

September 21, 2010

Mr. Russell Golden Technical Director Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

Via email: director@fasb.org

File Reference: No. 1810-100 Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities

Dear Mr. Golden:

The North Dakota Bankers Association ("NDBA") thanks you for the opportunity to comment about the Exposure Draft: Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities (ED). "NDBA" members are 83 national and state banks and federal thrift associations operating more than 300 offices throughout North Dakota. A strong majority of NDBA member financial institutions have less than \$150 million in assets; they are community banks in the truest sense. Our letter conveys our opposition to the proposal for classification and measurement of financial assets and liabilities.

- 1. The proposal does not reflect how North Dakota banks do business. Deposits of North Dakota banks fund loans to North Dakota businesses. North Dakota banks hold their originated loans to maturity. As it pertains to our banks, the ED mandates an expensive and complicated accounting exercise based on fantasy because there isn't a market which establishes a fair value. We see the results of the exercise as portraying a financial situation that is imaginary and as being more likely to confuse than enlighten people who actually invest in our community banks. Investment analysts may understand the situation better, but they also understand current methodologies. Points upon which the adoption of the ED are likely to mislead ordinary investors in community banks include how the bank actually does operate and generate profit, and the amount of capital that actually exists given the fluctuations in the capital account as a result of mark to market accounting.
- 2. The purported benefits have not been shown to outweigh the costs of implementing the proposal. The investors who are on the minds of North Dakota banks are the investors in their banks. These investors are certainly not demanding the changes of the ED and are unlikely to find it helpful as they make their decisions about their investment in a community bank. Community bank investors want to know how the bank is doing and how it is likely to do in the future based on circumstances that are real. They determine this by looking at the bank's history and prospects as they pertain to gathering and retaining core deposits and by making and collecting loans. Yet, fair

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not need and will not use the information generated by a requirement for fair value accounting of all assets and liabilities, but they will have to recover the costs of generating that information through bank operations, meaning lower interest on deposits (when that becomes possible again) and higher interest and fees for borrowers, and, ultimately, less return for investors. In the eyes of North Dakota's banks, the purported benefits have not been shown to meet or outweigh the costs. Without that showing the ED should not be adopted.

3. Implementation of the ED will negatively affect product offerings and lending activity. Accounting mandates aren't designed to drive business decisions, but they do. It is our deep concern that implementation of the ED will cause North Dakota and other banks to reorder their business operations in an effort to reduce the negative consequences fair value accounting on them. We expect them to do so by shortening the time horizons for products and offering and by shifting investments of funds from long term, fixed rate loans to shorter term, variable rate loans and from loans, generally, to securities. We see this predictable effect of the ED to be bad for North Dakota, for small business, and for the economy overall.

The ED is opposed by a broad range of bank regulators, by bankers representing large banks and smaller banks, by major accounting firms, and by bank trade associations. We have reviewed numerous of their letters and agree with the conclusion that fair value accounting should not be implemented as now proposed for the banking industry. We especially commend the comprehensive analysis of the American Bankers Association to you for consideration. These comments conclude implementation of the ED will be more harmful than beneficial. We agree and, accordingly, strongly urge withdrawal of the ED.

Sincerely Yours,

NORTH DAKOTA BANKERS ASSOCIATION

Rick Clayburgh

President