From:
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 To:
 Director - FASB

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Technical Director,

Thank you for the opportunity to comment on the exposure draft *Accounting For Financial Instruments* ...

As a former CPA (and long-time member of the AICPA) and currently a bank investor, director and CFO of a \$200 million bank, I strongly urge FASB to withdraw the proposal and not go forward with the accounting changes contained in the Exposure Draft. Portions of this draft address fair value accounting. In theory, I understand fair value accounting appears to make sense, but in practice, it creates many more problems in financial reporting – with a corresponding cost. Beginning with FAS 115, FASB has been on a march to introduce fair value accounting. I think we do not need to look any further than FAS 115 to see how valuing one segment of the balance sheet, and not the others, creates volatility in the equity of banks. Community banks like ours fund their operations by taking deposits and holding loans for the long term. While we must hold some readily marketable securities for liquidity purposes, we are not in the business of creating or purchasing assets or liabilities for quick resale. We fund our operations primarily through deposits and we hold small business, agricultural and even residential mortgage loans that are not readily marketable. How does fair value accounting provide a better understanding of illiquid loans held by a small bank By the way, it was very apparent, in the recent economic turmoil of the past two years, that market valuations were often non-existent – even on products that were thought to be very marketable. Marking assets or liabilities to market (when there is no market) becomes a self-fulfilling spiral down in times of economic distress.

Fair value measurements depend on many subjective assumptions – all of which should be thoroughly disclosed if fair value accounting is used. More numbers and more assumptions will merely overwhelm the typical financial statement reader. In addition, the cost to small businesses such as ours to provide this information continues to grow. Where is the cost/benefit perspective?

Ultimately the users of financial information should influence the content of financial reports. In privately held companies, the primary users are investors, directors, management, and lenders. As a user of financial information, my focus has been, is now, and will continue to be on the income statement, the results of operations – not on the swings in values of assets and liabilities of the balance sheet. Fair value accounting should not be a 'one size fits all' concept. In summary, how is all of this relevant to the users of the information?

As far as I am concerned, the continual proliferation of accounting standards, without apparent regard for the size of the company, the costs to implement new standards, or the ultimate users of the information, is only alienating FASB – and is creating an untenable situation.

Don Lueger

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