

**From:** [Philip Rush](#)  
**To:** [Director - FASB](#)  
**Subject:** File Reference No. 1810-100 Comment Letter  
**Date:** Thursday, September 23, 2010 8:04:54 PM

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September 23, 2010

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

**RE: File Reference No. 1810-100**

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.”

I am responding from the perspective of one who has had career experience as a bank accountant and asset/liability manager in a publicly traded bank and am currently a bank investor and a financial advisor with clients that have bank equity investment holdings. I have an understanding of how banks operate, what bank financial statements represent and how the various constituents of a bank use the financial statements.

I have objections to this proposal at several levels and mainly in the context of how it pertains to bank financial statements.

First, the Summary section of the proposal states that one of the main objectives of the proposal is to “support well-functioning global capital markets.” I would point out that coming up with a standard for financial instruments that is at odds with the IFRS guidance, that is used by the rest of the world, makes companies less comparable in a global context and thus this proposal fails to meet its primary objective in this fundamental regard. If American firms need to spend resources to comply with these fair value requirements, they will be at a competitive disadvantage to other firms, throughout the world, that do not have these obstacles to hurdle.

Second, placing a calculated fair value of assets and liabilities on the face of financial statements may actually be misleading to constituents in that it distracts them from the business model and paradigm that may actually be creating the value in the company. This is particularly true in traditional banking organizations. Most banking organizations create intrinsic value by serving customer needs which in turn creates assets and liabilities, the persistent spreads on which create the intrinsic value of the organization. The actual snapshot value of the balance sheet at any moment, even if it could be perfectly calculated, doesn't provide the user with much useful information, except in the event of liquidation, because it doesn't address the persistence of the economic relationships of the financial instruments involved and the drivers that cause them. The unintended consequences that arise from

having this data on the face of the statements is that unsophisticated financial users will be misled by the simplicity of this “market value of equity” metric (The residual of the market value of the assets less the market value of the liabilities shown in the financials) such that they will focus on the volatility of the metric which will probably force bank price-earnings ratios down and the cost of bank capital up. All else being equal, this will tend to lower the level of economic activity in the US and it will be especially harmful if only US banks are subject to these rules while the banks in the rest of the world are not.

This proposal would require that a calculated fair value of loans and core deposits, which have no active market, be placed in the financials. While the values that are returned from these calculations may look comparable to each other, the values that could actually be realized, on assets and liabilities that have exactly the same financial attributes, could vary widely based the market sophistication and peer relationships cultivated by each separate institution. I believe that giving these calculations equal weight on a financial statement, with other more substantive market values, will give unsophisticated users the impression that they know more about a bank’s condition than they actually do and the unintended side effect is that bank managements will need to change otherwise profitable banking paradigms in order to placate the misconceptions of these investors. Fair value information is already available in the notes of bank financial statements for knowledgeable users that know how to use the information appropriately. The quality of bank disclosure, for most banks, is not enhanced by these proposed changes.

My recommendation would be for FASB to withdraw the proposal and to work with IASB, as they define their financial instrument disclosure rules in 2011, so that we can have a set of rules that does support well functioning global markets and doesn’t place US based companies at a competitive disadvantage.

Sincerely,

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