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September 30, 2010

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

Re: File Reference No. 1810-100; Exposure Draft of a Proposed Accounting Standards Update, *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 the Financial Accounting Standards Board's (FASB) Proposed Accounting Standards Update, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities* (the ED). We agree with the need for reduced complexity in accounting for financial instruments. We support the FASB's efforts to improve the quality and relevance of information about financial instruments in an entity's financial statements. We also support the FASB's efforts to work jointly with the International Accounting Standards Board (IASB) to achieve convergence in accounting standards.

We have concerns that the ED does not achieve the objective of reducing complexity or providing more relevant information to investors. We are also concerned that, while this project was a joint project with the IASB, the proposals differ significantly on several key issues. While not specifically responding to individual questions posed by the board in the draft, this letter provides our views on certain key concepts in the ED.

Classification and Measurement

The ED would expand the use of fair value on a recurring basis to many financial instruments. While we believe information regarding fair value of financial instruments is useful, we do not believe fair value should be the measurement objective in all cases. Specifically we do not support fair value measurement for loans held by financial

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institutions (and other reporting entities) for the purpose of collection of cash flows. We agree with the dissenting view expressed in paragraph BC244 of the ED that for certain debt instruments held for collection and most liabilities held for payment that fair value is not the most relevant way to measure those items in the statement of financial position and comprehensive income.

For instruments that an entity holds for collection or payment of contractual cash flows, fair value misrepresents the most likely ultimate realization of the asset or settlement of the obligation. For these instruments, amortized cost is a much more relevant measure, as it better represents the entity's expectation of the realization or settlement of the financial instrument. A fair value measurement would lead to the recognition of gains and losses that would ultimately be expected to reverse, but for the current balance sheet, could have a significant impact on an entity's reported equity.

Further, as the dissenting view in the ED points out, for many financial instruments, a quoted market price is not available (loans and demand deposits). These instruments are not actively traded and the underlying terms of the instruments are unique to each entity that originates them. Therefore, fair value becomes less relevant to a user, because each entity will need to make its own assumptions about how to determine fair value. This would lead to further diversity of practice and increased complexity in the preparation of financial statements.

Given these concerns, we propose that an accounting model that allows for amortized cost based on the management of the financial instrument is more relevant and preferable to the FASB's proposed method.

We believe that rather than a highly subjective estimate of fair value, financial statements users would be better served by increased disclosures about financial instruments that are held for collection. Disclosures about interest rate risk in addition to the newly adopted credit disclosures in Accounting Standards Update 2010-20 would give users better information to evaluate the risks related to financial instruments held for collection and liabilities held for payment.

Recognition of Interest Income

We also do not support the method of recognizing interest income for debt investments. We believe that the proposed method would lead to less clarity in the financial statements for reasons expressed in the dissenting view in paragraph BC250 of the ED.

The current method of recognition is easily understandable by both preparers and users of financial statements, and is effective in recognizing income as it is earned. The proposed standard would incorporate an estimate of credit losses into the recognition of income,

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which currently are recognized separately on the income statement. We feel that separate recognition on the income statement is preferable given that these risks (interest rate risk and credit risk) are managed separately.

We also believe the proposed approach would present operational challenges for many financial institutions, and would result in a loss of useful information for users regarding contractual yields.

Impairment Model

The proposed impairment model appears to require an estimate of future cash flows without allowing for consideration of future events. While a consideration of historical data provides useful information as a starting point, it would seem unreasonable to make estimates about the future cash flows without considering expectations of future events and conditions.

Similar to the IASB's Expert Advisory Panel, we support a principles based impairment standard that would allow financial statement preparers to use all available information, which may include estimates of future events. We believe that complexity could be reduced by requiring that the same impairment model be used for both purchased and originated financial instruments.

Core Deposit Measurement

The proposed standard would require the recognition and remeasurement of certain deposit liabilities. Effectively, this would require an entity to value and record an intangible asset, embedded in the deposit liability.

Others have pointed out that the methods described in the ED for measuring this asset are not consistent with current practice. We are also concerned that there is not any clear benefit to either investors or other users for measuring core deposit liabilities using the method described in the ED, and believe amortized cost is the most relevant measurement basis for demand deposit obligations.

Convergence with International Standards

As is noted above, the ED fails to achieve convergence with international accounting standards in a very significant area of GAAP. While we support certain of the concepts in the IASB exposure document, we believe it has significant shortcomings as well. We encourage the FASB and IASB to continue to work together to arrive at a single converged standard.

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Implementation

We agree with a deferred implementation date for smaller entities given that the proposed changes will require significant investments in information systems and human capital in order to be properly implemented. However, we are concerned that an entity must reevaluate annually to determine whether it still qualifies for the deferral. Accordingly, we recommend the FASB eliminate the required reevaluation during the deferral period.

Additionally, the proposed changes would significantly impact the information extracted from financial statements for analysis, which would likely result in significant costs to the user community.

We thank the Board for the opportunity to comment on the proposed standard and would be pleased to discuss our comments with Board members or the FASB staff.

Sincerely,

Dixon Hughes PLLC