Letter of Comment No: 18 File Reference: 1204-001

October 25, 2005

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

Via e-mail: director@fasb.org

Dear Sir or Madam:

Mid-States Corporate Federal Credit Union (Mid-States) appreciates your willingness to consider our comments regarding the Financial Accounting Standards Board (FASB) Exposure Draft, Proposed Statement of Financial Accounting Standards, "Business Combinations, a replacement of FASB Statement No. 141". For background, Mid-States is a \$4.5 billion corporate credit union that is owned by and provides services to over 1,000 credit unions throughout the United States. Mid-States has completed two mergers under the pooling method of accounting and has witnessed consolidation within the credit union community.

We do understand FASB's objective to create a single-method of accounting for business combinations. However, we believe in the pursuit of this goal that the FASB has not adequately considered the cost of implementing this rule, especially for smaller organizations. We believe that the additional cost will outweigh any benefit and that the pooling method is, and should continue to be, the right method of accounting for credit union mergers. Specifically, we believe the following reasons support this position:

- When credit unions merge, the acquiring credit union does not write a check or issue stock certificates. Assets and liabilities are simply combined and each member retains one vote in the surviving credit union. The pooling method of accounting reflects the true intent of the transaction.
- The acquisition method will add considerable transaction costs as credit unions pay valuation experts to independently determine the fair value of each asset and liability. This, in essence, will create a premium or discount on each individual asset or liability that is acquired. Further complicating the accounting process is that most core data processing systems are not configured

to account for the premium or discount on each financial asset or liability. This accounting will most likely need to be completed manually or on a spreadsheet.

- Applying the acquisition accounting method to a credit union merger will create significant amounts of goodwill and intangible assets and with the credit entry recorded as an increase to equity. The formation of assets such as goodwill and intangibles will introduce additional costs when credit unions pay for the annual impairment testing and evaluation. The inevitable write-off of goodwill and intangible assets will also confuse the users of the financial statements, especially if the impairment entries are recorded several years after the initial transaction.
- The acquisition method will create a new form of equity for credit unions that will not be easily understood. This new type of equity will need to be considered by the regulatory authorities and significant effort will need to be expended to update and account for this new form of equity within governing regulations. 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.
- Lastly, FASB has demonstrated flexibility by excluding certain business combinations from the scope of the current exposure draft. Specifically, combinations between not-for-profit organizations are not subject to the acquisition method of accounting. We encourage FASB to consider granting a similar exclusion for credit union mergers and permit the continued use of the pooling method of accounting.

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.

In summary, we believe that the pooling method is the right accounting method for credit union mergers and we appreciate the opportunity to express our views on the exposure draft. Thank you for your consideration of our comments and please let me know if you have any questions about this letter.

Sincerely,

Todd M. Adams Chief Financial Officer Mid-States Corporate Federal Credit Union