From: Mark Hughes [mailto:MarkH@cnbankpa.com]

Sent: Thursday, October 09, 2008 12:04 PM

To: Director - FASB

Cc: Charles Updegraff; Craig Litchfield **Subject:** Proposed FSP FAS 157-d



LETTER OF COMMENT NO.

48

Dear Chairman Herz:

I am the Chief Financial Officer for Citizens & Northern Corporation, a relatively small banking corporation. We are too small to afford having accounting professionals on staff to spend weeks analyzing every FASB Exposure Draft that comes along, but large enough to be required to file financial statements with the SEC and be subject to virtually every accounting and banking regulatory requirement under the sun. I take my responsibilities for signing off on our financial statements very seriously, and the views expressed below are mine and not necessarily those of my employer.

The example in FSP FAS 157-d is not very helpful, for three reasons:

- (1) It retains the requirement to make assumptions that a hypothetical market participant would make, which is absurd and circular when there is no market. This is also a major problem in EITF 99-20, and should be changed immediately in that document, as well. In an inactive market, with little or no activity, I believe cash flow and other assumptions should take into account nonperformance (default) risk, based on reasonable judgment, taking into consideration the best available information about the underlying assets being evaluated.
- (2) The exclusive reliance on "exit price" for fair value fails to consider that most going concern businesses will not sell their available-for-sale securities, held-tomaturity securities or any other assets for substantially less than reasonable people would think them to be worth based on their intrinsic value. The example does not go far enough to clarify that broker quotes, which are obviously based on vulture bids or distressed sales in bankruptcy situations, should be completely ignored, as they are not indicative of any kind of value that could be called "fair."
- (3) The example suggests that "liquidity risk" should be considered in valuing securities in an inactive market. The example should clarify that liquidity risk should be based on the extent of liquidity risk inherent for a particular asset <u>before</u> the entire market became inactive otherwise, some suggest values would be driven down to levels based on forced or distressed sales.

Since banks are required to file Call Reports by October 30, I would appreciate the FASB's prompt and appropriate response to this urgent situation. Thank you for your consideration.

Mark A. Hughes Treasurer and Chief Executive Officer, Citizens & Northern Corporation

"Professionals dedicated to meeting your lifetime financial needs, with a personal touch."

Mark A. Hughes
Executive Vice President and Chief Financial Officer
Citizens & Northern Bank
90-92 Main Street, PO Box 58
Wellsboro, PA 16901
570-724-8533
Fax # 570-723-8097
markh@cnbankpa.com