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October 6, 2009

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

Via email: director@fasb.org

File Reference: No. 1710-100 *Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures about Fair Value Measurements*

Dear Mr. Golden:

The American Bankers Association (ABA) appreciates the opportunity to comment on the exposure draft: *Fair Value Measurement and Disclosures (Topic 820) – Improving Disclosures about Fair Value Measurements* (ED). ABA brings together banks of all sizes and charters into one association. ABA works to enhance the competitiveness of the nation's banking industry and strengthen America's economy and communities. Its members – the majority of which are banks with less than $125 million in assets – represent over 95 percent of the industry's $13.3 trillion in assets and employ over 2 million men and women.

The ABA is concerned about the direction that the FASB is taking with regard to the continued expansion of mark to market (fair value) accounting and related requirements. Each new morsel of required data often translates into significant incremental work for the reporting banks and significant external fees incurred for producing the information. At some point, there needs to be an acknowledgement that providing the information that certain investors may desire is not cost-beneficial.

We have the following primary concerns about the ED:

- The ED should not apply to companies that are not SEC registrants. Community bank shareholders, for example, have not been requesting additional fair value information, and the burdens and costs for community banks outweigh any incremental benefit.
- For SEC registrants, the sensitivity disclosures required in the ED should not be required, as they will be costly to derive and to audit, and will often be confusing to many investors.

- Any additional requirements to provide fair value disclosures should be subjected to a documented field test and a cost/benefit analysis that publicly details the cost estimates and expected benefits.

Below is additional information regarding our concerns.

The Disclosures Will Often Provide Meaningless Information.

For Level 3 fair value measurements, the ED proposes disclosing the key significant input and a sensitivity disclosure that shows how the measurements would increase or decrease based on "reasonably possible alternative inputs." Inputs for relatively "simple" products like private-label residential mortgage-backed securities, as noted in the example, may include prepayment rates, probability of default, loss severity, and yield. However, there are many other inputs, which are often interdependent, to be considered. For example, prepayment rates often reflect interest rate and home price assumptions, as well as assumptions on credit classification. Geographic location of the underlying assets can affect both prepayment and default rates. Fair values are also often reflective of the relative level of subordination in the structures. More complicated assets and structures invite other considerations.

With this in mind, details of weighted averages of key significant inputs can often have little meaning, as certain changes in the inputs may have a material effect on some assets within a sub-class and little, if any, on others. While one may argue that more disaggregation could be required, it is likely that an unmanageable level of disaggregation would be necessary to attain sufficient correlation among those assets.

This discussion, so far, has focused on homogenous underlying assets. Within a context of non-homogenous assets, which may be common in a commercial mortgage backed-security or a specific collateralized debt obligation, the relevance of these averages naturally diminishes further. Therefore, no matter the underlying assets, we question how a user will substantively interpret the amounts disclosed.

The "Reasonably Possible Alternative Inputs" Will Often Result in a Meaningless Range.

While we understand certain investors' desire to know how sensitive fair value models are, "reasonably possible" can represent an extremely broad range of results. Further, based on existing fair value guidance, it is not management's assessment of "reasonably possible", it is what management believes is the market's perception of "reasonably possible." The quick, deep drop in housing prices and increase in national unemployment rate over the past twelve months will necessarily be included in the realm of "reasonably possible" in the future – even though it was an anomaly based on historical experience. This is just one example of the difficulty with requiring a "reasonably possible" range. Providing these disclosures implies an acceptable level of certainty that does not exist.

Though the ED notes that the increase and decrease are not the best and worst case scenarios, based on many current economic forecasts, it is nonetheless reasonable to

expect ranges so wide that users will eventually (if not immediately) find this disclosure – if not all Level 3 measurements – irrelevant. In the meantime, we believe that debates with auditors to agree on what is "reasonably possible" will eat up significant time during an already hectic quarterly closing process.

The Sensitivity Disclosures will be Costly.

Level 3 fair value measurements already are costly to companies to prepare. The addition of "reasonably possible" alternatives will introduce significant complexity for companies as they try to develop procedures to ensure that the input assumptions are derived in a controlled and documented environment. This will be a significant challenge for any size company, as large banks will need to deploy valuable resources to achieve this and smaller banking institutions will likely need to hire external consulting firms. Current costs to obtain external modeled values range from $2,000 to $5,000 per position for relatively uncomplicated securities. Determining a "reasonably possible" range not only will take extra external consulting time, but will require time, as noted above, for management and its auditors to agree upon this range. Depending upon the economic environment, the ranges could also change between reporting periods. This concern is also compounded by the possibility, as expressed by various large accounting firms to our members, that many collateral-dependent mortgage loans will be included in this disclosure because the net investment in the loan is recorded at the collateral's fair value. Such a requirement will necessitate a broad effort to educate and to procure real estate appraisal companies to provide such estimates.

There are over 7,000 banks and thrifts in the United States, with almost 80% of them not registered with the SEC. These banking institutions, like the vast majority of public banking institutions, are managed based on a traditional banking model and their shareholders are not requesting information about the short term fair value of their non-trading assets. For these banking institutions, the costs of providing this information would far outweigh any incremental benefit. The same is true for all size categories of banks as well – whether or not they are SEC registrants.

Recommendations

In summary, we believe the ED should not apply to companies that are not SEC registrants – including banks – primarily due to excessive costs compared to possible benefits. With regard to the sensitivity analysis, many SEC registrants have worked with investors on an ongoing basis to provide information on a variety of issues that are responsive to investors' changing needs. Some banks have provided additional sensitivity information in their Management's Discussion and Analysis (MD&A) with their Form 10-K filings. This information has included specific input assumptions used across a broad range of inputs, as well as the specific effects on fair values caused by certain input changes. We believe these disclosures are more responsive to investor needs and are more reliable than the sensitivity analysis in the ED. MD&A also provides the ability for preparers to adapt to future changes in investor preferences for information. Requiring such disclosures in the financial statement footnotes will likely result in quickly obsolete, and ultimately, irrelevant data.

Because of this, we recommend that the sensitivity disclosures be omitted from any final standard. Further, we recommend that the ED be subject to a field test prior to requiring companies to provide information that is costly to obtain. Field testing should be openly documented as to the estimated costs and perceived benefits.

Thank you for your attention to these matters and for considering our views. Please feel free to contact me (mgullette@aba.com; 202-663-4986) if you would like to discuss our views.

Sincerely,

Michael L. Gullette