Bank of Eastern Oregon

Technical Director
Financial Accounting Standards Board
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Just as classified balance sheets don't reflect the business of banking and therefore financial institutions are excluded from that reporting requirement, mark-to-market accounting for financial instruments held-for-investment on community banks' balance sheets distorts the purpose of financial reporting.

As a bank investor, chief financial officer, and frequent user of bank financial statements to evaluate and compare performance, I cannot see a valid rationale of incurring the expense and time to capture information that distorts the picture of banking operations. This would be an example of trying to force a square peg into a round hole. Banking simply does not fit this accounting model.

The core purpose of community banking is to provide an intermediary between local citizenry to deposit funds and for others to borrow those funds for business or personal benefit. It is a business of relationship building. Only through long-term relationships does a community bank survive and prosper. Churning loans and deposits, which mark-to-market implies, would make for a short lived community bank. Our bank has been around since 1945. Most of our core business is with customers that have been with the bank for decades and even from generation to generation.

We have nearly 400 stockholders and our shares can be traded over the counter through a broker. However, most of our investors are the same customers that have been with the bank for generations. Imagine the confusion they would experience if our quarterly and annual financial statements show the volatility of mark-to-market of loans and deposits that are traditionally and purposefully held for long term operating purposes! Actual performance is not captured in marking to market financial instruments proven to be held for investment. Comprehensive income related to investment loans and deposits is not earnings per share for a community bank.

For those instruments held-for-sale or available-for-sale, principles already exist to account for potential gains and losses from market risk. Likewise credit risk, the true risk of loans held for investment, already has comprehensive principles that have developed into objective means of reporting. There is no value in pushing into territory that forces irrational interpretation of financial data.

Where is the value of financial statements if they confuse and distort the true operations of the reporting entity? How can investors have faith in the comparison of two community banks when the financial statements don't report actual performance? Please reconsider this principle and reject the expense it would force upon banks and the confusion it would cause to the majority of banks' investors.

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