

September 27, 2010

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

File Reference 1810-100  
Financial Instruments, Derivatives and Hedging

To the Technical Director:

As a Certified Public Accountant and a practicing member of the accounting profession involved in providing professional services to community financial institutions, I appreciate the opportunity to provide comments on the above referenced proposal. Listed below are my comments relative to certain of the specific questions for respondents in the proposed standard.

Questions 1: Do you agree with the scope of financial instruments included in this proposed Update?

I do not agree with the scope of financial instruments included in the proposed update. Specifically, I do not believe financial assets and financial liabilities such as financial institution loans and deposits should be adjusted to fair value if the entity's business strategy is to collect or pay the related contractual cash flows rather than settle the loan or deposit with a third party. Current authoritative literature appropriately requires any of these instruments that are held for sale to be recorded at fair value. However, requiring those instruments that are being held to collect or pay the related contractual cash flow to be adjusted to fair value creates two significant concerns as follows:

- The lack of consistency with which fair value estimates might be determined. For example, different lending institutions may price a loan with identical characteristics at different rates due to judgments involved in the lending process. This could result in different financial institutions arriving at a different fair value for basically the same loan. As a result the comparability of reported financial information between different financial institutions would be damaged. This damage would be to the balance sheet as well as net income or other comprehensive income. Although fair values are currently required to be disclosed for entities with assets in excess of \$100 million, this note disclosure does not threaten the comparability of the financial statements.
- Reflecting fair values of these financial instruments in the financial statements is inconsistent with the business model of many community financial institutions. This business model is generally to have an appropriate spread of interest rates between the amounts being received and the amounts being paid in order to generate the return required by investors. The success of this model is reflected in

the financial statements most effectively based on contractual cash flows as opposed to amounts (or changes therein) necessary to settle the asset or liability.

Question 8: Do you agree with the initial measurement principles for financial instruments?

I do not agree with the initial measurement principles for financial instruments. See the discussion related to Question 1 above.

Question 12: Do you believe that the proposed guidance is operational to determine whether there is a significant difference between the transaction price and fair value?

I believe that in most instances, the difference between the transaction price and fair value would not be a relevant issue if the credit transaction was at arms length. Any such fair value measurement would be subject to the inconsistencies referenced in the response to question 1.

Question 38: Do you believe that an entity should immediately recognize a credit impairment in net income when an entity does not expect to collect all contractual amounts due for originated financial assets and all amounts originally expected to be collected for purchased financial assets or do you believe that an entity should recognize initially expected credit losses over the life of the financial instrument as a reduction in interest income?

I believe an entity should recognize a credit impairment in net income when the entity does not expect to collect all contractual amounts due as proposed in the standard. I do not, however, believe that current standards are insufficient to provide appropriate results of operation if properly and consistently applied, both in terms of the allowance for credit losses and interest income on impaired loans.

Thank you for the opportunity to address specific questions related to the FASB proposed accounting standards update.

Dave Stewart