October 28, 2005

Technical Director – File Reference 1204-001
Financial Accounting Standards Board
401 Merritt 7
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Proposed Statement of Financial Accounting Standards

Business Combinations,
a replacement of FASB Statement No. 141

We appreciate the opportunity to comment on the above-referenced proposed Statement of Financial Accounting Standards. BB&T Corporation and its subsidiaries offer full-service commercial and retail banking and additional financial services such as insurance, investments, retail brokerage, corporate finance, treasury services, international banking, leasing and trust. With over $107 billion in assets, BB&T Corporation is the nation’s ninth largest financial holding company.

We commend the FASB on its efforts to improve financial reporting and promote the international convergence of accounting standards. However, we cannot support the proposed Standard as it is currently drafted.

As described below, we do not believe that key provisions of the proposed Standard improve upon SFAS 141 and related pronouncements. We believe that the proposed Standard will reduce the comparability, transparency and usefulness of financial statements. In addition, certain aspects of the proposed Standard are extremely difficult to implement. We fully expect that analysts will request information to eliminate the impact of many of the proposed provisions within this Standard, including the acquisition of a controlling interest, recognition of contingent consideration and contingent assets and liabilities, because they are not indicative of operating performance. Acquirers will have to increase reliance upon external valuation firms, thereby increasing acquisition costs, and will have to apply more difficult and subjective accounting both at acquisition date and in post combination. As a result, we believe that much of the additional costs and effort required of acquiring entities is not value additive.
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Question 1—Are the objective and the definition of a business combination appropriate for accounting for all business combinations? If not, for which business combinations are they not appropriate, why would you make an exception, and what alternative do you suggest?

We believe the objective and definition of a business combination are appropriate for acquisitions within the scope of the proposed Statement.

Question 2—Are the definition of a business and the additional guidance appropriate and sufficient for determining whether the assets acquired and the liabilities assumed constitute a business? If not, how would you propose to modify or clarify the definition or additional guidance?

We believe the definition of a business is appropriate and generally sufficient for determining whether the assets acquired and the liabilities assumed constitute a business.

Question 3—In a business combination in which the acquirer holds less than 100 percent of the equity interests of the acquiree at the acquisition date, is it appropriate to recognize 100 percent of the acquisition-date fair value of the acquiree, including 100 percent of the values of identifiable assets acquired, liabilities assumed, and goodwill, which would include the goodwill attributable to the noncontrolling interest? If not, what alternative do you propose and why?

We believe it is misleading to recognize 100 percent of the fair value of the acquiree at acquisition date unless we acquire 100 percent of the entity on that date. Although we understand the theoretical basis for this provision, we believe recognition of a step-up in basis for assets and liabilities of which we are not the owner, when combined with the inherently subjective nature of many of the remaining fair value provisions within this proposed Standard, will detract from the ability of a reasonable investor to assess and understand the financial condition of acquisitive businesses. Accordingly, we believe that the current method, in which the non-controlling interest retains its historical basis and receives its proportionate share of net income, is appropriate.

In addition, this requirement may negatively impact the willingness of market participants to acquire less than 100 percent of an entity as a result of the potential impact to performance ratios that may result from this treatment.

Question 4—Do paragraphs A8–A26 provide sufficient guidance for measuring the fair value of an acquiree? If not, what additional guidance is needed?

We believe that paragraphs A8-A26 provide directional guidance consistent with proposed fair value measurement guidance. However, we believe that the proposed direction toward fair value measurement is not beneficial to reasonable investors except
in cases of efficient markets with readily available quoted prices. In most acquisitions, complex businesses with a variety of assets and liabilities cannot generally be compared to other businesses for valuation purposes because the mix of assets, liabilities and core operations are sufficiently dissimilar even within an industry to preclude an acquirer from solely relying upon market data for the initial basis of a fair value calculation. Barring the availability of readily available market prices, any technique to assign fair value is subjective. Over time, this subjectivity will have a much larger impact on the comparability of financial statements between acquisitive and non-acquisitive businesses. Although we do not propose a rules-based approach to valuation techniques, we believe that in order to reduce the subjectivity inherent in valuation techniques, market participants should have ready access to industry norms for market values of asset and liability classes. It would then be the responsibility of an acquirer to assign an asset/liability to the most appropriate class and evaluate its useful life and expected value based upon internally derived information in comparison to industry norms. Unless this data is developed as a baseline, acquirers will be dependent upon valuation firms of varying caliber and varying interpretations of this provision by audit firms and regulatory agencies.

**Question 5—Is the acquisition-date fair value of the consideration transferred in exchange for the acquirer’s interest in the acquiree the best evidence of the fair value of that interest? If not, which forms of consideration should be measured on a date other than the acquisition date, when should they be measured, and why?**

Although we understand the rationale of this provision, we believe that intervening market events that occur almost continuously will/may have a significant impact on the purchase price of an entity, eventually impacting goodwill. We also believe that this provision will force acquirers to address the additional risks by modifying the nature of acquisition agreements which will, in turn, impact future negotiation processes.

A potential consequence of the proposed Standard may result from acquisitions with stock consideration. It is possible that the stock price of the acquirer may increase significantly between announcing a definitive purchase agreement with a fixed number of shares to be transferred and consummation due to events unrelated to the business combination. The interim increase in stock price would result in an increase to goodwill. Since goodwill is an asset that is not amortized, we believe application of this provision may result in an impairment event created by the proposed guidance. We strongly believe that this would not be appropriate or meaningful to users of the financial statements. This provision may also inhibit an acquirer’s ability to negotiate transactions.

The current methodology as described in EITF 99-12 ("the value of the acquirer's marketable equity securities issued to effect a purchase business combination should be determined, pursuant to the guidance in paragraph 74 of Opinion 16, based on the market price of the securities over a reasonable period of time before and after the terms of the acquisition are agreed to and announced") is more indicative of the true economics of the transaction and provides a reasonable and systematic methodology. We believe that current GAAP is more indicative of fair value in regard to stock issued than the proposed
guidance. As a result, we are a proponent of current GAAP to measure the value of stock issued.

Question 6—Is the accounting for contingent consideration after the acquisition date appropriate? If not, what alternative do you propose and why?

We do not agree with the provision to recognize contingent consideration at fair value on the date of acquisition or with making subsequent adjustments through earnings. In our experience, contingent consideration is often included when the fair value of the target is not readily determinable and the acquirer and the target cannot agree on the value. The deal is structured with a lower initial payment and a contingent consideration provision that is designed to provide for additional payout if the value of the business received exceeds the initial payment. This provision is intended to be a proxy for fair value and the purchase price is adjusted to adequately remunerate the prior owners. Accordingly, we believe the current methodology that values the contingent consideration when issued or issuable is more indicative of the true economics of a business combination.

Fair value implies the existence of readily available substantive information to support a value being recorded in the financial statements. As a result of the lack of reliable historical data, the ability to establish probable outcomes of each potential earnings stream is generally subjective. In addition, marketplace participants have been provided little, if any, guidance regarding acceptable discounting techniques. When these factors are combined with the fact that future earnings will be negatively impacted by the assignment of an understated value, we believe there will be an inherent tendency toward overestimating the value because settlement at less than estimated will result in a positive impact to the income statement while underestimations will be recognized in expense. We also believe that these provisions will place constraints upon potential acquirers that will negatively impact the ability to negotiate transactions.

We believe that implementation of this provision will provide no additional value to the users of financial statements. We believe that current guidance regarding the treatment of contingent consideration is more reliable than the proposed change because the additional consideration, based on the acquisition date economics, is recorded when determinable. We also believe that existing disclosure requirements for off balance sheet commitments adequately address investor needs regarding potential payments of contingent consideration.

If the Board decides to retain the proposed treatment of contingent consideration, we believe the current wording regarding equity based contingent consideration is inadequate to ensure comparable application among acquirers. The Standard should clearly state how these types of instruments should be accounted for both at acquisition date and post-combination through the date the contingency is resolved. This would eliminate the current confusion as a result of the reference to other generally accepted accounting principles. For example, if the instrument requires the delivery of a fixed number of shares of stock only if a performance condition is met, would the previously recorded amounts be reversed if the performance condition is not met?
**Question 7**—Do you agree that the costs that the acquirer incurs in connection with a business combination are not assets and should be excluded from the measurement of the consideration transferred for the acquiree? If not, why?

We do not agree with the provision to expense certain costs in connection with a business combination. In evaluating whether to acquire another enterprise, an entity takes into consideration all facets of the transaction. The primary consideration is whether the target will provide a reasonable return on investment and that investment includes the costs of acquisition. While these costs in and of themselves do not add value, it is incorrect to assume the value of the enterprise does not support inclusion of these costs. It would be misleading and reduce comparability of financial statements to expense these costs.

In addition, costs to acquire individual assets, as well as costs to issue certain liabilities such as debt, are capitalized in accordance with the various applicable pronouncements. A business combination has certain expected costs that will be incurred and should be reflected in the purchase price. Qualifying costs should be clearly identifiable, direct costs of the acquisition and are generally nominal in comparison to the consideration paid.

Clearly, if the value of the enterprise does not support the costs and consideration paid, these excess amounts should be expensed.

**Question 8**—Do you believe that these proposed changes (measuring and recognizing assets acquired and liabilities assumed) to the accounting for business combinations are appropriate? If not, which changes do you believe are inappropriate, why, and what alternatives do you propose?

Although we are in agreement that certain provisions of SFAS 141 are in need of change, we do not agree with many of the proposed changes because the changes increase the impact to the financial statements from subjective estimations and introduce divergent accounting for similar assets and liabilities based on whether the related asset/liability was acquired or obtained/incurred in the normal course of operation. The changes also introduce unwarranted additional complexity to the acquisitions process and subsequent accounting requirements for similarly positioned assets and liabilities.

We believe that the proposed Standard, if approved as submitted, presents the following challenges:

a) **Valuation Allowances**

We strongly oppose this provision as a result of both practical implementation issues as well as financial reporting concerns. Elimination of the allowance carryover will require that multiple processes and systems be designed and implemented for certain assets such as loans. If there is an inference that the provisions of SOP 03-3 should be applied to all loans, it is an indication that the
Board is not aware of the onerous, ongoing administration responsibilities associated with loans deemed impaired. Although the mathematical model referenced in SOP 03-3 may be easily applied to a bond, in a business acquisition acquirers assume ownership of large volumes of disparate loans, investments, etc. which cannot be micro-managed to the extent required by provisions of SOP 03-3. Requiring an acquirer to project future cash flows to the extent required by SOP 03-3 is not practicable for impaired loans, much less the entire portfolio. The SOP 03-3 accounting model requires that an acquirer develop a very expensive cost-prohibitive secondary loan accounting system. For client interaction, the contractual terms must be maintained and serviced accordingly. For accounting purposes, a separate process and system must be implemented to track and record entries to the general ledger based upon the new model. While SOP 03-3 allows some relief from doing this at the loan level, this would not be available for all loans, and it is nearly as burdensome when applied to pools of similar loans. In addition, tracking and reporting the income tax consequences of acquired loans to the taxing authorities would be overly complex. Although the proposed Standard mandates recognition at fair value, no guidance has been provided regarding establishing fair value for loans. In addition, treatment of acquired loans in a manner distinctly different from internally generated loans will further complicate the already complex accounting requirements for the allowance for loan losses. Since no guidance has been provided in this regard, the lack of appropriate historical loss data on acquired loans will result in the use of subjective information to record post-acquisition changes in the value of acquired loans.

This Standard would provide a disincentive to recognizing acquired loans at something other than a deeply discounted value, thereby reducing the reliability of financial statements. If it is the intent of the Board to eliminate past abuses of carryover provisions, we believe that a risk-based approach should be applied to establish an acceptable level of allowance carryover. This approach would result in net loans being recorded at fair value. We believe that this could be accomplished through the use of a standardized risk scoring matrix for the portfolio acquired. An acceptable level of allowance carryover is also in the best interests of investors for safety and soundness purposes. Further, we believe the subjectivity associated with this provision when coupled with the potential to subsequently increase loan yield will detract from the FASB’s overall goal for transparency in financial reporting. If it is determined that a reasonable carryover is not permissible, we propose a more simplified mathematical approach to the treatment of purchased loan discounts.

The elimination of the allowance carryover would clearly have a negative impact on the transparency and comparability of financial statements between acquisitive and non-acquisitive businesses. The analysis of loan portfolios and assorted ratios would be hindered by the disparate treatment of acquired loans.

As one Board member noted during the roundtable discussion, current accounting standards already require loans acquired in a business combination to be recorded at fair value. From an industry perspective, fair value includes both a credit and an interest rate mark. We believe that properly calculated allowances for loss
represent the best estimate of the credit losses inherent in a portfolio by management of the acquired business. Since prohibiting the carryover of the allowance does nothing to achieve the financial reporting objectives of completeness, comparability and transparency and will result in undue costs to acquirers, we cannot support this proposal.

b) We believe the proposed recognition of contingent assets and liabilities acquired or assumed in a business combination at fair value without regard to established SFAS 5 criteria (probable and estimable) is inappropriate. We believe the provision implies the ability to predict with relative certainty a future outcome. Based upon previous acquisitions, we have experience that indicates otherwise. Implementation of this provision would further dilute the relevance of a balance sheet and introduce misleading volatility in the income statement from the inability to precisely predict the outcome of events that occurred prior to the acquisition even though those events were not probable of occurring as of the acquisition date.

It is likely companies will use the Concepts Statement No. 7 expected cash flow approach to estimate the fair value using an average of possible outcomes. This approach is judgmental in nature and uses probabilities that are often difficult to independently verify. In addition, under the SFAS 5 model a liability is not recognized until the amount is deemed probable and estimable. In the proposed model, a company would record a liability even if there is a remote possibility of a payment. Also, if a liability is highly probable of being incurred, the amount may be understated because there could be a slight chance that no payment would be made.

c) In concept, we agree that costs associated with restructuring activities that do not meet certain recognition criteria should be expensed outside of the business combination. However, the ability to establish a purchase price for an acquired entity is dependent upon management’s intent to operate that entity and its components. At the time an acquisition is consummated, management may not have completed a detailed review of all lines of business related systems and personnel. We believe that the requirements of SFAS 146 are unduly restrictive in this situation and may not reflect the true economics of the transaction.

For example, there may be duplicative branches in a bank acquisition. The acquirer may be committed to eliminating the duplication but not yet be decided about whether to retain its pre-existing branch or the newly acquired one. A reasonable estimate of the employee and contract termination costs can be made; however, the communication/notification requirements would not have been met. It would be unreasonable to expense these amounts subsequent to the acquisition because they are directly related to the acquisition and its integration.

d) We do not agree with paragraph A103.a. and its ramifications of accounting for replacement equity awards. We believe that the fair value of the replacement award should be allocated to past and future services in accordance with
subparagraphs c and d as this would better reflect the value of services received from the employees.

In conjunction with the number of other pre-acquisition responsibilities being added through remaining provisions of this proposed Standard, we believe that implementation of this change will create the need for significant modeling changes which may unduly penalize and delay acquirers who are diligent in requesting this information. We also believe that requiring adherence to SFAS 146 is inconsistent with the Board’s position on contingent liabilities included with the proposed Standard.

**Question 9—Do you believe that these exceptions to the fair value measurement principle are appropriate? Are there any exceptions you would eliminate or add? If so, which ones and why?**

We agree with the measurement of assets held for sale as described in paragraph 43 of the proposed Standard.

We believe the proposed fair value measurement provision implies the ability to establish fair value precisely at the acquisition date or be prepared for retrospective adjustments throughout the measurement period. We believe the approach in the proposed amendment to SFAS 109 is more relevant and reasonable. SFAS 109, as amended by paragraph D17 of this proposed Statement, acknowledges the complexity associated with an acquisition by establishing a period of time (one year) during which goodwill related to a business combination may be adjusted to reflect the tax benefit of items for which a valuation allowance was required on the acquisition date. Retrospective application is not required by SFAS 109. We agree that the recognition and measurement of deferred tax assets and liabilities should be governed by FASB Statement No. 109, *Accounting for Income Taxes*, as described in paragraphs 44 through 46 of the proposed Standard.

We agree with proposed accounting for operating leases in paragraph 47. For lessees, we believe additional clarity would be gained if the proposed Standard stated that only the “fair value mark” should be recorded for operating leases assumed and that deferred amounts, such as a deferred gain on sale-leaseback transactions and the deferred rent recorded as the result of straight-line expense on leases with escalating payments, in the target’s financial statements should not be carried over.

We believe further clarification of the paragraph 48 requirement to recognize and measure, separate from goodwill, any asset or liability related to the acquiree’s employee benefit plans within the scope of SFAS 87 and SFAS 106, as amended by paragraphs D15 and D16, in the event that the plan is terminated, curtailed or amended effective upon acquisition would be helpful. We believe plan amendments, including terminations and curtailments, that are a direct result of the business combination are properly reflected in the purchase price allocation. To not record these amounts based upon the best available information and intent is not within the spirit of the purchase accounting principles and would be misleading.
Question 10—Is it appropriate for the acquirer to recognize in income any gain or loss on previously acquired noncontrolling equity investments on the date it obtains control of the acquiree? If not, what alternative do you propose and why?

One of the basic tenets of purchase accounting regards "consideration transferred." The previously acquired noncontrolling interest is not transferred in the situation described and should not be adjusted to fair value. Presumably, if the fair value of this investment had other-than-temporary impairment, this would have already been recognized. To recognize a gain that is not realized would be inappropriate. We also believe that the proposal to recognize an adjustment in the income statement for an accounting event such as obtaining control of a noncontrolled equity investment further detracts from the ability of the users of financial statements to understand the results of operations and make wise decisions. We propose making no changes to existing guidance.

Question 11—Do you agree with the proposed accounting for business combinations in which the consideration transferred for the acquirer's interest in the acquiree is less than the fair value of that interest? If not, what alternative do you propose and why?

In addition to reducing goodwill, we believe that other identifiable intangible assets should also be reduced prior to recognizing a gain. Most identifiable intangible assets are valued based upon cash flows that are generally subjective and included as part of the enterprise value used to support the purchase price and goodwill allocation.

We agree that this situation should be rare; however, the requirement to use acquisition date to value stock consideration will increase the potential for this situation to occur.

Question 12—Do you believe that there are circumstances in which the amount of an overpayment could be measured reliably at the acquisition date? If so, in what circumstances?

As noted in response to question 6 above, the measurement date requirements of the proposed Standard may lead to quantifiable "overpayments." We do not believe it is appropriate to have a standard for which it is likely to have an overpayment simply due to the manner in which non-cash consideration is recorded.

We believe that in an arm's length transaction in which knowledgeable, unrelated willing parties agree, it would be inconsistent to assume the possibility of an overpayment.
Question 13—Do you agree that comparative information for prior periods presented in financial statements should be adjusted for the effects of measurement period adjustments? If not, what alternative do you propose and why?

We believe the proposed Standard will result in numerous retrospective adjustments because it will be extremely difficult to obtain all of the necessary information by acquisition date. External valuation services will increase in necessity as a result of the fair value requirements associated with this proposed Standard. As a result, we believe valuation services will be inundated with work. Consequently, we expect valuation results will be further delayed resulting in routine retrospective adjustments. In addition, when multiple valuation services are engaged to value separate components of an acquisition, receipt of the results from all valuation specialists will likely not occur in the same financial reporting period, making disclosures appear to indicate that an acquirer will frequently change asset/liability values. We believe that it is appropriate to recognize the fair value of acquired assets and liabilities based upon the best available information as of the reporting date, and to reflect changes in estimates resulting from information known to be obtainable at acquisition in the period that the information is obtained.

We also believe that the numerous changes to previously reported results that we expect to occur as a result of this provision will erode investor confidence and understanding of reported amounts. We believe that this will also limit an acquisitive company’s access to the capital markets as underwriters will be concerned that previously reported amounts will change. We would not object to recording a cumulative adjustment with appropriate disclosure for these changes.

Question 14—Do you believe that the guidance provided is sufficient for making the assessment of whether any portion of the transaction price or any assets acquired and liabilities assumed or incurred are not part of the exchange for the acquiree? If not, what other guidance is needed?

We believe the guidance provided in this regard is appropriate and sufficient. However, as noted above, we believe paragraph 70.c. is not appropriate as these appear to be direct costs of the acquisition.

Question 15—Do you agree with the disclosure objectives and the minimum disclosure requirements? If not, how would you propose amending the objectives or what disclosure requirements would you propose adding or deleting, and why?

If the Board decides to retain the other requirements of the proposed Standard, we believe that the disclosure requirements are reasonable except for:

a) The disclosure requirements should apply to combinations consummated within the most recent reporting period. Reiterating disclosures previously made that are readily available to investors is not necessary. We believe that significant changes
to previous disclosures or adjustments to a previously recorded amount should also be included.

b) Business combinations completed subsequent to the balance sheet date will rarely have sufficient information to make the full disclosures. We believe that disclosing the information available is reasonable but the requirement to state that some of the information is impracticable to disclose is unnecessary and uninformative.

c) We believe that the minimum disclosures outlined in paragraphs 72-74, 76 and 78-80 achieve the overarching objectives. Paragraphs 71, 75 and 77 and 81 appear to add no additional value.

d) The requirement to present the revenues and net income of the acquiree included in the results of operations of the combined entity for the current reporting period and the pro forma disclosures of the combined entity appear to be aimed at achieving the same objective and are therefore duplicative in nature. While, both disclosures present unique challenges and relevance issues, it does not seem necessary to include both disclosures. We believe that of the two disclosures, the post combination disclosures are more relevant to investors.

Question 16—Do you believe that an intangible asset that is identifiable can always be measured with sufficient reliability to be recognized separately from goodwill? If not, why? Do you have any examples of an intangible asset that arises from legal or contractual rights and has both of the following characteristics?

- The intangible asset cannot be sold, transferred, licensed, rented, or exchanged individually or in combination with a related contract, asset, or liability

- Cash flows that the intangible asset generates are inextricably linked with the cash flows that the business generates as a whole?

We agree that identifiable intangible assets should be recorded in a business combination and that many can be estimated with sufficient reliability. However, the ability to properly value certain identifiable intangibles is inherently subjective and often dependent upon the availability of market data which frequently does not exist.

An example of an intangible asset that meets the criteria mentioned above is a servicing agreement with a third party which provides access to future revenues facilitated by the third party in addition to an existing servicing right. Under current guidance, the existing servicing rights and the contractual nature of the agreement that provides expected future cash flows will each need to be assigned a value. Both are inextricably linked, only one of which has a contractual life from which values can be determined. The component associated with future cash flows can be assigned a value only on a subjective basis.
Question 17—Do you agree that any changes in acquirer’s deferred tax benefits that become recognizable because of the business combination are not part of the fair value of the acquiree and should be accounted for separately from the business combination? If not, why?

We believe that the situation described is inextricably linked to the business combination and is one of many considerations in determining both the purchase price and value of the target. It seems inconsistent to require disclosure of this amount yet not require the accounting to consider it.

Question 18—Do you believe it is appropriate for the IASB and the FASB to retain those disclosure differences? If not, which of the differences should be eliminated, if any, and how should this be achieved?

The differences noted in Appendix F appear to be reasonable and valid based upon other literature that has not been converged.

Question 19—Do you find stating the principles in bold type helpful? If not, why? Are there any paragraphs you believe should be in bold type, but are in plain type, or vice versa?

We did not find the bold type particularly helpful. One cannot assess the Standard without reading the entire document and understanding all of the requirements and statements. Readers outside of the accounting profession may obtain benefit from the formatting technique within the proposed guidance as this should help them to understand why a particular requirement is stipulated.

We would be pleased to discuss our comments with the Board members or the FASB staff at your convenience.

Very truly yours,

Henry R. Sturkie, III
Senior Accounting Policy Manager