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draft

Mr. Lawrence Smith
Director
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856

Dear Larry,

Through its Mutuality Advisory Council (MAC), the American Bankers Association (ABA) actively pursues issues of interest to mutually chartered institutions. As you may know, the ABA provided the Financial Accounting Standards Board (FASB) with a paper, "Accounting for Business Combinations of Mutual Savings Banks" (the ABA Mutuals Paper), dated February 2002. The ABA Mutuals Paper outlines and analyzes the various alternatives to be considered in developing a new accounting Standard for combinations of mutual savings banks (MSBs). Our MAC members are deeply interested in the outcome of this project and would like to take this opportunity to augment the views contained in the ABA Mutuals paper and comment on the new developments that have evolved since the paper was written. (The ABA Mutuals Paper is attached for your convenience.)

The ABA brings together all categories of banking institutions to best represent the interests of the rapidly changing industry. Its membership – which includes community, regional, and money center banks and holding companies, as well as savings associations, trust companies and savings banks – makes the ABA the largest banking trade association in the country.

In this letter we address three areas: 1) tentative decisions reached by the FASB; 2) application of the purchase method of accounting to all mutual enterprises; and 3) application of the purchase method of accounting to acquisitions of MSBs. We appreciate the opportunity to provide you with additional information, and we hope it will be useful to you as the FASB continues its deliberations.

Tentative Decisions Reached By The FASB

We are aware that the FASB's draft proposal would require that the purchase method of accounting be used for all combinations of mutual enterprises. Notwithstanding this likely direction for the proposal, the ABA and MAC continue to support retaining the pooling-of-interests method of accounting for certain types of business combinations – particularly mergers of MSBs – because we believe that the pooling method most accurately reflects the true economics of such transactions. We understand, however, that the FASB has determined that the pooling-of-interests method will not be available to any type of mutual enterprise combinations. Understanding that the elimination of the pooling method of accounting will no longer be acceptable, ABA's MAC can support the direction that the FASB appears to moving in its application of purchase accounting to combinations of mutual enterprises.

As stated in the ABA Mutuals Paper, the primary concern of ABA's MAC is the recognition of capital under the application of the purchase method for MSBs. In a recent tentative decision made by the FASB, entities will be permitted to account for the acquisition of a mutual enterprise in the financial statements of the acquiring mutual enterprise as a direct addition to capital or equity arising from the acquisition. We believe that this will permit the appropriate recognition of capital at the time of acquisition in the post-transaction financial statements of the acquiring MSB. Furthermore, we believe that this tentative decision will be a workable approach for all types of mutual enterprises and will result in consistent guidance for mutual enterprises.

One Method For All Mutuals

In combinations of all types of mutual enterprises, the processes are virtually identical. There is no negotiated purchase price, and mergers can be either mergers of equals or acquisitions (although determining which entity is acquiring the other can be difficult). Determining which is the acquiring entity depends on the analysis of a number of factors, such as the size of the institutions, the level of capital, the composition of the board, management teams, or other factors. Because of the significant similarities among all types of mutual enterprises, we strongly believe that the direction the FASB is taking will provide an approach that could be used in the same manner, regardless of the type of mutual enterprise (i.e., credit unions, mutual savings banks, or cooperative entities.) We support the goal of the FASB to improve financial reporting and comparability in financial statements among mutual entities and believe that one approach should be applied to all types of mutuals.

Application of Purchase Method to MSBs

The FASB tentatively decided that the bank to be acquired is to be measured and recorded in the financial statements of the acquiror at fair value. Although we support the direction the FASB is moving, we continue to believe that there are certain difficulties with application of the purchase method of accounting to such combinations. Because there is no purchase price or consideration exchanged during combinations of mutual entities, determination of the fair value of the MSB to be acquired will be inherently complex. As we understand, the method to apply purchase accounting to MSBs will require the use of a variety of valuation techniques to produce customized and itemized fair values. Application of the purchase method of accounting will involve valuation estimates that are highly subjective due to market-based assumptions that are determined by valuation experts. In making these determinations, many factors will need to be taken into consideration, including industry averages, purchase prices from recently completed transactions, the current interest rate environment, as well as other economic indicators, marketplace environment (willingness of buyers and sellers), and market conditions – and what is produced is still an estimate. When no purchase price is paid, as in cases of combinations of mutuals, experts in valuation would be needed to estimate the value of the entity to be acquired. We are concerned about the relevance and reliability of values generated using subjective valuation techniques for assets and liabilities that are not actively traded in financial markets and the potential short cuts of comparables, such as peer transactions or earnings multiples of stock companies of comparable size. Although values can be generated, we are concerned that such values are subject to broad variations in application and thus, wide variations in reliability.

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As addressed above, ABA’s MAC prefers the use of poolings to account for combinations of mutual enterprises, and is concerned about the lack of reliability of fair values under purchase accounting. However, because the FASB has determined that poolings will be eliminated, we support the direction that the FASB is taking under purchase accounting, which will permit the capital of the acquired entity to be recognized by the acquiror. We further believe that this approach is a workable solution for all types of mutual enterprises.

Thank you for the opportunity to provide comment to you. Please contact Gwen Ritter (202-663-4986) or me with any questions you may have or to discuss this letter in more detail.

Sincerely,

Donna Fisher