Farm Credit Services of America

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Technical Director
Financial Accounting Standards Board
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We welcome the opportunity to express the Farm Credit Services of America Agricultural Credit Association's views with respect to the FASB proposed Accounting Standards Update, "Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities."

## Background Information about Farm Credit Services of America Agricultural Credit Association (ACA)

Our ACA is a federally chartered agricultural lending institution and is part of the Farm Credit System. We are a member-owned cooperative providing credit and credit-related services to, or for the benefit of, eligible shareholders for qualified agricultural purposes in the states of Iowa, Nebraska, South Dakota and Wyoming. We make secured long-term agricultural real estate and rural home mortgage loans, and short-term and intermediate-term loans for agricultural production or operating purposes. We offer risk management services, including multi-peril crop insurance, crop hail insurance and livestock insurance for borrowers and those eligible to borrow. As of June 30, 2010, our assets totaled \$14.5 billion, with \$13.9 billion of the assets consisting of loans, and liabilities of \$12.1 billion, with \$12.0 billion of the liabilities being notes payable to our funding bank, AgriBank, FCB.

The comments that follow are the result of consideration of issues related to the proposed Accounting Standards Update requirements.

## General Comment

We strongly oppose the proposed guidance that requires most financial instruments, including loans held for investment, to be measured at fair value. In addition, we do not believe that the objective of the proposed guidance to provide an improved and consistent financial reporting model for recognition, measurement and presentation of financial instruments in an entity's financial statements will be achieved by requiring financial instruments to be recognized at fair value.

We also note that a survey of financial analysts and investors conducted by PricewaterhouseCoopers in June of 2010 found that a majority of the respondents favor a mixed measurement model because it better reflects an entity's underlying business and economic reasons for holding an instrument. The respondents also stressed the importance of keeping net income free from fair value movements in instruments that are held for long-term cash flow rather than for short-term trading gains.

## Measurement and Classification of Financial Instruments

We do not agree with the proposed change to require all financial instruments to be measured at fair value with changes in fair value recognized in net income. It is our belief that the accounting should follow the business strategy, which in our case is to originate loans to borrowers in the agricultural and rural related sectors and hold the loan to maturity. Amortized cost is the most appropriate measure for these assets since it reflects the expected cash flows.

Fair value is defined as a market-based measurement that reflects the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. If loans that are originated and held to maturity and investments in debt securities for which an entity intends to hold until maturity, and there is no readily available market for these financial instruments, how meaningful would the fair value be? We believe that the financial statements would be misleading and not reflect the economics of the transaction. In addition, the determination of fair value would be based on "Level 3" valuation techniques that reduce the integrity and comparability among entities.

As a lending institution, we make extensive use of financial statements as we analyze the credit worthiness of potential borrowers. In general, while fair value for some financial instruments is a relevant data point, repayment capacity and collateral values provide the most relevant information in support of a lending decision. A portion of our borrowers' financial statements contain loans and all of our borrowers show debt on their balance sheets. There is generally no ready market for these debt instruments. As a result, the fair values that would be included in these borrowers' financial statements would be based on their own internal estimates. Given the varying levels of sophistication at borrower entities and resulting inconsistencies, we would generally view those fair value estimates with a high degree of skepticism. As a result, we do not believe that the inclusion of those fair values on the face of the balance sheet would result in more useful information to us as a lender. While the current approach, which is to display loans and debt on the balance sheet at amortized cost, may have certain inherent weaknesses, it is at least closely aligned with the contractual cash flows that have occurred or will occur in the future. The introduction of fair value as the primary measurement attribute for debt instruments weakens the alignment between contractual amounts and the amounts displayed in the financial statements.

Under the current mixed-attribute approach, financial instruments are measured at either amortized cost or fair value. We believe the current approach reflects the appropriate accounting and measurement, and is understood by readers of financial statements. Displaying both measures on the face of the balance sheet implies that both are equally reliable. Amortized cost based on actual cash flows is a known measure, while fair value, at least in most cases, is an estimate. From a qualitative standpoint, the historical measure deserves more prominence on the balance sheet, especially for entities whose intent and business purpose is to hold loans for collection of cash flows. We do not believe that making fair value estimates the primary measurement attribute for loans would improve the quality, transparency and reliability of financial statements.

We appreciate this opportunity to respond and hope our comments prove useful to the Board.

Respectfully,

Vice-President and Controller

Farm Credit Services of America, ACA