

September 7, 2010

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

File Reference: No. 1810-100 *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities*

Dear Mr. Golden:

Thank you for the opportunity to comment on the exposure draft *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities* (“proposal”). As a bank investor personally, and as an investment manager who invests client funds in bank stocks, financial transparency is very important to me. With this in mind, I am writing to express my deep concerns and opposition to the portion of the proposal that requires all financial instruments to be marked to market. This would actually be counter-productive, as it would put into question the most important aspect of bank analysis – their capital position. It would serve to make capital a very volatile number, which is not in keeping with reality in an ongoing concern.

In your proposal, banks must record loans on the balance sheet at their market value. However, bank investors are more concerned about how loans perform over time rather than the market value. Additionally, with individualized payment terms, collateralization, and guarantee structures, the vast majority of commercial bank loans have no reliable market in which they could be sold, further calling into question the reliability of using “fair value” as the basis for financial statements. Also, even if there was a reliable market for loans, fair value is not the appropriate measurement for these loans since it does not represent the cash the bank will receive. Finally, in the case of “problem loans”, the fair value concept is also improper because the vast majority of these loans will be restructured by the bank and borrower vs. being sold by the bank; therefore, the fair value concept would have the impact of producing significant capital volatility as a result of changing market prices of loans which are not expected to actually be realized by the bank.

I am very concerned that this fair value accounting proposal could result in banks being forced to change their business model. Since capital would become substantially more volatile (artificially so) under this proposal, investors will inevitably place pressures on bank management to decrease this volatility, which in turn is likely to result in banks moving away from any traditional banking products/services that have volatility associated with them (i.e. lending). This unintended consequence of an accounting rule change could have a substantial impact on our nation’s economy!

Lastly, I am very concerned about the costs associated with producing loan market value data and assumptions. It would take substantial resources for banks to be able to comply with this accounting change, which seems like a very inefficient use of resources since investors will gain no benefit from this expenditure.

Considering all of these concerns, I strongly request that you remove the mark-to-market proposal. Thank you for considering my views. Please feel free to contact me if you would like to discuss my concerns.

Sincerely,

Greg A. Salmen, CFA, CTFA  
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