

**From:** [joe@nbanker.net](mailto:joe@nbanker.net)  
**To:** [Director - FASB](#)  
**Subject:** Comments on No. 1810-100, "Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities" Exposure Draft  
**Date:** Monday, September 20, 2010 11:38:07 AM

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Joe Herman  
201 E Main  
Norton, KS 67654-2044

September 20, 2010

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

Dear Mr. Golden:

I am writing to comment on FASB's Exposure Draft: Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities.

I strongly urge FASB reject this proposal. The reporting that would result will be questionable, to say the least, and will misrepresent the financial condition of our bank and others like us.

I am EVP and CEO of First Security Bank & Trust Company, Norton, Kansas; we are a \$60 million bank headquartered in a small rural community whose economic base is largely agricultural. We also serve the Kansas City market. Our credit portfolio is a mix of agricultural, commercial, and consumer credits and is fairly diversified. We have 18 full time employees. We do not engage in derivatives or hedging activities. We estimate the initial cost to implement with this proposal to be \$75,000; and the ongoing annual cost to be \$60,000.

We fund our operations by taking deposits and holding loans for the long term. Most of the financial instruments this bank holds are not readily marketable, and those that are, are already marked to market.

We oppose the proposed accounting treatment for core deposits which calls for them to be measured using a present value calculation. The procedures would be time consuming and inordinately expensive for smaller banks like ours. Due to limited staff resources we would have to add personnel to conduct the analysis. In addition, we feel very strongly that this analysis would not provide accurate or useful information. Therefore, we oppose requiring institutions to record demand deposits at fair value.

We also oppose requiring fair value calculations for loans that are held for the long-term to collect cash flows. Fair value measurements will not provide a better understanding of the values of illiquid agricultural loans held by small banks in rural areas such as this bank. Community banks such as this bank create and hold small business loans for which there is no active market. It would be very difficult and costly to mark such loans to market; here again we feel very strongly that such an

analysis would provide neither accurate nor useful information. Why use for data whose reliability is questionable?

Expanded reporting of comprehensive income is completely unnecessary. It will confuse most financial statement users and also be of little if any use.

Conservative community bankers (and bank regulators) see the need for more flexibility in setting the allowance for loan and lease losses. It is already difficult enough to absorb losses and raise capital during times of economic difficulties, as should be readily apparent to FASB given our current economic environment.

Accounting standards and guidance should not be pro-cyclical. Recent conditions have demonstrated the pro-cyclical nature of mark-to-market - declining values of financial instruments necessitated write-downs and sales, causing further write-downs and sales. A self-perpetuating cycle like this is very dangerous, yet FASB's proposal will exacerbate this danger.

FASB's proposal will increase the volatility of bank balance sheets, which will result in higher capital requirements and decreased lending -- all at a time when regulators are already calling for more capital and our economy needs more, not less, credit availability.

Thank you for the opportunity to comment on this proposal.

Sincerely,

Joe Herman  
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