org

Re.: Business Combinations Exposure Draft

Dear Sir or Madam,

The Association of Corporate Credit Unions (ACCU) is pleased to provide comments in response to the Financial Accounting Standards Board (FASB)'s Exposure Draft related to Business Combinations — a replacement of FASB Statement No. 141. By way of background, ACCU is the primary trade association for the country's corporate credit unions (corporates) located around the country. Corporates provide liquidity, investment products, payments settlement and other financial services to the nation's federal and state-chartered credit unions.

The proposed Statement would make changes to the accounting rules that govern the combination of mutual entities. Specifically, it would eliminate the pooling method, and require the acquisition method be applied. We remain convinced that the pooling method of merger accounting is the more accurate representation of the combination of credit unions. Additionally, we believe the acquisition approach creates a burden that will inhibit the ability of credit unions to merge, add significant costs to such transactions, and add a level of confusion, not clarity to the financial statements of the surviving entity. Further, the inhibition of credit union mergers will create a profound safety and soundness concern for the credit union industry.

We foresee several difficulties in fair valuing the credit union acquired in a merger. First, there is no observable market data and there is no consistent valuation methodology. Further, we do not agree with the concept of determining a value of the entity as a whole. Calculating this value would be a significant financial burden.

We disagree with the proposal's creation of a separate equity classification on the books of the acquiring institution for the amount equal to the fair value of the acquiree. The equity section of the balance sheet should be kept simple and clear for the benefit of the user of the financial statement. This could possibly result in differences between equity as defined under generally accepted accounting principles and regulatory equity, especially if regulatory equity excludes goodwill and intangible assets.

Implementation of the acquisition method will undoubtedly increase costs, introduce unnecessary accounting complexities, create a new form of capital that is not easily understood and generally discourage future mergers. But most notably, the inability of accounting rules to fully accommodate credit union mergers, which are sometimes done for safety and soundness purposes, poses a significant risk to a system on which over 80 million Americans rely for basic financial services.

We do not support the change in the Exposure Draft providing that the costs the acquirer incurs in connection with a business combination, such as legal fees, should be expensed. We think it makes more sense to record the estimated cost amounts associated with restructuring or exit activities at the time the merger deal is completed as is done currently than to record such costs in the income statement when they occur as required under the Exposure Draft.

Finally, FASB has excluded certain business combinations from the scope of the Exposure Draft. We strongly urge FASB to exclude credit union mergers thus permitting the continued us of the pooling method of accounting.

We appreciate the opportunity to comment on this Exposure Draft. If I may answer any questions, please contact me by phone at (202) 508-6731 or by e-mail at mcanning@cuna.coop.

Sincerely,

Michael F. Canning, Esq., CAE, CUDE Executive Director