

Letter of Comment No: 6

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INDEPENDENT COMMUNITY
BANKERS OF AMERICA

September 2, 2004

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

Re: File Reference No. 1201-100

Dear Sir or Madame:

The Independent Community Bankers Association (ICBA)¹ welcomes the opportunity to comment on the exposure draft, "Fair Value Measurements." The following are ICBA's initial views on the exposure draft. ICBA's Lending Committee, which studies accounting issues for ICBA, holds its semi annual meeting in late September and fair value measurement will be a topic on its agenda. We would like to provide FASB any additional comments from this discussion subsequent to the meeting.

General Summary of the Proposal

The exposure draft defines "fair value" as the price at which an asset or liability could be exchanged in a current transaction between knowledgeable, unrelated willing parties. The proposed statement does not establish requirements for when to measure assets and liabilities at fair value but how to measure fair value. It would apply broadly to financial and nonfinancial assets and liabilities that are measured at fair value under other authoritative accounting pronouncements. FASB would consider when to use fair value measurement on a project-by-project basis in individual pronouncements. FASB expects that the guidance provided by this proposed statement will be applied together with applicable valuation standards and generally accepted valuation practices, where appropriate.

The ladependent Community Bankers of America represents the largest constituency of community banks of all sizes and charter types in the nation, and is dedicated exclusively to protecting the interests of the community banking industry. ICBA aggregates the power of its members to provide a voice for community banking interests in Washington, resources to enhance community bank education and marketability, and profitability options to help community banks compete in an ever-changing marketplace. For more information, visit ICBA's website at www.icba.org.

The proposed statement would require expanded disclosures about the use of fair value to remeasure assets and liabilities recognized in the statement of financial position, including information about the fair value amounts, how those fair value amounts were determined, and the effect of the remeasurements on earnings (including unrealized gains and losses).

Background

Currently there is limited guidance for applying the fair value measurement objective in generally accepted accounting principles (GAAP) and existing guidance is spread among the many pronouncements that require fair value measurements, resulting in some inconsistencies. FASB states that many constituents have raised concerns about the ability to develop reliable estimates of fair value in certain circumstances, in particular, in the absence of quoted prices. Thus, FASB wants to develop a framework clarifying the fair value measurement objective and its application under other pronouncements that require fair value measurements.

FASB anticipates that the result of this statement will be improved financial reporting from increased consistency, reliability, and comparability. According to FASB, expanded disclosures about the resulting fair value measurement should provide information that is useful to users of financial statements in assessing the effects of those measurements used in financial reporting. FASB hopes that the statement will advance its initiatives to simplify and codify the accounting literature.

ICBA Comments

Consolidated Guidance

ICBA supports FASB's efforts to consolidate guidance on fair value measurement and eliminate inconsistencies in treatment and provide guidance on developing reliable estimates of fair value in the absence of quoted prices. In our view, the proposed definition of "fair value" is appropriate. We also agree with FASB's approach to consider when to use fair value on a project-by-project basis. This would allow for consideration of whether unique situations exist where automatic use of the proposed fair value guidance might not be the best approach.

Fair Valuation Should Not Require Undue Cost and Effort

The proposed statement would require that in the absence of quoted prices for identical or similar assets or liabilities in active markets, fair value be estimated using multiple valuation techniques consistent with the market approach, income approach, and cost approach whenever the information necessary to apply those techniques is available without undue cost and effort. Clearly, such cases can create significant challenges in determining a fair value that provides useful, rather than misleading information about the asset or liability. We strongly support the qualification in the guidance that the guidance should be applied when the techniques are available and without undue cost and effort.

Practicability Exemption Critical

Similarly, ICBA supports FASB's decision not to change the practicability exception permitted in Statement 107, "Disclosures about Fair Value of Financial Instruments." According to Paragraph 15 of Statement 107, practicable means that an estimate of fair value can be made without incurring excessive costs and recognizes that what is practicable for one institution may not be for another. We urge FASB, as it goes forward in its work on this statement, and during the conceptual phase of this project, to continue to allow this exception that is particularly important to smaller institutions, such as community banks and other institutions that hold assets and liabilities that are difficult to apply fair value measurements. As ICBA discussed with FASB during the deliberations leading up to the issuance of Statement 107, community banks often hold financial instruments that are too small in amount to readily determine fair market values and the cost of obtaining independent valuations far exceeds the benefits. We urge FASB to consider a practicable exemption in any guidance that requires fair value measurements that may be more difficult or costly to obtain than the benefit derived in greater clarity.

Minimize Complexity

ICBA urges FASB to minimize the complexity of fair value measurement when possible. We recognize that FASB must provide enough guidance to provide clarity to the measure process to ensure a fair value determination is as accurate as possible. But when does the process become too complex? For example, how many valuations methods must be used to determine fair value in the absence of quoted prices for identical or similar assets or liabilities in active markets? If information is available to apply multiple measurements, must all possible multiple measurements be used? Community banks are concerned that in this example the guidance communicates that the more measurement methods used the better, even though by their nature as estimates, none can be precise.

Thank you for the opportunity to comment. If you need additional information or have any questions, please contact Ann Grochala, ICBA director of lending and accounting policy, at 202-659-8111 or ann.grochala@icba.org.

Sincerely,

Charles Saeman

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Chairman, ICBA Lending Committee President, State Bank of Cross Plains