AMERICAN NATIONAL BANK PEOPLES National • Bank

American Dreams Come True.

September 28, 2010

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

BY EMAIL: director@fasb.orq
RE: File Reference No. 1810-100

Technical Director:

On behalf of American National Bank, we are commenting on proposed Accounting Standards Update, Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities (Topics 825& 815), issued May26 for public comment by September 30, 2010. I appreciate the opportunity to comment and am hopeful the volume of comments and concerns is considered seriously and independently by the Financial Accounting Standards Board.

American National Bank is a privately owned, Subchapter S, commercial bank with $1.7 billion in assets, 29 offices and over 400 employees serving southeast Nebraska and western Iowa. We are an entity built on strong ownership foundation, superior management capability, integrity and flexibility. We have a long history of embracing change and serving our diverse customer needs despite evolving risk management issues including strategic risk, reputational risk, credit risk, interest rate risk, liquidity risk, transaction risk, and regulatory risks.

Historically, our GAAP financial statements have included moderately complex accounting concepts for community banks relating to goodwill, customer deposit intangibles, interest only strip valuation, QSPE securitization consolidation, designated and non-designated derivatives, troubled debt restructuring, FAS 91 loan costs and fees, FAS 114 impairments etc. In addition, we consider ourselves comprehensive and conservative in our overall approach to tax planning and utilization of various balance sheet and operating statement alternatives to ensure investor net-after-tax effectiveness based on our strategic business model.

We traditionally leverage outside advisory to provide practical and technical implementation guidance based on our business model activities and would refer most of the technical concerns to those posed by international and regional accounting firms as part of the formal comment process. This letter comments primarily on accounting for financial instruments but is based on a number of common concerns surrounding:

- Timing and implementation challenges relating to IASB convergence and identified industry or size exceptions
- Business model vs. accounting model
- FMV subjectivity and volatility
- Investor cost benefit analysis and user support
- Impairment model inconsistency and complexity

Convergence and prescribed exception reconciliation and justification

We support the convergence efforts of the FASB and IASB and goals to define segments of compliance stages within the convergence process. Accounting for financial instruments is a critical issue for financial institutions and it is imperative that the regulatory and accounting framework provide a level playing field for all market participants. However, to date, the FASB and the IASB have been unable to converge their respective proposals on classification and measurement and credit impairment. Given the magnitude of the Proposed ASU, its significance relative to the joint project initiative under the FASB's and IASB's Memorandum of Understanding (the "MOU"), and the aggressive pace and extent of change associated with the remaining MOU projects, it appears the Board's decision to issue the Proposed ASU prior to the completion of its convergence efforts is a bit premature.

In addition, granting of an extension for institutions less than $1.0 billion in assets or not for profit organizations appears extremely arbitrary. We suggest such a proposal be considered for only those that are considered statistically significant and are not comparable with the regional or community banks. For example, the proposal already offers numerous exceptions for select transaction types, entity types or for complex institutions. These exceptions should be similar to the threshold set by the FDIC for deposit insurance assessment for large institutions which was delineated into two groups: 1) for most large institutions and 2) for large institutions that are structurally and operationally complex or that pose unique challenges and risks in case of failure (highly complex institutions).

These are the institutions that have, in some cases, elected fair value accounting, under their option, based on a cost benefit analysis. Such institutions have already made the technology and operational investments to support such an accounting convention. Many of these banks or institutions are now standing up in opposition of this broad brush proposal as incomplete, inconsistent and unobtainable. If unobtainable for large complex organizations, it is not likely it will be obtainable for $1.0 billion organizations even after an allowable deferrable period. Based on the multitude of issues explained herein, we recommend the 4 year phase in be applicable for public entities not fitting the large institution definition and ultimately the proposal be supplemental or elective for all other entities.

Business model vs. accounting model

The FASB proposal to recognize and measure virtually all financial instruments at fair value will create significant volatility in recorded balances. Investors will place greater emphasis on short term fluctuations in the value of long duration financial assets, to the detriment of their ability to discern the long-term earnings power of their investment. As a consequence, companies may be forced to alter their business strategies and investment decisions to compensate for the volatility created by the proposed accounting.

In doing so, companies will either avoid offering certain products, stop engaging in business activities with accounting volatility (i.e. long term fixed rate loans) that is more magnified than the actual economic volatility, bear the full impact of this volatility, or incur the incremental cost of hedging such accounting risks in order to avoid fluctuations in market values. The role of an accounting model should be to provide a framework to recognize actual results and explain the impacts of decisions made by management. An accounting model should never become the primary driver of management behavior. The requirement to use fair value as the primary measurement attribute for nearly all financial instruments will disconnect the existing model's emphasis on management's intended business strategy (i.e., hold for investment vs. intent to trade). Furthermore, it will only serve to cement a short term focus on fair value

measures, which for thinly traded or illiquid "Level 3" instruments is considered by many to be one of the major problems during the recent economic crisis.

The proposal appears to be moving toward a modified liquidation model. Unfortunately, there are many inconsistencies in how long term assets and liabilities are treated as a result of the proposal and ultimately each category of balance sheet asset or liability has to be independently analyzed based on their attributes. As a result some balance sheet accounts would be measured at cost basis and some at fair value and in some cases some long term assets and liabilities will be valued at fair value and some at cost basis increasing volatility and complexity of user analysis. These appears counter intuitive to the objective of the proposal from the Board.

Fair value subjectivity and volatility

Reliable financial information is paramount to effective financial reporting. Many of the financial instruments, such as loans, and non-marketable equity investments, which would be measured at fair value under the proposed guidance, have no readily discernable market in which to determine fair value. Accordingly, the determination of fair value for these instruments would be based on "Level 3" valuation techniques. These highly subjective valuations will compromise the integrity and comparability of reported results, reduce investor confidence and encourage speculation.

We struggle daily with operational challenges and interpretation of GAAP fair values for relatively simple asset classes such as OREO property, repo inventory, etc that do not have readily available market data. Something as simple as a property specific appraisal is now more in question than ever due to lack of marketability, economic forces and other intangible factors, known or unknown to market public or internal special assets groups. This proposal appears to simply complicate such an elementary operational issue in existence today.

In addition, in many cases, Bank asset or liability valuations are not single dimensional and are highly dependent upon institutional or internal factors including our perception of existing and future expectations for credit risk, interest rate risk and liquidity risk. As a result, equity valuation or valuation by asset or liability type based on a single dimension can provide inconsistent results and allow for potential subjective window dressing impacts.

There will continue to be extremely volatility in markets and forward based market perception of risk. Changes in the accounting guidance will not solve the issue of forward looking or entity specific perception of risk and value. As an example, if you review the multitude of bid examples provided for FDIC assisted transactions over the course of the last 2 years, the range of bid values are astounding despite the fact that each bidder is essentially bidding on their version of the estimated value of the stream of cash flows of the franchise or its fair value. In fact, most of the FDIC bid components are elements of this proposal. If the proposal from the Board were carried out as proposed, do we think bidders for failed institutions are going to go with presented or audited financial statements amounts for financial instruments? This doesn't remove the complexity, it just changes the complexity.

Investor or financial statement user business case

We are an organization focused on performance. As such we peel back the onion for our investors to get back to true operating earnings due to GAAP based, non-operating, fair value accounting estimates. The

goal of the peeled back measurements, ironically, is to get back to a more meaningful measurement of operating performance without these "improved" accounting conventions that can be driven by short term or internal evaluations of fair value. Many of these same elements are peeled out as well in public disclosures as NONGAAP supplements. For us, volatility of some of these elements has impacted operating earnings by up to 30% positively and negatively. These are examples of significant accounting estimates that we peel back due to their impact on economic value, earnings, regulatory capital etc.

1. IO strip valuations
2. Mark-to market swap valuations
3. Credit impairment losses and trouble debt restructuring
4. OREO gains or losses
5. Intangible or core deposit valuation fluctuations
6. Unfunded loan commitment liability

Our investors agree, the related accounting concepts for these items have added only additional complexity, not clarity to measuring their investment. These elements have added such complexity to share ownership that we ultimately moved to a plain vanilla model of book value ownership rather than explain and normalize earnings multiples and OCI volatility due to accounting estimates.

Our current audited financial statements are 34 pages long including the current fair value disclosures. We believe fair value information for financial instruments not traditionally accounted for at fair value can be useful, but it would be more relevant to continue to provide this information to users through footnote disclosures rather than develop additional extensive ongoing people, processes, technology and compliance and audit costs beyond our current levels. We already have 4 sets of reporting relating to accounting estimates and financial instruments (Performance Management, Risk Management (ALCO and Credit), GAAP (Call), and Tax).

Our back-of-the-envelope calculation appears implementation and booking of this proposal would likely impact capital negatively by 10% – 15%. Such a reduction would occur at a time when Basel III requirements may also require additional cushion capital. How should we communicate to our shareholders that their investment has dropped by 10%-15% despite no change in the business model...but rather due to a change in accounting and by the way we need additional capital too?

We believe the Board should not disregard the views of the industry, its regulators and the professional analysts who actually cover the industry all of whom oppose this aspect of the proposed guidance and request and provide increased cost benefit analysis from the proponents of the change.

Impairment model inconsistency and complexity

We support the FASBs proposal to establish a single impairment model that would be applied to all financial assets, and believe the use of a single impairment model will reduce complexity and provide financial statement users with more understandable and comparable information. However, we do not support the FASBs proposed impairment model in its entirety.

While we agree with the proposals objective to reduce delays in recognizing credit impairments, we do not believe it is appropriate to immediately recognize all expected losses on financial assets at the time of origination or acquisition or when such estimates change as would be required by the proposal. We

support timely recognition of credit losses; however, there is an important distinction between expected losses and actual losses. Actual losses (e.g., those known or identifiable) should be recognized immediately. However, losses expected to occur over the life of a financial asset, and which are estimated without a probability trigger, should be recognized over the assets life, because immediate recognition of all expected losses ignores the business practice of pricing some level of credit risk into the terms of the financial asset and the economic reality that such losses do not occur immediately.

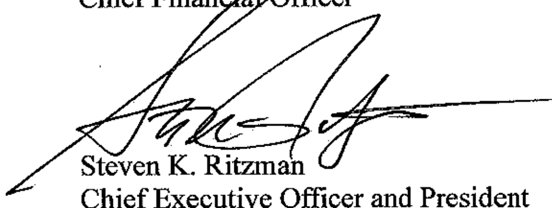
We do not agree with the Board's requirement that an entity (1) assume that the economic conditions existing at the end of the reporting period would remain unchanged for the remaining life of the financial asset(s) and (2) not forecast future events or economic conditions that did not exist as of the reporting date. We believe that when entities are determining the implications of past events and existing conditions for a financial asset's cashflow collectibility, it is unrealistic and overly prescriptive to require them to assume that existing conditions would remain *unchanged* for the remaining life of a financial asset Impairment estimates are inherently forward-looking, even if they are based on information about past events and existing conditions; accordingly, we recommend that the FASB clarify that an entity is not precluded from using forward-looking information that is currently available and objectively verifiable.

We do not support the proposal that entities calculate interest income by using a *credit-loss adjusted* amortized cost balance. Instead, we prefer that entities calculate interest income by applying the effective interest rate (i.e., not adjusted for future credit losses) to the amortized cost balance of the financial asset before deducting any allowance for credit losses because this method will result in increased transparency of actual credit losses in the income statement. For many entities, calculating interest income by using a credit-loss-adjusted amortized balance is likely to be overly burdensome and may not be operational. The challenge for many entities in applying any requirement that uses a credit-loss-adjusted amortized cost balance would be to integrate credit-risk data with, or link it to, their accounting systems. Current accounting systems are not equipped to calculate interest income for loans that use a credit-loss-adjusted amortized cost balance, and therefore the calculation of such amounts will be overly burdensome and may not be operational especially when considering the additional complexity and potential differences in the institution's tax basis method of accounting.

We appreciate your consideration of our comments. We look forward to continuing discussion and deliberation on the proposal by the Board and IASB. If you have any questions on our comments, we can be reached at 402.399.5000.

Sincerely,

Bradley S. Konen, C.P.A.
Chief Financial Officer



Steven K. Ritzman
Chief Executive Officer and President