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March 24, 2004

Mr. Robert Herz
Chairman
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856

Dear Bob:

Through its Mutuality Advisory Council (MAC), the American Bankers Association (ABA) actively pursues issues of interest to mutually chartered institutions. 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.

As you may know, the ABA's MAC provided the Financial Accounting Standards Board (FASB) with a paper, "Accounting for Business Combinations of Mutual Savings Banks" (the MAC White Paper), dated February 2002. The MAC White 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 MAC White Paper and comment on the new developments that have evolved since the paper was written. (The MAC White Paper is attached for your convenience.)

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 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 for any type of mutual enterprise combination. Understanding that 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 MAC White Paper, the primary concern of MAC is the recognition of capital under the application of the purchase method for MSBs. In the FASB's tentative decision, entities would 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

We support the goal of the FASB to improve financial reporting and comparability in financial statements among mutual entities, and we believe that one approach should be applied to all types of mutuals (i.e., credit unions, cooperative entities, and mutual savings banks). 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 sizes of the institutions, the level of capital, the composition of the board, the management team, or other factors. Because of the significant similarities among mutual enterprises, we strongly believe that the direction the FASB is taking will provide an approach that could be used for all types of mutual enterprises.

Application of Purchase Method to MSBs

The FASB tentatively decided that the mutual entity to be acquired is to be measured and recorded in the financial statements of the acquiror at fair value. Although MAC believes that poolings provide a more accurate picture for users of financial statements, MAC supports – as the next best alternative – the use of fair value for the acquired entity. (Please note that MAC does not support the use of full fair value for either entity on an ongoing basis. The MAC's support for fair value is simply a substitute for the price paid in business combinations of non-mutual companies.)

As we understand it, the FASB's goal would be to record the fair value of the entity being acquired on the books of the acquiring entity. Because there is no purchase price or consideration exchanged during combinations of mutual entities to confirm a maximum or minimum fair value, the enterprise value would need to be determined by considering a number of factors. For example, the fair value of the enterprise could be based on valuation techniques, such as the use of earnings multiples, history of earnings, or the fair value of net assets; however, it would be important to make sure that those factors are actually applicable to the entity being acquired. Valuation firms use a variety of valuation techniques to produce

customized and itemized fair values that may also include industry averages, purchase prices from recently completed transactions, peer transactions, earnings multiples of stock companies of comparable sizes, the current interest rate environment, other economic indicators, and marketplace conditions (including, but not limited to the willingness of buyers and sellers). Some of these factors may be more applicable to an individual institution than others, and some valuation techniques may be more accurate than others. Although we realize that such valuation techniques will not necessarily be as reliable as we would like, we support the FASB's actions in this direction.

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In summary, 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 believe that with additional work, this approach should be used for all types of mutual enterprises, and we would like to work with you to further develop this approach.

Thank you for the opportunity to provide comments 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

Enclosure