

From: john.hecht@bankwps.com
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: Thursday, September 23, 2010 10:48:11 AM

John Hecht
5900 Gisholt Drive
Madison, WI 53713-4825

September 23, 2010

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

Dear Mr. Golden:

Thank you for the opportunity to comment on FASB's Exposure Draft: Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities.

As a bank president and CEO, I am writing to urge FASB to table the proposal.

Our institution, WPS Community Bank, FSB is a newly formed federal savings bank located in Madison, Wisconsin. We operate primarily in the metropolitan area, but also around the state of Wisconsin and beyond.

The accounting that would result from this proposal would not improve the quality of the financial condition of WPS Community Bank and other community banks our size (<\$50 million assets).

The primary business of community banks is to hold financial instruments to collect contractual cash flows, not to trade them on a regular basis.

We fund our operations by taking deposits and holding loans for the long term. Most financial instruments this bank holds are not readily marketable, with the exception of mortgage loans held for sale in the secondary market.

I also oppose the proposed accounting treatment for core deposits which calls for them to be regularly remeasured using a present value calculation. This would not provide accurate information and the calculations would be expensive and time consuming, particularly for smaller banks like ours that have limited staff resources to conduct the analysis. As a CPA and former CFO of a \$5 billion publicly traded banking organization, I know that core deposit valuations involve a tremendous amount of assumptions as it relates to non-maturity products. These are among the most sensitive variables in the valuation process. It is also extremely difficult to gather reliable account attrition data to support average life calculations. The results among banks would vary wildly, making the disclosures extremely unreliable and difficult to make informed judgements.

We oppose requiring institutions to record demand deposits at fair value. If you could tell me how long these relationships will last it would improve our ability to put a value on it, however, that is only one of the variables required to determine their value.

We also oppose requiring fair value calculations for loans that are held for the long-term to collect cash flows.

Community banks such as ours create and hold small business loans for which there is no active market; it would be very difficult and costly to mark them to market. Again, with only 13 full-time staff and other burdensome regulatory compliance requirements I can not see any compelling reason to attempt such valuation estimates. The additional burden to individually value our loan portfolio is difficult to measure and the benefit from such an exercise would be questionable.

The expanded reporting of comprehensive income is unnecessary, confusing and of little use to most financial statement users. Until there are established markets that provide reliable valuation for both sides of a bank's balance sheet I believe that this approach fails the test of informing investors and other users of the financial statements for a bank.

Conservative community bankers (and bank regulators) see the need for more flexibility in setting the allowance for loan and lease losses. We are all well aware that economic cycles occur and it is very difficult to absorbing losses and raising capital during times of economic difficulties, such as the current environment.

Accounting standards and guidance should not be pro-cyclical. Recent market conditions have demonstrated the pro-cyclical nature of mark-to-market accounting as declining values of financial instruments necessitated write-downs and sales, causing further write-downs and sales. This is a difficult problem that has contributed to extreme earnings and capital volatility in the industry.

These accounting changes will increase the volatility of bank balance sheets, forcing them to face higher capital requirements or decrease lending at a time when regulators are calling for more capital and our economy needs more, not less, credit availability. Spending the time to do this would require my direct involvement because of my financial background and I have much more important things to do with my time as President such as underwriting new loans and developing new business than estimate values that nobody will ever pay attention to.

Again, we thank your for the opportunity to comment on this proposal.

Sincerely,

John Hecht
608 224-5545