October 28, 2008

LETTER OF COMMENT NO. 25

Mr. Russell Golden
FASB Technical Director
Financial Accounting Standards Board
401 Merrit 70, PO Box 5116
Norwalk, CT 06856-5116

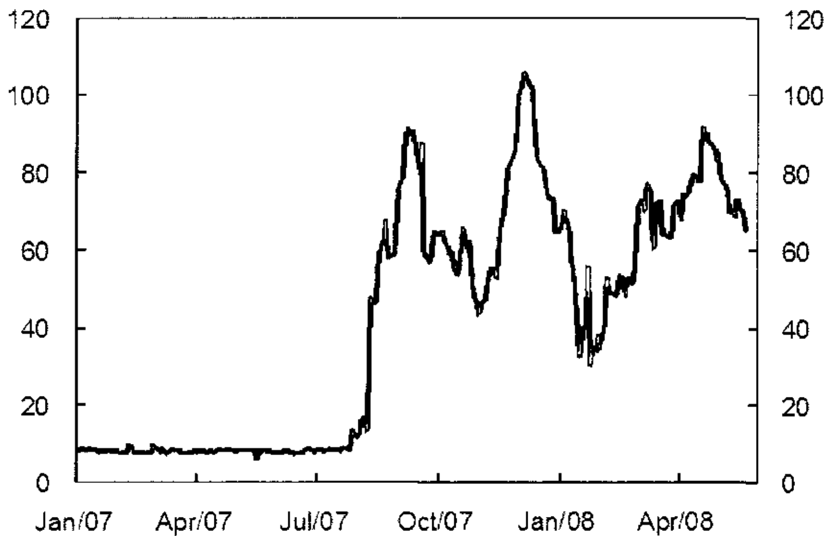
Re: Amendments to FAS 140 and FIN 46(R)

Dear Mr. Golden:

We would like to thank the FASB for the opportunity to comment on the amendment to FAS 140. Reading through the comment letters it seems that the majority has discussed the cost of compliance compared to the benefit of increased transparency. We would like to draw your attention to a related issue which is the economic effect of the proposed change.

Finance, economic and accounting academics have debated the economic value of accounting information and there is yet to be a consensus. However there are unique circumstances when the accounting numbers have real cash flow effects and the amendment to FAS 140 is one of those circumstances. Pictured below is the OIS LIBOR spread; a graph is prominent in any discussion of the recent credit crisis. It begs the question: What happened in August of 2007? The housing recession and subprime mortgage crisis started in 2005; it is unreasonable to think the finance market waited almost two years to recognize it. We would like to draw your attention to the fact that the exposure draft of the amendment to FAS 140 was released in July of 2007. The finance community appears to have read the exposure draft and, in a panic, began to amass all the cash it could.

Figure 1 LIBOR-OIS spread, U.S. Dollar, 2007-2008 (basis points)



http://www.voxeu.org/index.php?q=node/1188

So the amendment to FAS 140 may have unanticipated economic consequences for otherwise healthy financial institutions. In general, regulated banks need to have capital equal to 10% of unsecured loan exposure. The proposed amendment to FAS 140 will move assets onto the balance sheet and will increase the capital adequacy requirements. For example, many local banks in Nebraska are looking at their loan portfolios and the expected changes to their balance sheets resulting from the amendment to FAS 140. They have two years to come up with the capital required. The way the market is currently behaving means that it is not a good time to try to raise capital through public offerings. Many of these banks project that the earnings and the amounts of loans that will come due and be repaid in the two years will provide

enough cash to meet capital requirements on currently off-balance sheet assets. So these are banks are healthy and well-managed. However, they are NOT willing to lend money to ANYBODY, regardless of credit worthiness, for two years. Now, consider that in general all commercial banks have approximately half of their assets off-balance sheet. Is there really any wonder why banks are unwilling to loan money and why all the government intervention to this point has not helped?

We would like to close by suggesting that if the FASB decides that the amendment to FAS 140 is necessary to restore confidence in the financial markets, you should work closely with the SEC and the Federal Reserve to address the economic, cash-hording effects of requiring banks to move all assets onto the balance sheet. This effect can be mitigated by either phasing in changes from the amendments to FAS 140 over a longer period or moving all assets onto the balance sheet but temporarily reducing the capital adequacy requirement for these assets.

Thank you for your attention. If you have any questions regarding this letter, please feel free to contact us.

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