



September 30, 2010

Via Email to Director@FASB.org

Technical Director
Financial Accounting Standards Board
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File Reference No. 1810-100

Eide Bailly LLP appreciates the opportunity to comment on the proposed Accounting Standards Update, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities*.

We appreciate the Board's effort to improve accounting for financial instruments. We support the Board's objective of providing financial statement users with more timely and relevant information about an entity's financial instruments, and the Board's desire to reduce complexity in the accounting and related disclosures for financial instruments. However, we do not believe that the proposed ASU accomplishes these objectives, particularly for a significant segment of entities that will be subject to the requirements; those being financial institutions of all sizes, and especially small and medium sized institutions. Accordingly, we do not support the issuance of the proposed ASU as a final standard.

The remainder of our letter addresses: (1) Measurement of financial instruments, (2) credit impairment, and (3) application to loan commitments and financial standby letters of credit.

Measurement of Financial Instruments

We do not support the measurement approach contained in the proposal. Rather, we believe that a more appropriate model would allow for amortized cost to be the measurement attribute for instruments that are held for collection of payment of contractual cash flows, with fair value as an appropriate measurement attribute for financial instruments held for sale or trading purposes. This measurement approach is more consistent with how management and others use this information to make informed decisions. Specifically, for most financial institutions, the basic business model with respect to a loan portfolio is to hold the instruments to maturity, and they are not typically involved in buying or selling these instruments in the open market. Accordingly, applying a fair value measurement principle to these instruments not only increases complexity to the entity's accounting and financial reporting process, it also does not likely provide more useful information to management or other users of those financial statements.

Similarly, most financial institutions do not buy and sell their deposits on the open market. An individual financial institution's decision to offer deposits at varying rates of return is a part of the bank's overall approach to managing assets and liabilities in order to achieve a proper investment return spread – both for core and non-core funding. Again, a requirement to apply fair value measurement criteria to core deposit liabilities, whether for recognition and/or disclosure purposes, does not consider the business strategy and management objectives for those financial instruments.

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Credit Impairment

We do not agree with the proposed 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 do not believe it is reasonable, when evaluating the factors related to the future cash flow of a financial instrument, to assume that existing conditions would remain *unchanged* for the remaining life of a financial asset. Accordingly, we recommend that the Board reconsider this requirement.

More generally, the proposal requires an entity to “assess its financial assets for credit impairment and shall measure the amount of the credit impairment at the end of each financial reporting period”. We believe that financial institutions currently assess credit risk and impairment in conjunction with the evaluation of their allowance for loan loss, therefore, are concerned that these provisions add additional accounting and financial reporting complexity without providing a corresponding benefit.

Application to Loan Commitments and Financial Standby Letters of Credit

We do not support the measurement of loan commitments and standby letters of credit at fair value. Similar to the “basic business model” approach that we discuss above, we do not believe that financial institutions typically trade such instruments. Additionally, these types of commitments are often made in conjunction with the management of a customer relationship, and many times are never utilized by the customer; or at the point in time in which they are funded, they are appropriately evaluated for appropriate accounting and disclosure. Accordingly, requiring fair value measurement and disclosure only adds complexity without a corresponding benefit.

Conclusion

While we appreciate the Board’s objective in providing more timely and relevant information to users with respect to an entity’s financial instruments, we do not believe that the proposal provides benefits that are commensurate with the costs to provide that information for an overwhelming number of the entities that would be subject to its requirements. Accordingly, we believe that this project needs additional consideration and should not be adopted as proposed.

Sincerely,



Eide Bailly LLP