



September 23, 2010

Financial Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856
Reference No. 1810-100

Dear Sir or Madam,

The Conference of State Bank Supervisors (CSBS) appreciates the opportunity to comment on the Financial Accounting Standards Board's (FASB) Proposed Accounting Standards Update Exposure Draft (proposal or proposed guidance) on Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities. While we understand that the FASB has attempted, through the proposal, to bring greater transparency to financial reporting, we believe that the proposal is significantly flawed and has the capacity to damage the business model of institutions that hold long-term financial assets.

We believe that many of the alternative views expressed in the proposal by two of the five board members, Ms. Seidman and Mr. Smith, correspond with our own concerns. Therefore, our feedback will be largely based on our support for certain aspects of the alternative views. We address other significant issues for our purposes in the subsequent section.

Alternative Views:

Our most fundamental concern with the proposal is that it would introduce fair value accounting for some non-trading, plain-vanilla debt instruments that are held for collection, and most liabilities held for payment. This matter is outlined in alternative views paragraph BC244, in which Ms. Seidman and Mr. Smith maintain that fair value accounting for such instruments would not reflect the likely realization of those items in cash, and therefore would not be the most relevant way to measure those items in the statement of financial position and comprehensive income. Introducing fair value accounting for long-term, non-trading instruments is not practical and has the potential to significantly alter the business model for entities that maintain these instruments on their balance sheets.

CSBS also strongly supports Ms. Seidman and Mr. Smith's assertion in alternative views paragraph BC245 that for non-trading, plain-vanilla debt instruments that an entity holds as part of a long-term business strategy, it is inappropriate for subjective, unrealized gains and losses to form the basis for the entity's statement of financial position, including book equity, as well as comprehensive income, when those unrealized gains and losses are expected to reverse. Additionally, we partially support their suggestion to carry liabilities that do not contain embedded derivatives at amortized cost, unless they are part of a trading activity. Liabilities should be fair valued only when used in trading or when an institution is in liquidation. It is

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important to consider their assertion that constituents have not expressed concern about the existing accounting for financial liabilities.

Alternative views paragraph BC245 describes a model which would require one of three criteria to be met in order to require that fair values be used. This model would require fair value accounting if the cash flows of the instrument are variable, a quoted market price is readily available, or the entity's business practice is not to hold the instrument to collect its contractual cash flows. We recommend revising this for non-trading financial assets so that all three criteria must be met in order to require that fair value be used for measurement.

Ms. Seidman and Mr. Smith also point out, in alternative views paragraph BC247, that the FASB's proposed guidance diverges from international attempts to converge accounting standards. Convergence should be a crucial element in finalizing the proposal, since these sweeping changes may need to be significantly modified again in the near future via convergence with or adoption of IFRS. We believe that the path the proposal lays out will undermine attempts for international convergence. As the dissenters point out, the alternative views framework is a better starting point for converged standards than is the FASB's proposal.

Alternative views paragraph BC248 captures our concern related to the proposal's new measurement attribute for core deposit liabilities. The measurement attribute, as described by Ms. Seidman and Mr. Smith, would introduce a new element of complexity to the accounting for financial instruments. We agree with their view that the core deposit intangible asset can be a major source of value for a depository institution, and we support their assertion that the measurement of the core deposit intangible asset required by the proposal would not be completely captured by the computation being prescribed by the Board. We further concur that it is improper to address the accounting for internally generated intangible assets on an ad hoc basis. And as Ms. Seidman and Mr. Smith point out, deposits should be reported in the statement of financial position at the amount withdrawable on demand.

CSBS concurs with Ms. Seidman's dissent from the proposed change in accounting for yields on debt investments. As outlined in alternative views paragraph BC250, we believe that the proposed accounting for yields on debt investments along with the subjectivity that would be introduced into both allowance for doubtful accounts and reported interest income would present a mechanical issue in calculating interest receipts. Alternative views paragraph BC250 points out that feedback received from users of financial statements was that they preferred that yields be reported on the basis of the contractual terms of the instrument, thereby signaling potentially risky instruments for further inquiry. They also preferred that the subjectivity in the estimates be concentrated in the allowance for doubtful accounts. We support Ms. Seidman's questioning of the cost-benefit tradeoff of the proposed change since the approach is contrary to the views expressed by users and would be costly to implement. Furthermore, we suggest, at least in this particular situation, the expected costs far outweigh the potential benefits.

General:

As discussed in some of the alternative views, our primary concern with the proposal is that fair values are often not relevant for certain assets such as debt securities and loans held for long-term and are rarely relevant for liabilities. Additionally, CSBS believes that much of the interest rate risk that the FASB is trying to address could be better addressed through disclosure. If the FASB believes that all financial assets and liabilities must be consistently measured, it is

preferable to use amortized cost for the primary financial statements and disclose separate financial statements at fair value. Such disclosures would provide a clearer view of fair values than the proposal, which includes numerous exceptions and alternatives. These exceptions and alternatives will result in a lack of comparability between financial statements. Furthermore, fair value amounts are generally not reliable in illiquid markets and consequently their inclusion damages the credibility of financial statements.

Where community banks and smaller financial institutions have disclosed fair values in accordance with FAS 107, such disclosures have not provided critical information to preparers or users. The mixed attributes accounting model has been more useful since these institutions do not operate on a fair value basis. Instead, long-term customer relationships have been their key attribute and provide their greatest value. At times the proposal seems to be telling institutions how they should manage their businesses rather than having the accounting reflect how these businesses are actually managed.

In our estimation, the FASB can achieve its primary objectives without enacting such radical changes. Fair value is logical for trading instruments. However, imposing fair value broadly to banking institutions of all sizes would burden a sizeable number of institutions with no real benefit. The FASB should acknowledge what is already being done in financial institutions to identify the risks that the proposal aims to target. All banks are required to measure earnings at risk and economic value of equity at least quarterly and perform interest rate shocks of 100 basis point increments in both directions. Furthermore, the newly enacted Financial Stability Oversight Council within the Dodd-Frank Bill should relieve some of the need for such radical changes. The Oversight Council should appropriately complement the measures that are already in place. The fair value proposal also may result in information overload. Multiple amounts shown for various balance sheet accounts may be more confusing than enlightening. Overall, the burden that this proposal would place on non-complex financial institutions is inappropriate. The FASB's concerns could be addressed with more focused narratives within the footnotes without the tremendous accounting complexity the proposal would impose on financial institutions.

CSBS also believes that the loan loss reserve issues outlined in the proposal should be addressed separately from the fair value piece of the proposal. CSBS urges the FASB to clarify the aspects of the proposal that pertain to loan loss reserves and re-expose a proposal on loan loss reserves jointly with the IASB.

While we believe that transparency is a key concept for ensuring harmony between regulators, industry, and consumers, we do not believe that the FASB's fair value proposal presents a logical means for promoting transparency.

Thank you for the opportunity to comment.

Neil Milner,

A handwritten signature in black ink that reads "Neil Milner". The signature is written in a cursive style with a large, stylized initial "N".

President and CEO