1810-100 Comment Letter No. 1474



September 30, 2010

VIA EMAIL: director@fasb.org

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

Dear Mr. Golden:

Thank you for 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 "Exposure Draft"). CIB Marine Bancshares, Inc. is a publicly-reported, \$650 million single bank holding company with offices in central Illinois, Wisconsin, Indiana and Arizona offering community-banking services.

Whereas we recognize the significant effort and intent of the Exposure Draft put forth by FASB, we are compelled to express our strong opposition to the expansion of fair value as the primary balance sheet measurement attribute for virtually all financial instruments. Doing so incorrectly implies to users of the information that fair value measures are the appropriate measures to use when assessing the financial condition of a community bank, and that assessing a community bank is best done by treating its assets as if they are part of short term trading strategies.

Our holding company filed for Chapter 11 bankruptcy in September 2009, and substantially completed its financial restructuring in December 2009. This was done while owning and operating a bank, as the company does today. This experience has provided us with a unique perspective. We believe that if the Exposure Draft had been in effect during 2009, the recording of loans at fair value as would have been required even for loans not expected to be sold would have distorted our financial statements and depleted our existing reported capital faster and in hindsight, would have created substantial doubts as to our ability to have filed and emerged from Chapter 11 bankruptcy proceedings. In our opinion, investors approved our plan of reorganization that they otherwise might not have if the Exposure Draft

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were in effect due to the heavy weight the Exposure Draft puts on recording financial instruments at fair value, and, in particular, at a time of continued economic dislocation in the markets for financial assets. While we agree that fair value information is useful and particularly for those assets with a short term holding horizon or an intent or compulsion to sell, we believe that the current disclosure of that information is sufficient, and amortized cost, not fair value, is the proper measurement attribute when an entity's business strategy is to hold financial instruments for collection or payment of contractual cash flows.

We would like to address certain other questions listed in the Exposure Draft.

Question #1: Do you agree with the scope of financial instruments included in this proposed update? If not, which other financial instruments do you believe should be excluded or which financial instruments should be included that are proposed to be excluded? Why?

We do not agree with the scope of financial instruments included in the proposed update. We agree with the members of the FASB who support a mixed measurement model consisting of fair value and amortized cost for financial instruments. We believe the measurement of certain financial instruments, where there is no intent or compulsion to sell, on an amortized cost basis when held for collection and repayment of contractual cash flows is more consistent with how users evaluate investment decisions and how businesses (particularly banks) are managed. For those financial instruments where an intent or compulsion to sell is evident, we believe that fair value should be used for measurement as is currently required. Other financial instruments should be excluded from the scope of this proposal. The FASB's objective of developing a model that increases decision-usefulness of the information reported about financial instruments has not, in our opinion, been achieved by this Exposure Draft.

Question #8: Do you agree with the initial measurement principles for financial instruments? If not, why?

The loans in our balance sheet are primarily comprised of local commercial loans with unique terms, collateral and guarantee structures, as well as expected payment streams. Inherent in the pricing of these loans would be a review of the entire relationship that the borrower has with our organization depending on deposit or other services provided. The Exposure Draft ignores the overall banking practice of competitive pricing of loans as a part of a broader relationship and would force a fair value calculation for these loans based strictly on the pricing of one service. Also, these loans do not trade in a highly organized market with a sustained level of liquidity nor is there an intent or compulsion to sell them. If the performance of a loan comes into doubt, it is more likely that a workout process rather than a sale of the asset would occur. The inherent assumptions in the Exposure Draft that fair values are not only reliable as a measure for community banks to report its financial condition but also superior to current accounting methods is too strong and causes our failure to support the Exposure Draft. For this to be true, there would need to be active and liquid markets for all financial instruments to be reported using fair value or that fair values can be reliably estimated and that one bank's calculation of fair value would be sufficiently similar to that of similarly situated banks to allow for accurate and reliable comparisons of results based on those estimated fair values. The recording of fair values on the financial statements for such financial instruments would be ambiguous and misleading.

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Many banks' performance, such as ours, is compared to peer-group holding companies or banks according to regulatory reporting requirements. The insertion of fair value numbers for loans and the recording of the related change through a charge to the income statement or Other Comprehensive Income would not allow comparability to continue without adding a significant and costly degree of complexity for the user of that information since different banks with similar assets may have substantially different outcomes in their estimation of fair values or their implementation of the Exposure Draft.

The increased use of subjective estimates to arrive at the fair value calculation of these financial instruments does not, in our opinion, provide decision-useful information to users of the information. Rather, it will subject entities to volatile swings in earnings and capital that may have little to do with the underlying purpose or likely repayment of the financial instruments on the balance sheets. The FASB states that having both cost and fair value will assist regulators in determining the strength of banks and bank holding companies. Due to in part to the subjective nature of fair market valuations, we do arrive at a similar conclusion.

Banks and bank holding companies are heavily regulated at the federal level and subjected to increasing capital requirements. In our opinion, the banking regulators need to be in agreement with or have contributed significantly to any proposal from the FASB before any changes to standards are implemented. Also, there are current regulatory rules applied for the discontinuance of recording of interest income on loans. The Exposure Draft introduces a different requirement which if adopted, would result in more bank regulatory and GAAP differences. Operationally, the Exposure Draft requirements for recognition of interest income on loans and the new tracking and recording requirements for impairment loans would result in accounting compliance complexities and costs as two sets of books would need to be maintained. We do not believe the Exposure Draft contributes enough useful information to users of the financial information to warrant this.

The Exposure Draft presents a model that would recognize credit impairment immediately in net income when banks do not expect to collect all contractual interest income for a pool of similar financial assets. Accordingly, this approach would force banks to record a credit loss on newly originated or acquired assets because it is included in a pool for valuation purposes. We disagree with this approach. We believe that the current guidance, which recognizes credit losses in the computation of the effective interest rate and over the life of the asset, is appropriate.

In addition, the Exposure Draft permits reporting companies to choose under a limited set of criteria the recording of changes in fair value through earnings or other comprehensive income. Without a specific set of criteria for which that recording decision is required would create additional complexity for the users to compare banking companies that might otherwise be substantially similar.

Also, we do not agree that ignoring expectations of future events in determining the amount of expected credit losses is consistent with sound credit management since it ignores the historical phenomena of business fluctuations in our economic system, it is back-wards looking, it turns a blindeye to widely held expectations and outlooks that might be held for the improvement or deterioration

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of various markets, and without much furtherance of argument would conceivably create erratic and sometimes violent swings in fair values of many banking assets that would not impart useful information as well it would have the potential if taken at face value of exacerbating business cycles and capital market movements.

Question #24: The proposed guidance would provide amortized cost and fair value information on the face of the financial statements. The Board believes that this would increase the likelihood that both measures are available to users of public entity financial statements on a timely basis and that both measures are given equal attention by preparers and auditors. Do you believe that this approach will provide decision-useful information? If yes, how will the information provided be used in the analysis of an entity? If not, would you recommend another approach (for example, fair value financial statements in the notes to the financial statements or dual financial statements)?

The insertion of fair values on the face of the financial statements implies that an accurate and reliable amount can be calculated for each financial instrument. Furthermore, the fair value model proposed by the FASB has an incorrect inherent assumption that the financial instruments are intended to be sold or traded, and that liquidation values are the most relevant measures to compare balance sheets. For loans and non-marketable equity investments which would be measured at fair value under the Exposure Draft, there is no discernable market in which to determine fair value. Accordingly, the determination of fair value would be based on "Level 3" valuation techniques which are highly subjective and would vary significantly between institutions. To show the largest asset on bank's financial statements with corresponding changes ultimately flowing through equity we believe will compromise the integrity and comparability of reported results, reduce investor confidence and as a result will arguably lead to an increased cost of capital for financial institutions.

We believe that the current reporting of fair values in the balance sheet and disclosures of fair values in the footnotes to the financial statements is sufficient information for investors, regulators and others to determine the strength of an organization. Bank holding companies that are regulated by the Securities and Exchange Commission are required to have expanded discussion of its financial instruments, particularly loans and investments, which detail credit quality, levels of reserves and the impact on interest income of nonaccrual loans. Such disclosures are more useful than the proposed requirements. The Exposure Draft, according to the FASB, "...simplifies and improves financial reporting of financial instruments..." For reasons we have described, we disagree that this Exposure Draft proposal accomplishes that goal by a wide and costly margin.

The implementation of the Exposure Draft will be lengthy and costly for financial institutions with minimal benefits. The costs to implement the proposed changes will, in our estimation, require significant operating system, regulatory and accounting upgrades. As mentioned above, the financial results under the Exposure Draft will become less meaningful, reliable and relevant to users and regulators.

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In summary, we are strongly opposed to the Exposure Draft in its expansion of fair value in the reporting of financial statements.

We thank you for the opportunity to respond.

Sincerely,

/s/Patrick Straka

Patrick J. Straka Chief Financial Officer