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Technical Director
Financial Accounting Standards Board
401 Merritt 7
Norwalk, Connecticut 06856-5116

Via email: director@fasb.org

Dear Sir or Madam

The Wisconsin Credit Union League appreciates this opportunity to comment on the Business Combinations Exposure Draft. The League speaks on behalf of Wisconsin's 284 state and federal credit unions.

The Business Combinations Exposure Draft would significantly change accounting practices for mergers of credit unions and mutual institutions.

The proposal would eliminate the pooling-of- interests method of accounting for business combinations, the approach presently used in the majority of credit union mergers. Instead, the proposal requires the use of the acquisition (or purchase method) of accounting.

In the typical credit union merger, the surviving credit union shows the assets and liabilities of the non-surviving credit union on its balance sheet at book value. Instead, under the acquisition method, the surviving credit union would have to measure and show on its books the fair value of the non-surviving credit union.

Also, under the proposal, the amount and nature of the "acquired equity" as well as the basis for determining the fair value of the acquired mutual enterprise would be disclosed in the surviving entity's balance sheets. Significant costs would be involved in determining the fair value of the acquired entity's balance sheet, including determination of goodwill and intangible assets. Further, there would be ongoing costs associated with assessing any potential impairment of goodwill and intangible assets.

Under FASB's Exposure Draft, in a merger the retained earnings of the non-surviving credit union would be shown on the surviving credit union's books as a separate line item called "acquired equity" (based on fair value) instead of retained earnings. However, the Federal Credit Union Act defines net worth for purposes of prompt corrective action (PCA) as "retained earnings" only. Therefore, after a merger under GAAP, not all of the equity of the surviving credit union would count for purposes of PCA. If a credit union's net worth ratio falls below the level mandated by the statute, the credit union would be subject to regulatory action. It is essential that the acquired net worth in the FASB proposal be consistent with PCA net worth and reflect economic reality. We support any efforts to resolve the disparity as the rule is proposed.

The Credit Union National Association (CUNA) has worked proactively to support a legislative correction to the problem that FASB's proposal would unintentionally cause for credit unions. Two bills are pending in Congress that, if enacted into law, would address the problem – the Credit Union Regulatory Improvements Act (CURIA) and the Net Worth Amendment for Credit Unions Act. The Net Worth for Credit Unions Act, H.R. 1042, passed the House on a voice vote June 13, 2005.

We are pleased that FASB's Chairman has testified that the net worth legislation would not (negatively) impact the standard-setting activities of FASB or GAAP. Nonetheless, if the efforts to amend the Federal Credit Union Act are unsuccessful, adoption of this proposal will hinder mergers of credit unions which may otherwise be highly desirable for the credit unions involved and their member/owners.

Again, The League is pleased to be able to comment on this Exposure Draft. We would be pleased to discuss these comments at any time.

Sincerely,

John C. Engel

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