



September 23, 2010

**Sent by E-Mail to [director@fasb.org](mailto:director@fasb.org)**

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  
Exposure Draft: *Accounting for Financial Instruments and Revisions  
to the Accounting for Derivative Instruments and Hedging Activities*

Dear Mr. Golden:

I am writing on behalf of the Illinois Bankers Association and our state's nearly 700 federally insured commercial banks and savings institutions. We appreciate this opportunity to comment on the above-referenced Exposure Draft.

We are especially concerned with the Exposure Draft's proposal to require financial institutions to record all of the loans on their balance sheets at their "market value." This "fair value" method of accounting would pose serious risks to community banks and would have severe unintended consequences.

Unlike investment banks, a community bank's core business does not entail creating or purchasing assets for resale. The business of a community bank is taking deposits and making loans that will be held to maturity. Fair value accounting – which continuously readjusts the value of held assets to reflect their current market price – has no relevance for loans that are not going to be sold. The secondary market value of a loan that will be held to maturity provides little useful information to shareholders, regulators and the public.

Most loans on the books of community banks are not even readily marketable. With so many different borrowers, purposes, payment terms, collateral, and guarantees, these loans are not fungible, and typically no dependable market exists for them. Consequently, marking them to market often would entail little more than guesswork, calling into question the reliability of using fair value accounting as the basis for their valuation on financial statements.

Moreover, to the extent that a market might exist for such loans, subjecting their valuation to the cyclical nature and volatility of the investment market – which, as we recently have seen, can be highly illiquid and even irrational – would, in fact, often provide inaccurate and misleading information in financial statements to reliant parties, such as investors, regulators and the public.

Notably, small businesses in particular would suffer from the fair value accounting of loans. Especially during a distressed economy, like the present one, there is little or no demand in the investment market for buying and selling small business loans. When these loans are not readily marketable, they inherently have less value under fair value accounting. In order to avoid their inescapable impact on financial statements, banks would simply stop making these loans at times when the economy needs them the most.

Mr. Russell Golden  
September 23, 2010  
Page Two

We believe that all of the above reasons are compelling considerations relative to the needs of investors. At the same time, we wish to emphasize that it is equally important for the FASB to look beyond any singular focus on investors when determining “generally accepted accounting principles” for financial institutions.

When Congress enacted the Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”), it amended the Federal Deposit Insurance Act to require the federal banking regulators to apply accounting standards that are “no less stringent than generally accepted accounting principles.” 12 USC 1831n(a)(2)(B). Without delving into the legislative history of FDICIA in this letter, there can be little doubt that Congress was not focused on investors when carving this “stringency” standard into the law. On the contrary, it was eliminating the vestiges of “regulatory accounting principles” and ensuring higher and more uniform standards in accounting for regulatory oversight purposes.

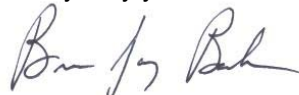
It is our understanding that the federal banking supervisory agencies are in agreement that the “fair value” accounting method for loans held to maturity is highly inappropriate for financial institutions, yet if the FASB were to adopt its proposal in the Exposure Draft, current law would require these same agencies to rely on and enforce this accounting method. To this point, it is important to note that the FASB’s own Mission Statement provides that its purpose is to establish standards of financial accounting “that provides decision-useful information to investors and other users of financial reports.” (emphasis added)

When the FASB is focused on the entire spectrum of the nation’s industries, it understandably places its principal focus on investors and seeks inter-industry uniformity, essentially by adopting “one size fits all” standards. But where, as here – and as Congress has recognized – the most important purpose of GAAP is to provide safety and soundness benchmarks for the banking regulators, the FASB should recognize the uniqueness of the banking industry and heed the fact that the regulators are the primary constituency for the application of its proposed GAAP rules, including the ones at issue here.

For all of these reasons, we respectfully urge the FASB to withdraw its proposal to apply the fair value method of accounting to loans held on the books of financial institutions. Elevating this accounting method to the rank of GAAP in these circumstances would have severe unintended consequences.

Thank you for your consideration of our views on this extremely important issue.

Very truly yours,



Bruce Jay Baker  
Executive Vice President  
and General Counsel

***The Illinois Bankers Association is a full-service trade association dedicated to creating a positive business climate that benefits the entire banking industry and the communities they serve. Founded in 1891, the IBA brings together state and national banks, savings banks, and savings and loan associations of all sizes in Illinois. Over 20% of IBA members are community banks with less than \$50 million in assets, and over 70% of IBA members are community banks with less than \$250 million in assets. Collectively, the IBA represents nearly 90 percent of the assets of the Illinois banking industry, which employs more than 100,000 men and women in over 5,000 offices across the state.***