

From: [Ron H. Solt](#)
To: [Director - FASB](#)
Subject: File Reference No. 1810-100
Date: Tuesday, September 14, 2010 9:26:41 AM

June 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 Financial Instruments and Revisions to the Accounting Derivative Instruments and Hedging Activities*

Dear Mr. Golden:

Thank you for the opportunity to comment on the exposure draft *Accounting r Financial Instruments and Revisions to the Accounting Derivative Instruments and Hedging Activities* ("proposal"). As a bank investor, of utmost importance to me regarding the banks in which I own stock is their financial position, and transparent financial reporting is key in order for me to make investment decisions. 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. From a bank investor's perspective, this will cloud transparency rather than improve it, and put into question the most critical element of bank financial statements: bank capital.

In your proposal, banks must record loans on the balance sheet at their market value. In all my meetings with bank management regarding financial results, market values of loans are never discussed. The reason for this is that investors are interested in how loans perform, not how the market views loan performance. Although I understand the rationale for providing banks with the ability to provide more robust loan loss reserves, I believe the focus on mark to market is not relevant for loans that are not being sold. 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. Even if there were active markets, fair value is not the appropriate measurement for these loans since it does not represent the cash the bank will receive.

I understand that a loan's intrinsic value may change because of current interest rates or because of problems the borrower may have. But if there is a problem in repayment, the banks' typical process is to work the problem out with the borrower rather than sell the loan. So, even if it were easy to find a market value, that market value is irrelevant, since the bank would not sell the loan. As a result of your proposal, bank capital will be affected by market swings that cannot reasonably be expected to ever be realized by the bank.

Another serious concern I have is whether, because the proposal to mark loans to market does not reflect a bank's business model, requiring them to do so could result in a need for banks to change their business models. As an investor, my desire to hold equity securities generally declines as volatility increases. Because I do not view this as "true" volatility, I will be in a quandary about the true reported financial position under the proposal. Some investors will likely put pressure on banks to reduce the volatility, and, in many cases, this may result in shifting toward an investment banking model rather than a traditional banking model, or result in limiting products to those that are.

The proposal, in my opinion should not move forward, it just simply a bad idea.

Ronald H. Solt, CBA
Bettendorf, Iowa

-r