

September 29, 2010

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

Via email: director@fasb.org

Re: File Reference #1810-100: Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities

Dear Mr. Golden:

We appreciate the opportunity to comment on Financial Accounting Standards Board ("FASB") item No. 1810-100: Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities.

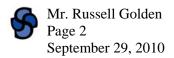
Commenter Background

S.R. Snodgrass, A.C. is a regional certified public accounting firm with seven offices and approximately 140 personnel, serving over 175 community financial institutions. We have been providing accounting, auditing, tax, and consulting services to our clients for over 60 years.

Fair Value Comments

The FASB has stated that the main objective in developing this proposal is to provide financial statement users with a more timely and representative depiction of a financial institution's involvement in financial instruments and that it simplifies and improves financial reporting for financial instruments by developing a consistent, comprehensive framework for classifying financial instruments. Users of financial statements would certainly benefit from timely information that is presented in a clear and concise manner regarding financial instruments. However, there are significant challenges presented in a number of items in this proposal.

First, and probably the most significant is the comparability and consistency of presenting both the amortized cost and fair value of certain financial instruments on the statement of financial position. For a community financial institution, the process of determining the fair value for certain loans that are originated and held for investment under an exit pricing model is highly subjective and requires numerous inputs that can vary among preparers of such information.

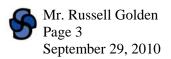


Fair Value Comments (Continued)

Many consumer and commercial loans have been tailored to meet the needs of the local community and, therefore, do not conform to loans that are traded in active markets. Such loans, which would generally qualify as Level III measurements, would most likely be valued based on the present value of cash flows or the discounted collateral value. Preparers of the underlying assumptions under either method can have significantly different results based upon what assumptions they believe a market participant would consider, let alone the inclusion of what is considered the highest and best use of collateral in a particular market. The presentation of the fair value of financial instruments on the statement of financial position suggests a higher degree of certainty for such amounts. Users of financial statements may be placing substantial reliance on values for which an active market does not exist and for which the assumptions produce significantly different results from one preparer to another.

There are many business strategies under which community financial institutions manage their net interest margin. This proposal could negatively impact the business strategy of some community financial institutions that are an originator and holder of their loan portfolios. Economic cycles will affect the fair value of a loan portfolio, particularly a fixed-rate portfolio. In an increasing interest rate environment, the fair value of a fixed-rate loan portfolio will decline and result in a decrease to capital of an institution. This could have a negative perception to the users of the financial statements, as well as to various financial institution regulators. However, if the financial institution has no intention to sell its loans, there is little risk that this decline in capital would ever be realized. One particular business strategy may result in a community financial institution competitively pricing its fixed-rate loan portfolio in order to develop a broader relationship with a customer base to provide other income-producing services. Another strategy may be for a community financial institution to be more efficient at managing its operating expenses and, thereby, afford them an opportunity to operate at a lower net interest margin and price its loans more competitively. While the fluctuation in fair value of the loan portfolio under these strategies would result in recognition on the statement of financial position, the broader inherent value of the customer relationship or the business model would not be captured. In response, community financial institutions may have to decide if fixed-rate lending makes sense in an accounting environment that places more emphasis on the fair values of financial instruments by presenting them on the statement of financial position.

The users of financial statements may benefit more from understanding the credit and interest rate risks inherent in certain financial instruments. The enhanced disclosure requirements of the recently adopted Accounting Standards Update No. 2010-20, Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Loan Losses, will provide users with more detail of the types of credit issues that exists in the loan portfolio. This comprehensive Standard not only enhances the disclosures relating to credit risk but also provides users of the financial statements with a more thorough understanding about management's process for evaluating the allowance for loan losses. While this Standard may require community financial institutions to enhance their internal systems and processes in order to capture and evaluate this information, most currently have a fairly rigorous process in place for managing credit risk. Users also may benefit from a more thorough understanding of the impact of interest rate risk on certain financial instruments. Currently, most financial institutions have



Fair Value Comments (Continued)

the systems and processes developed and in place to manage interest rate risk for certain financial instruments and these could be used to provide more detail regarding the projected financial impact to both earnings and capital that a movement in interest rates would have on these instruments. Since this information is already being captured for internal use, there would be minimal costs incurred to provide disclosures in the financial statements. By incorporating aspects of interest rate risk into the footnotes to the financial statements coupled with the ASU No. 2010-20 disclosures, users should have a better understanding of the underlying risks of certain financial instruments.

Credit Impairment Comments

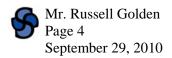
The proposal contains enhancements to the allowance for loan losses methodology which would remove the "probable" threshold for recognizing impairments on loans and provide a common approach to providing credit losses on loans and debt instruments. Generally, we agree with the need for enhancements in these areas and a common approach between credit losses on loans and debt instruments. Under the proposal, only those conditions that existed at the reporting date are to be considered in determining credit impairment and future projections or considerations are prohibited. The consideration of future events may have a significant effect not only on the fair value of financial instruments but also on the amount of reserves needed for those instruments. Many financial forecasts utilize certain economic indicators, which project expected changes to occur in the economy and that are particularly relevant in providing management with the tools to evaluate the credit related impact to their loan portfolios. The restriction to considering only current conditions may limit management from developing an allowance for loan losses based on information that a market participant would consider.

Hedge Accounting Comments

The change noted in the proposal to move to a standard of "reasonably effective" for a hedge transaction instead of the current standard of "highly effective" should provide an opportunity for more community financial institutions to participate in hedge accounting, whereas now many enter into transactions that have the same effect as a hedge transaction but can't achieve the defined level of "highly effective". In addition, the short-cut method and the critical-terms-match method provide a reasonable means for documenting adherence to hedge accounting and the elimination of these methods would require more resources to be dedicated to evaluating the hedge relationship on an ongoing basis for simple, noncomplex transactions which may not add any benefit to the users of the financial statements.

Conclusion

Overall, we believe that there is relevant information that all users of the financial statements should have access to in evaluating their interests; however, the inclusion of fair value of certain financial instruments on the statement of financial position would incorporate such a significant



Conclusion (Continued)

amount of subjectivity into the financial reporting process and may not be reflective of the entire business strategy that the benefit to users of such information is questionable, at best. We would encourage the FASB to consider any future disclosures or enhancements to fair value to remain in the footnotes to the financial statements. We also believe that supplementing the fair value disclosures with more detailed credit and interest rate risk disclosures will provide users with more meaningful information.

We appreciate the dedication and effort of the members of the FASB, as well as the opportunity to respond to this proposed standard.

Sincerely,

S.R. Snodgrass, A.C.

S. R. Smedgress, A.C.