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

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

Dear Mr. Golden:

Astoria Financial Corporation appreciates the opportunity to comment on the FASB's Exposure Draft "Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities" (the ED). Astoria Financial Corporation is a unitary savings and loan association holding company for Astoria Federal Savings and Loan Association. We are a publicly traded thrift institution with assets of approximately \$20 billion and operate 85 banking offices in New York.

We support the Board's efforts to provide 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. However, we do not believe that the ED, in its current form, achieves those objectives and therefore we do not support the issuance of the ED as a final standard.

Expanding fair value accounting to assets and liabilities which are intended for long term investment will significantly distort the financial statements of many entities, present a misleading profile to investors, creditors and regulators, create unnecessary and irrelevant changes in capital and distort the comparability of entities.

Accounting Should Reflect an Entity's Business Model

We believe all accounting, particularly accounting for financial instruments, should reflect the intent and purpose of an entity's activities, (i.e. its business model). Financial instruments managed for fair value and trading purposes should be accounted for at fair value, while those

managed for long term investment purposes in order to collect contractual cash flows should be accounted for at amortized cost. Such an accounting model reflects how an entity manages its business, generates earnings and adjusts to changing market conditions. We, like many banks, are a portfolio lender. Our underwriting and decision making to originate loans is based on the expectation that we will hold these investments until maturity and be repaid through its cash flows. Likewise, our funding decisions for those loans are based on the expectation of holding those assets to maturity. Subsequent changes to the fair value of those loans are not a relevant factor as it does not effect our operations or earning capacity. Changes in the fair value of those loans only become relevant when credit concerns arise and full repayment becomes an issue. However, this concern is addressed through the accounting for loan losses and is only relevant to that portion of the portfolio which has collectibility concerns.

Conversely, if our business model were to invest in loans for trading purposes, our decisions and expectations would be based on fair value, not cash flows and fair value accounting would be appropriate.

Investors, creditors and regulators are distinctly aware of the differences in entities' business models and unnecessary volatility in values which are not reflective of the business would only add confusion and reduce the comparability of financial information.

Capital Distortion

The recent financial crisis highlighted many shortcomings and inefficiencies in our financial and regulatory systems. One of the most critical of these was the need for appropriate levels and types of capital to provide the strength and foundation for an entity to weather difficult times. Additional fair value adjustments for financial assets and liabilities which do not reflect the performance or financial stability of an entity will generate unnecessary and volatile changes in capital levels which could lead to incorrect and inappropriate decisions and actions by investors, creditors and regulators alike. This is in fact currently recognized by financial regulators in their assessment of core capital requirements by the adjustment to assets and capital for any unrealized gains or losses in a financial institution's available-for-sale portfolio. Expanding that treatment to other financial assets and liabilities simply complicates the evaluation of capital without providing compensating benefit. Investors interested in returns on equity may also be misinformed as the volatility would significantly change these return calculations once again resulting in an incorrect profile of the business model and entity's performance.

Additionally, as evidenced by the recent financial meltdown, expanded mark-to-market would prove to be counter-cyclical and exacerbate the difficulties associated with economic crises. The lack of liquidity in the market place for certain financial instruments and its impact on obtaining fair values does not effect, and should not misrepresent, the performance of an entity when those instruments are intended to be held-to-maturity.

Investor Relevance

Sophisticated investors are keenly aware of an entity's business model and purpose. They are also aware of which financial instruments are held for investment and those that are held for trading. Their review and analyses consider the comparability of institutions based on their understanding of the institutions' business model. Expanded fair value accounting would unnecessarily complicate these analyses and create an added cost and burden to these users. Conversely, the unsophisticated investor would not understand the volatility and thus be unable to perform appropriate comparable analyses. All investors' needs are currently satisfied through current disclosure requirements which provide, if needed, a reflection of fair value of assets and liabilities.

Reliability of Fair Values

Entities that currently have trading assets generally have active markets or well developed systems from which to obtain fair values. These mechanisms either truly reflect fair value of the instruments or have been thoroughly vetted for consistency and comprehensiveness to approximate fair value. There are no active and/or liquid markets for many financial instruments for which to obtain accurate and reliable fair values. This will deteriorate the transparency and comparability of financial statements. There has already been confusion and concern regarding Level 3 fair values for existing mark-to-market assets and liabilities which would only be magnified by its application to a broader spectrum of balance sheet items. Even with appropriate disclosures, the increase in Level 3 fair value estimates for those held-to-maturity instruments based on varying information, provides little, if any, relevant and useful information to the reader of the statements.

We believe that non-derivative financial assets should be measured at amortized cost if (1) the objective of the entity's business model is to hold the asset to collect contractual cash flows and (2) the asset's contractual cash flows are solely payments of principal and interest on the principal amount outstanding. If the financial asset does not meet both of the above conditions, the financial asset would be measured initially and subsequently at fair value with changes in fair value recognized in net income. Similarly, we believe that non-derivative financial liabilities should be measured at amortized cost unless the entity's business strategy is to manage the financial liability on a fair value basis. Financial liabilities that are held for trading would be measured at fair value with changes in fair value recognized in net income. Retaining amortized cost as the principal measurement attribute for financial liabilities addresses potential concerns about reflecting changes in an entity's credit standing in the measurement of its liabilities.

Credit Impairment

We do not support the proposal that entities calculate interest income by using a credit-loss adjusted amortized cost balance. We believe that entities should calculate interest income by applying the effective interest rate to the amortized cost balance of the financial asset before deducting any allowance for credit losses because this method will result in increased

transparency of actual credit losses in the income statement. Calculating interest income by using a credit-loss-adjusted amortized balance is overly burdensome and may not be operational. The challenge in applying any requirement that uses a credit-loss-adjusted amortized cost balance would be to integrate credit-risk data with, or link it to, accounting systems. Current accounting systems are not equipped to calculate interest income in this manner and system modifications will take time and be costly.

We do not agree with the Board's requirement that an entity (1) assume that the economic conditions existing at the end of the reporting period would remain unchanged for the remaining life of the financial asset and (2) not forecast future events or economic conditions that did not exist as of the reporting date. We believe that when entities are determining the implications of past events and existing conditions for a financial asset's cash flow collectibility, it is unrealistic and overly prescriptive to require them to assume that existing conditions would remain unchanged for the remaining life of a financial asset. Impairment estimates are inherently forward-looking, even if they are based on information about past events and existing conditions; accordingly, we recommend that the Board clarify that an entity is not precluded from using forward-looking information that is currently available and objectively verifiable.

Cost of Implementation

We have serious concerns regarding the length of time and cost associated with implementing the ED as currently proposed. The following issues need to be considered when evaluating the ED: (1) Prior to incurring costs for information systems changes, banks will need to know whether there will be any regulatory changes related to the final standard that could also result in systems changes. Regulators must determine how these accounting changes will factor into capital requirements and periodic reporting. (2) Software vendors must evaluate requirements and develop software frameworks. Since the processes proposed in the ED are processes never before performed, it is likely to take several years before a generally accepted software solution framework will emerge. (3) Projects must be undertaken to change loan processing systems in order to account for fair values and impairment on a loan or pool level. (4) Integration of fair value modeling into general ledger systems within mandated closing periods will be necessary. (5) Reengineering of closing processes related to interest income recognition will be required to comply with regulatory deadlines. (6) Internal controls must be developed and tested for internal purposes and to comply with Sarbanes-Oxley requirements. (7) Increases in staffing and consulting costs as well as increases in audit fees are inevitable in order to implement the requirements of the ED.

Convergence

Finally, we note that the ED differs in many significant respects from current IFRS and IFRS proposals. Because the financial instruments project is one of the key convergence projects on the IASB's and FASB's joint agenda, we strongly encourage the two boards to achieve convergence in all the phases of this project, including the classification and measurement and credit impairment phases.

We appreciate the opportunity to comment on the Exposure Draft. If you have any questions, please contact the undersigned at 516-327-7754.

Sincerely,

/s/ Katherine A. O'Brien First Vice President and Director of Financial Reporting

cc: Frank E. Fusco - Executive Vice President, Treasurer and Chief Financial Officer