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From: Linda Peck [mailto:lpeck@mpsaz.com]

Sent: Monday, April 10, 2006 6:29 PM

To: Director - FASB

Subject: Comment on FASB Exposure Draft 1250-001

Importance: High

April 10, 2006

TO: Technical Director

From: William J. McGuire, Ph.D.

Subject: File Reference 1250-001

Letter of Comment No: 56
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470-06

The purpose of this message is to recommend that the Financial Accounting Standards Board consider financial liabilities such as demand deposits (and similar deposit types) for a fair value option in Phase 1 of its FASB Statement No. 115 amendment deliberations. This recommendation is made for the following reasons.

- The current lack of a fair value option for demand deposits and similar deposit types (referred
  to from here out as core deposits) can skew financial analyses, adding volatility to reported
  performance and risk measures. Poor financial decision-making and less accurate investor
  information are often results of the current treatment.
- 2. Recent advances in the theory of core deposit behavior provide insights into the underlying nature of these instruments that support a fair value option. There now exists a large and expanding body of theoretical work that defines core depositor behavior as the optimization of a dual utility function composed of direct financial motivators (e.g. rate paid and fees) and indirect financial motivators (e.g. service, convenience, product).

Non-financial motivators, such as customer relationships, are viewed as possibly contributory but not dominant. The important conclusion of the new theoretic framework is the exposition of how core deposits are primarily motivated by financial or financial equivalent motivators.

The proposed delay (to Phase 2) in deliberating a fair value option for core deposits (demand deposits and similar deposit types) because of the "non-financial components" associated with them is thus no longer supportable in theory.

3. A large experience base of empirical evidence relating to core deposit value related behaviors is available. Hundreds of institution specific statistical analyses of core deposit behaviors have been produced in the last 10 years by McGuire Performance Solution, Inc. (MPS), of Scottsdale, AZ. These studies are based on an advanced and comprehensive statistical methodology that quantifies the multiple dimensions of the recent revealed behavior preferences of core depositors. Forecasts of future value related outcomes (i.e. pricing and periodic runoff) using these analyses have been proven accurate in many back tests of forecasted versus actual subsequent outcomes.

The proposed delay (to Phase 2) in deliberating a fair value option for core deposits (demand deposits and similar deposit types) because of the "non-financial components" associated with them is thus no longer supportable by a lack of empirical evidence accurately quantifying core depositor value related motivations.

Additional information on the points above, not provided here in the interest of brevity, is available upon request.

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