Please note that the comments expressed herein are solely my personal views.

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- File Reference No. EITF-12C
- Business Combinations (Topic 805)
- Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution

Dear Sir.

Thank you for giving us the opportunity to comment on your Exposure Draft: Business Combinations (Topic 805); Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution.

Proposal

The proposed amendments would require that when a reporting entity recognizes an indemnification asset (in accordance with Subtopic 805-20) as a result of a government-assisted acquisition of a financial institution and subsequently a change in the cash flows expected to be collected on the indemnification asset occurs (as a result of a change in cash flows expected to be collected on the assets subject to indemnification), the reporting entity subsequently accounts for the change in the measurement of the indemnification asset on the same basis as the change in the assets subject to indemnification. Any amortization of changes in value would be limited to the contractual term of the indemnification agreement (that is, the lesser of the term of the indemnification agreement and the remaining term of the indemnified assets).

I support the proposal, which will reduce diversity in practice and improve consistency between the measurement of the indemnification asset and the assets subject to indemnification. This will reduce artificial measurement anomalies over the contractual term of the indemnification agreement.
Please note that the comments expressed herein are solely my personal views

Answers to other specific questions raised by the FASB

Question 1:
When a reporting entity recognizes an indemnification asset (in accordance with Subtopic 805-20) as a result of a government-assisted acquisition of a financial institution and subsequently a change occurs in the cash flows expected to be collected on the asset subject to indemnification, do you agree that (a) the reporting entity should be required to account for the change in the measurement of the indemnification asset on the same basis as the change in the assets subject to indemnification and that (b) any amortization of changes in value should be limited to the contractual term of the indemnification agreement (that is, the lesser of the term of the indemnification agreement and the remaining term of the indemnified assets)? If not, please explain those aspects of the requirement that you disagree with and why.

I agree with this. This will reduce diversity in practice and improve internal reporting consistency.

Question 2:
Do you agree that the scope of this proposed Update should be limited to indemnification assets (in accordance with Subtopic 805-20) as a result of a government-assisted acquisition of a financial institution? If not, what other indemnification agreements have arisen in practice that the Task Force should consider for which there are concerns about the interpretations of the terms on the same basis and contractual limitations as referred to in paragraph 805-20-35-4?

I agree with this, as the material diversity in practice occurs as a result of government-assisted acquisitions of financial institutions.

Yours faithfully

C.R.B.

Chris Barnard