WOLF
& COMPANY, P.C.

Certified Public Accountants
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September 29, 2010

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

Via Email to director@fasb.org

Re: File Reference No. 1810-100; Exposure Draft of a Proposed Accounting Standards Update, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities*

Dear Mr. Golden:

Wolf & Company, P.C. appreciates the opportunity to comment on the Exposure Draft of a Proposed Accounting Standards Update, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities.*

Wolf & Company, P.C. is a full service accounting firm with a niche in financial institutions. Currently, we provide audit, tax and risk management services to over 200 financial institutions, with the majority of them located in the northeastern part of the United States.

We are supportive of the FASB's goal of providing financial statement users with a more timely and representative depiction of an entity's involvement in financial instruments, while reducing the complexity in accounting for those instruments. While we agree that, in some cases, fair value measurements of financial assets and liabilities provide relevant and important information to financial statement users, we do not agree that fair value should be the appropriate measurement attribute for all financial assets and financial liabilities. We believe that a mixed measurement attribute model, using fair value and amortized cost, would be appropriate based on the business strategy for the financial asset or liability. We are also concerned that the proposed guidance actually adds complexity to the financial reporting process and thereby may defer the earnings-release process, particularly with smaller entities that do not have the infrastructure or resources to meet the demands of extended fair value reporting.

Lastly, but of significant concern, is the proposed adoption of a pervasive fair value standard that is not convergent with IFRS. We support all convergence efforts and believe that proposed accounting guidance of this magnitude requires substantial convergence efforts that result in the best possible measurement attributes and a limited number of changes required of an entity's financial reporting process.

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Our comments on specific concepts in the proposed guidance are summarized below.

Overview

For many financial institutions, and the majority of community banks, financial assets and financial liabilities are rarely sold or settled to take advantage of market fluctuations in fair value. Financial instruments are generally held for investment or re-payment of cash flows and the amortized cost measurement model is the basis for management's decisions pertaining to the operations of the entity. Managing the net interest margin (also referred to as asset/liability management) is based on contractual cash flows and anticipated changes in such cash flows based on market interest rate adjustments. Fair values of assets and liabilities that are not intended to be sold or paid are irrelevant to those who manage such portfolios and, presumably, to those who use the financial statements. Furthermore, many of the proposed fair value measurements would be classified as Level 3 measurements, including those related to loan receivables and deposit liabilities, based on a lack of observable data to support required assumptions. We do not believe this reduces the complexity in accounting for financial instruments.

In addition, we anticipate that there will be a significant cost of implementing fair value accounting, from system upgrades to additional human resources required to determine, support, sustain and audit fair value measurements. We do not believe, based on the lack of relevance of fair value measurements when financial instruments are intended to be held and liquidated by contractual cash flows, that significant increases in compliance costs are warranted. This is particularly noteworthy in the community bank environment where increasing business compliance costs present significant challenges for current business models.

Financial Assets

As noted above, for many financial institutions, loans and debt securities are not traded to take advantage of market fluctuations, but are held for re-payment of contractual cash flows. We believe that amortized cost is a more relevant measure when these financial instruments are held for re-payment of contractual cash flows. This provides better decision-useful information to an entity's management and to users of the financial statements. If loans or debt securities are held for trading purposes, we believe that fair value is the relevant measurement attribute, with changes recorded through earnings.

For equity securities that are held for purposes other than trading, we believe that fair value measurement through earnings may not be the most meaningful measure and that continued recognition of fair value through OCI should be available. We recognize that the current impairment model for equity securities could be enhanced through further guidance, and would encourage efforts in this regard.

Core Deposits

The re-measurement approach for core deposits was designed in part to capture the interest rate sensitivity of the deposit base, which offsets the interest rate risk inherent in loans. Based on the fact that we do not support the measurement of loans that are held for investment at fair value, we do not perceive a need to re-measure core deposits. In addition, core deposits are settled at cost and are available to depositors on demand. Accordingly, a fair value measurement for core deposits, if deemed appropriate, should represent settlement value and not a core deposit intangible value.

An intangible asset that represents the value of sustained core deposits is separately valued within a business combination, but does not reflect a fair value measurement of the financial liability. Internally generated intangible assets have historically not been recorded under U.S. GAAP, while purchased core deposit intangibles are already reflected on the balance sheet using accepted measurement attributes. We do not agree with the recognition of this intangible asset for purposes of applying a fair value measurement to core deposits.

We also note the proposed calculation for core deposits is unusual and subject to significant judgment. Valuation based on an average balance appears to have no basis in U.S. GAAP for a balance sheet fair value measurement. The calculation also requires a present value calculation based on the difference between the alternative funds rate and the all-in-cost-to-service rate, which requires significant judgment and estimation from management, including the expense of maintaining a branch network.

For the most simplistic of liabilities on a bank's balance sheet, the proposed guidance has introduced a level of complexity that is both unwarranted and appears to lack conceptual merit with regard to the nature of these financial liabilities. As a result, we do not believe that core deposits should be re-measured in accordance with the proposal, or that such measurement should be disclosed in the footnotes to the financial statements.

Other Financial Liabilities

Many financial statement users place less importance on the fair value of financial liabilities, which is due in part to concerns regarding the usefulness of information that reflects changes in an entity's own credit standing. Also, many liabilities are held for repayment, as opposed to trading based on changes in fair value. Seldom is a financial liability sold or transferred, but more often than not, it is settled with the counterparty in accordance with the contractual terms of the contract. Therefore, we believe the default measurement for financial liabilities should be amortized cost; however, if this creates a measurement attribute mismatch, an entity should have the option to measure the financial liability at fair value. If a financial liability were held for trading purposes, we believe that fair value would be the relevant measurement.

Impairment

The proposal moves to a modified expected loss model, (as compared to the incurred loss model for loan credit impairment under existing GAAP) on financial assets, whereby an entity shall consider both the timing and amount of cash flows expected to be collected.

With regard to expected cash flows, the proposal requires an entity to consider both the timing and amount of cash flows expected to be collected as of the impairment assessment date, and provides that the entity may consider only past events and existing economic conditions, while assuming that these existing economic conditions will remain unchanged over the remaining life of the financial asset. This model does not factor in economic cycles and may overstate or understate actual credit losses within the loan portfolio. For example, at the top of the credit cycle, when losses are low, it does not appear to be prudent to assume that this economic condition will remain and never worsen. Conversely, at the bottom of a credit cycle, it does not appear to be prudent to assume that these economic conditions will remain and never improve. As a result, we believe that an incurred loss model is most appropriate for loan portfolios held for investment, with allowable consideration of qualitative factors at the assessment date, such as observable data that supports anticipated changes in economic cycles/factors.

With regard to the recognition of interest income on financial assets, we believe that the recognition and presentation of interest income should be based on contractual interest rates, without reduction for estimated credit losses. Transparency in financial reporting will be weakened by such netting, and will require extensive disclosures to relay the information that is most appropriate to managing financial assets. Such information should be recognized within the basic financial statements.

The proposal also provides that an entity, in an effort to reduce delays in recognizing credit impairment, shall not wait until a credit loss is probable to recognize credit impairment. We agree with this concept.

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We appreciate the opportunity to comment on this proposal. If you have any questions on this response, please contact Jean Joy, Director of Professional Practice, at 617-428-5432 or jjoy@wolfandco.com.

Sincerely,

Wolf + Company, P.C.