



September 15, 2010

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

Dear Mr. Golden:

The following are our comments on the exposure draft *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities* (the "Proposal"). We serve as managing member of a partnership that invests principally in financial institutions. In order to analyze our current positions or potential new positions, it is critical that financial reporting provide information that properly reflects a company's true financial condition. Transparent financial reporting is important in order for us to make investment decisions.

This letter is being written to express our deep concerns and opposition to the portion of the Proposal that would require all financial instruments to implement mark to market accounting for their entire balance sheet (especially loans). We believe that the Proposal to implement mark to market accounting will provide substantial uncertainty as to the actual level of equity held by financial institutions as fluctuations and volatility in interest rates will substantially alter the reported level of equity held by a financial institution. Such potential dramatic changes in net worth can have significant implications and present an unnecessary risk to financial institutions and bank investors.

In the Proposal, financial institutions would be required to record all loans held on the balance sheet at their estimated fair value. We understand that such a focus would be important in the event of liquidation (or anticipated future sale of the loans), but in most analysis we conduct, we are significantly more concerned that the loans perform and repay in full their stated principal rather than some arbitrary calculated fair value amount. We are deeply aware, after the most recent credit crisis, that maintaining adequate loan loss reserves are important. We believe the added focus on mark to market calculations would only be relevant in the event that the financial institution anticipates liquidation.

We further are concerned about how financial institutions may choose to value certain assets on their balance sheet. The vast differences in loan terms (again as evidenced by the credit crisis)

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makes estimating the fair value of loans a very subjective and speculative process. Due to the opportunity for vast differences in calculating the fair value of loan portfolios, investors will lack an ability to evaluate financial institutions on a comparable basis. Comparability has been and should continue to be an underlying tenant in the accounting literature. The Proposal provides financial institutions the ability, in their assumptions used to develop fair value estimates, to distort their actual results and confuse investors as to how a company's performance may compare to another. Additionally, the vast majority of loans held by the banking industry have no reliable market in which they can be sold, further calling into question the reliability of using fair value as the basis for financial statements.

We understand that a loan's fair value may change over time because of changing interest rates. As a result of the Proposal, recorded loan values and bank capital will be materially affected by potentially wide market swings that cannot reasonably be expected to ever be realized by the bank. Since borrowers are contractually obligated to only repay their principal owed (versus the calculated fair value of loans as recorded) the recording of fair value adjustments may not reflect the actual cash flows that a financial institution would receive.

The Proposal for mark to market could have an additional unintended result for financial institutions. Investors either seek additional reward or simply seek to avoid industries where extreme price volatility exists. We believe that the Proposal will result in reduced market values and heightened price volatility for financial institution stocks due to the volatility of changes in equity and the corresponding market implications of such volatility. This Proposal may cause financial institutions to change their traditional method of operation to seek to reduce their exposure to mark to market swings by reducing "on balance sheet" lending and moving to heightened securitization activities. As the recent credit crisis has demonstrated, loan securitization adds additional market risk that can surface with damaging consequences. We support the current community banking models that many of our financial institution positions practice and feel that the Proposal could cause a shift from these activities that may result in unknown consequences to the economy and the financial institution industry.

We are concerned that the Proposal could result in less capital being available to the financial services industry. The credit crisis, which required the government to provide capital to the banking industry through TARP, demonstrates how fragile the capital markets can be related to availability of capital in stressful times. We anticipate that the Proposal will result in less sources of private capital being available to the banking industry which could result in a need for future government intervention in the financial services industry. We think that the experience with TARP should cause FASB to avoid any unnecessary proposals which would cause a revisiting of the need for a new round of TARP.

Additionally, we are very concerned about the costs and resources that will need to be dedicated to produce and audit the data required to implement mark to market accounting, especially for smaller companies with limited resources. We have learned from the recent financial crisis that markets are sometimes illiquid and sometimes irrational. Because financial institutions do not consider fair values in managing their cash flows, we anticipate that this could require banks to hire more staff and/or consultants to assist with estimating fair values and to pay significantly higher audit fees. In the end, investors will be paying consultants and auditors significant sums to

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provide estimates that will provide little additional useful information to assist industry analysts like us to make investment decisions. The net result will be a reduction in value in banking stocks due to added costs that provide very limited value to the financial institutions forced to implement mark to market accounting. With the passage of the Dodd-Frank Act, the financial services industry will face numerous additional operating costs to comply with the new banking bill. To add additional operating costs to the banking industry at this time is unreasonable and harmful.

With this in mind, we recommend that FASB drop its mark to market Proposal, as, from our perspective as investors, it will not improve financial reporting. We also believe that the result of the Proposal will be a decline in market values for financial institution stocks and less availability of capital to the industry.

Thank you for considering our views. Please feel free to contact me if you would like to discuss our concerns.

Stephen Clinton, President
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