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## Memo

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Date: March 3, 2004  
To: Mutuality Advisory Council  
From: Gwen Ritter, Sr. Accounting Advisor  
RE: Status of the FASB Business Combinations Project

Thank you for the opportunity to work with you on accounting issues that will impact Mutual Savings Banks! We appreciate your time and involvement on these issues. There are several items of news.

First, FASB is interested in meeting with representatives of the Mutuality Advisory Council on March 30<sup>th</sup> in Norwalk, Connecticut. This will be an opportunity to walk through the pros and cons of various approaches and how they may work in application. In advance of that meeting conference calls are needed to prepare and organize our presentation.

Second, the FASB is delaying the release of the exposure draft for nonstock business combinations. FASB disclosed in December that it would issue an exposure draft by the end of the first quarter of 2004. The exposure draft is being delayed until the end of the second quarter. The FASB is allowing time to consider the views of MAC on March 30<sup>th</sup> meeting.

Third, we wanted to give you more background on the FASB meeting on January 27<sup>th</sup> with mutual cooperatives and their associations. The meeting was intended to be the annual liaison meeting for this group. It evolved to include representatives of two credit unions and one ACB representative. The FASB annually hosts liaison meetings with many groups and industries, including the American Bankers Association. The ABA Accounting Committee is scheduled to meet with the FASB prior to the March 30<sup>th</sup> MAC meeting. Generally, liaison meetings are publicly held. ABA contacted the FASB staff to understand the purpose of the January 27<sup>th</sup> meeting. We were informed that the meeting was intended to be a liaison meeting between the FASB and mutual cooperative enterprises and their associations and the FASB staff hoped that the discussion would remain focused on cooperative issues.

After careful consideration and discussion, we recognized that while ABA could have a representative participate in the meeting, it would not be well received to do so; ABA should rather focus on a separate MAC meeting with the FASB. ABA listened to the meeting by telephone.

The participants presented two views on business combinations: (1) the fresh-start approach; and (2) the method described to include a “dangling, amortizing credit.” Both approaches have been deliberated during the development process of the FASB’s project and both have been rejected. ABA and the MAC have not supported either of these approaches and we remain confident that the FASB is unlikely to adopt either approach. Also during the meeting, the FASB reiterated its decision to eliminate pooling.

Over the past two years, ABA has closely followed the developments of the FASB’s project and the MAC group has discussed the proposed changes in accounting for combinations of mutual institutions. To date, MAC has supported accounting methods that permit full recognition of capital in mergers and acquisitions and supports accounting that maintains competitive parity with stock institutions (given that the poolings-of-interest method of accounting is no longer permitted under generally accepted accounting rules). This is consistent with the direction that the FASB is moving on this project.

Thank you for your time and involvement on this very important matter. We appreciate the opportunity to work with you!