1810-100
Comment Letter No. 2763

From:	donf@icbnd.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 30, 2010 9:43:32 AM

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September 30, 2010

Russell Golden
Technical Director, Financial Accounting Standards Board
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Dear Mr. Golden:

As Executive Vice President of the Independent Community Banks of North Dakota, a CPA and member of the AICPA and State of North Dakota I am compeled to ask the FASB to withdraw the exposure draft "Accounting for Financial Instuments and Revisions to the Accounting for Derivatives and Hedging Activites". The draft will NOT improve disclosure of financial condition or operations for any community bank in North Dakota. In fact, application of the guidance contained in the exposure draft will only "misrepresent" the financial condition of the instiutions and lead to significant uncertainty as to the financial condition of each of these instituions due to the unavailability of a creditable fair market value standard for many of the loans, bonds and other instruments held by these instituions.

For example, what is the fair market value of a loan or a bond for a school distirct in a community of less than 500 population with no rating available from any agency due to the small size of the issue and the lack of credit rating? What is the market value of a loan to a borrower to finance the "only" market or cafe in the community? You must agree that market value of such instuments is not as relevant as the charater of the borrower and the ability of the operation to make its payments (cash flows). Neither of these examples (and I do have many more real life examples) has a readily available fair market value.

Since most community banks fund their assets with deposits what is the value of the forcing them to determine a (subjective) fair market value for both their deposits and assets? If the insitution has funded the asset with deposits and built in a fair return in the process and the asset meets its cash flow requirements what is the value to anyone of knowing the (again subjective) fair market value of the asset (which is cash flowing according to its terms) and the depsoits funding the asset? Note that if the asset does become inpaired that the valuation allowance will come into play (ALLL) as will the reults of the lower cash flows (less interest income and profit). Also note that currently there are no publicly held community banks chartered in the state of North Dakota which includes 94 institutions.

Community banks most often hold these insturments (like those in my examples above) until maturity primarily because there is no market for them. These banks also are the primary (if not exclusive) source of funding for such projects. Even more readily marketable insturments, like single family mortgages, often encounter market value difficulties in small communities. Due to the few number of comparable sales there is a significant discount for appraisal values of these properties in small communities and rural areas compared to the exact same property in a larger community which can be built for the exact same costs. This is known as apparaisal gap! In my example both the property in the rural area and larger market area are also supported by the same level of income and assets from the borrower. Credit worthy borrowers will pay the full amount of the loans and the net result is equal cash flows for both loans on identical property over the same period of time. However, the exposure draft would now require differing valuations throughout the lifetimes of these two loans for what purpose? How is a "mark to market" valuation relevant or valuable to the borrowers or any other party to these transactions?

In summary, what is being proposed would only add to the already tremendous workload for community banks, add subjective (at best) information which will NOT add any pertinent valuable information beyond that which is already being reported and in fact will provide conflicting information. Anyone with proactical "field experience" can forsee issues in making these critical loans (my examples above) in the future and can see that this exposure draft, if it becomes a standard, will be responsible for the decline in making such investments in small communities and rural areas.

I do want to thank you for allowing me to express my views on this significant issue but to say I am deeply disappointed that the issue made it to exposure draft is a grievous understatement. I would add that in my view this misguided and poorly designed attempt to fit all entities into a "one size fits all box" reeks of academia "gone wild" without practical application.

I will go further and send an invitation to all members of the Financial Accounting Standards Board to come to North Dakota and spend time with the instituions that will be impacted by this draft prior to even considering further advancing this issue.

Sincerely,

Donald Forsberg
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