

October 28, 2004

Letter of Comment No: 104
File Reference: EITF03-1A

Mr. Lawrence Smith
Director and Chairman of the Emerging Issues Task Force
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856

RE: Proposed FASB Staff Position, EITF Issue 03-1-a, Implementation Guidance for the Application of Paragraph 16 of EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments"

Dear Mr. Smith:

1ST SUMMIT BANK appreciates the opportunity to comment on the proposed Staff Position, issued on September 15, 2004 by the Financial Accounting Standards Board (FSP 03-1-a). 1ST SUMMIT BANK is a \$370 Million community bank located in western Pennsylvania, approximately 60 miles southeast of Pittsburgh, with a market area covering five counties. The Bank recently celebrated its 80th anniversary in May, 2004.

We want to thank the FASB for delaying the effective date of this rule to allow for more constituent input and evaluation of industry views on this subject. After all facets are explored, we are hopeful a rational and realistic position can be reached that allows fair presentation of the Bank's financial position without undue limitation on the management of the investment portfolio.

The Bank's investment portfolio is an integral part of risk/balance sheet management, provides liquidity and is a key element in strategic management decision making. Although the FASB proposal may be a step in the right direction, more focus and evaluation is required since the proposal will (1) increase capital and income "volatility" by requiring incorrect write-downs on assets (AFS securities that are under water to be permanently written down when similar securities are sold), (2) impair the bank's ability to practice daily, prudent balance sheet and asset/liability management and (3) generate incorrect and misleading recognition of revenue.

We are concerned with the possible effects of the proposal including, but not limited to:

- A. Economic disruption and confusion in the marketplace.
- B. Impairing the ability to prudently and effectively manage the Bank, due to restrictions and the "threat of tainting" (minor and 5% parameters are inapplicable in portfolio management).
- C. Expected results would be volatility in capital and earnings, increased cost of capital and stock price volatility.

- D. Investors and rating agencies would get a distorted picture of the P & L statement with unwarranted volatility. Implications are that GAAP may be ignored.
- E. Encourages deviant behavior, such as earnings management, gains trading, purposeful “tainting” if company has good year (take losses – then a “clean” AFS going forward) and short-term investment focus, even if long-term is appropriate.
- F. Control issues would become more prevalent, e.g.; current systems can’t handle the accounting, a voluminous amount of documentation would be required for decisions on “each” security and more testing required under Sarbanes-Oxley.
- G. Community banks would have more safety and soundness concerns, e.g.; have a higher percentage of the portfolio in AFS (earnings/capital impact would be greater), may “stop” taking losses which may not be prudent and community banks may look to the derivatives market as an alternative (many not equipped to handle them?).
- H. “Tainting” – What does it really mean?

Some questions surrounding this issue might be: (a) Why more rules? (b) What is this proposal really fixing in the process? (c) How can interest rates be “other than temporary?”

After contemplating the effects of this proposal, some suggestions and comments are in order:

SFAS 115 dealt with these issues and banks should be able to sell AFS securities without impacting the entire portfolio. Declines in value, due solely to interest rate increases, should be excluded from EITF 03-1.

Intent to hold should be excluded for declines in value, solely due to interest rate changes, since the notion of “intent to hold” conflicts with SFAS 115 “available for sale.” Perhaps “ability to hold” the security should be the litmus test.

If changes are required by banks, the earliest effective date should be one year from when the rule becomes final.

Perhaps a “one-time” transition or repositioning out of AFS and into HTM or Trading should be considered.

There is much confusion in the banking community due to the absence of consistent interpretations from accounting firms. Liquidity may be hindered if the practices of buying and selling securities are suspended. Since bank management and the marketplace will be negatively impacted by this proposal, FASB must work with the industry to ensure everybody gets it “right.”

In conclusion, we feel EITF 03-1 will seriously impede asset/liability management, compromise bank liquidity and virtually eliminate active management of the securities portfolio. EITF 03-1 will effectively shift control of the AFS portfolio to outside accountants by stripping the Bank's managerial authority over a major portion of its assets.

Again, we appreciate the opportunity to comment on this proposal and thank you for considering 1ST SUMMIT BANK's views. If you would like to discuss this letter in more detail, please contact me at 814-262-4045 (fax 814-262-4100).

Sincerely,

Thomas G. Fetsko
Senior Vice President &
Chief Financial Officer