

September 30, 2010

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

File Reference No. 1810-100

Dear Mr. Golden:

We are pleased to comment on the exposure draft (the ED) of the Accounting Standards Update entitled *"Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities"*. While we support the Board's efforts to converge with international financial reporting standards (IFRS), simplify hedge accounting and simplify the accounting for financial instruments in general, we have some significant concerns with the proposed standard as it appears to fall short of meeting its objectives. Our broad concerns are with the significant divergence that remains between the FASB proposal and IFRS proposed or existing standards, our belief that most of the provisions of the ED would complicate the accounting for financial instruments and with the inconsistencies in the treatment of similar instruments that remain within the proposal. Additional comments follow and are referenced to the *"Questions for Respondents"* in the ED. As the comments that follow will demonstrate, we are more supportive of the alternative views expressed in the ED, in particular that business strategy and the marketability of the instruments should drive whether a particular instrument is measured at fair value.

Measuring Debt Instruments at Fair Value (Questions 13, 18, 21, 29, 30)

We are strongly opposed to the proposed requirement that debt instruments for which the business strategy is to hold for collection or payment would be carried at fair value. As has been evident in the recent economic downturn, the values of these instruments can be difficult to estimate with any precision and can be highly volatile. As it relates to commercial loans, there is generally not a market for these loans because financial institutions originate them with the intention to hold them for receipt of contractual principal and interest payments, rather than to sell in the marketplace. Given the business strategy of holding such instruments, we do not believe recognition at fair value would provide useful information to investors. Continued use of amortized cost with credit impairment recognized through the income statement would result in a much more meaningful measure than highly volatile and subjective fair value amounts. Additionally, permitting most debt instruments to continue to be carried at amortized cost would also be consistent with IFRS, which we believe to be an important consideration. For the investors that want fair value information, we believe that the existing requirement to disclose fair value estimates in the footnotes is adequate.

In addition to the above concerns applicable to debt instruments, for those in a liability position, we are also concerned with the counterintuitive result that occurs when deterioration in a reporting entity's credit standing results in the reporting of fair value gains. We do not believe that measuring financial liabilities at fair value is operational or meaningful, particularly for smaller companies that do not have credit ratings or other reliable means of determining how credit risk should impact the valuation. Accordingly, we are not supportive of requiring fair value measurement for financial liabilities for which the business strategy is to pay in accordance with the contractual terms.

Lastly, as it pertains to measuring debt instruments at fair value, if the Board moves forward with this requirement, we would recommend that an entity's own convertible debt be eligible for the amortized cost election. Given that there is a project underway to in part address the accounting for convertible debt, we do not believe it makes sense to modify the accounting treatment for such instruments with the issuance of this ASU.

Measuring Equity Instruments at Fair Value (Question 13)

We do not support the proposed requirement for all equity investments within the scope of the ED to be recognized at fair value, with changes in fair value reflected through net income. We support such a position for trading securities and other equity securities that have readily determinable fair values as defined in the Master Glossary of the Codification but do not believe securities without readily determinable fair values should be carried at fair value given the highly subjective nature of such values and the amount of effort involved in determining the fair value of such securities. Determining fair value would prove to be particularly problematic for most investments that are accounted for under the cost method under current guidance given that investors do not have the ability to influence management and often times cannot obtain financial information on a timely basis to estimate a meaningful fair value.

Measurement Basis for Core Deposit Liabilities (Questions 17, 29, 31)

We are not supportive of the proposed treatment for core deposit liabilities given that such accounts can generally be withdrawn by the customer at any time at the face amount. Computation of the measurement amount as proposed, whether reflected on the face of the financial statements or disclosed in the footnotes would be subjective, would add complexity to the accounting for such financial instruments, and in our view, would be of no benefit. We believe that core deposit liabilities should continue to be measured at amortized cost which is generally the amount that can be withdrawn on demand. This is consistent with the overriding principle that amortized cost is the appropriate measure for an instrument for which management has the business strategy to hold. We do not believe that the cost to compute a measurement amount as proposed would justify any potential benefits to users of financial statements, who we believe are unlikely to understand the computation or to place significant weight on the computed amounts. Additionally, we question the feasibility of deriving an alternate funds rate, given that many institutions do not have ready access to funds sufficient to replace core deposits. We also question the logic behind such a measurement approach. Thus, we are not supportive of requiring this measurement approach either on the face of the financial statements or in the footnote disclosures. If the decision is made that amortized cost is not appropriate, we do not understand the logic of deviating from a position of using fair value as a default to create a new measurement methodology that appears to result in a measurement that incorporates the recognition of an intangible asset. We also have concerns with the proposed approach for the base of the reported amount to be average core deposits for the period. This would cause comparability issues with the amortized cost basis, a period end amount that would also be reflected on the face of the balance sheet. Lastly, we are concerned with the counterintuitive result that would occur when a reporting entity's credit standing deteriorates, resulting in a higher alternate cost of funds rate and therefore the creation of gains in other comprehensive income.

Reclassifications (Question 16)

We believe that once a decision is made to transfer, sell or settle a financial asset or liability, the financial asset or liability should be carried at fair value through net income. As such, we do not believe that recognizing changes in amortized cost or fair value through other comprehensive income should be an irrevocable election in such circumstances.

Impairment and Interest Income Recognition (Questions 38, 40, 41, 43, 44, 45, 46, 47, 48, 49, 50, 51)

We believe that there are some merits to the credit loss provisions as proposed and also believe that the IFRS model holds some merit. However, we also believe that both models will pose significant

operational issues. We encourage the Boards to work together and arrive at a joint solution that is operational and logical.

We are in agreement with a movement away from a probable loss model to one that is based on expected future cash flows. We are also in agreement that when estimating impairment on pools of homogeneous financial assets, historical losses are generally the appropriate starting point, with adjustment for current and expected economic conditions and other factors. We believe that any significant changes made to existing impairment rules will necessitate examples or other useful implementation guidance but do not believe it would be beneficial to specify a particular methodology to be used for the determination of impairment of assets evaluated in pools as the appropriate methodology will vary based on individual facts and circumstances.

We do not support the inclusion of the provision, in paragraph 42 of the ED, which would require the assumption that current economic conditions would remain unchanged for the remaining life of the asset when estimating impairment. We believe that when estimating expected future cash flows, it is sometimes necessary to make future projections to arrive at a reasonable estimate. The overall goal should be for an entity to develop the best estimate of expected cash flows. We believe the ability to forecast future events and economic conditions when appropriate should promote a more realistic estimate. Additionally, given that fair value is based on market participant assumptions of future economic conditions, eliminating the ability to forecast future economic conditions or events would result in illogical results. Our recommendation would be to remove this provision from the ED which would have the effect of not explicitly encouraging or preventing giving consideration to future events or economic conditions. We are not aware of abuses or practice issues that have occurred thus far with companies' ability to forecast.

Given the FASB's desire to develop a consistent model for impairment recognition, we do not believe it is appropriate to have inconsistencies in the treatment of debt instruments that are originated or acquired at origination as compared with those instruments that are acquired with credit quality issues.

We are not in agreement with the proposed requirement for interest income to be calculated by applying the effective interest rate to the amortized cost balance net of any allowance for credit losses. We are not aware of current practice issues or demand from the users of financial statements that would warrant such a significant change from current practice. The methodology, as proposed, would add a significant amount of complexity to the financial reporting process and necessitate the creation of new systems or cumbersome manual record keeping. Additionally, consistent with an alternative view expressed in the proposal, we believe the usefulness of financial statements would be greatly enhanced if subjectivity is contained within the allowance for credit losses by continuing contractual interest accruals when continued income recognition is warranted.

Deferred Tax Asset Considerations (Question 20)

While we agree conceptually with the proposed provision that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to a debt instrument measured at fair value with qualifying changes in fair value recognized in other comprehensive income in combination with other deferred tax assets of the entity (rather than segregated and analyzed separately), we do not believe that the financial instruments project is the appropriate forum in which to address this.

Hybrid Instruments and Hedge Accounting (Questions 56, 57, 58, 63)

We do not support the proposed requirement for a hybrid instrument to be recorded at fair value through net income if it has an embedded derivative that requires bifurcation under current guidance. We would suggest maintaining existing guidance that would allow the host item to continue to be carried at amortized cost with fair value treatment granted only to the embedded derivative. It seems inappropriate that the existence of any embedded derivative meeting the requirements for bifurcation (regardless of significance) would necessitate measuring the entire financial instrument at fair value through net income.

We are supportive of the proposal to reduce the qualifying criteria for hedge accounting to a “reasonably effective” level as opposed to “highly effective” as we believe such a change will result in less volatility attributable to an entity qualifying for hedge accounting in one period and not qualifying in the next with the same hedge. We believe however, that additional guidance is necessary as to what constitutes “reasonably effective”. If such guidance is not provided, we fear that vastly different treatment of similar hedges will result, making comparability of financial statements an issue. Similarly, we believe that moving away from a strict quantitative approach to more of a qualitative approach to the determination of effectiveness will result in a reduction to the number of times hedging relationships would be discontinued and promote the goal of less earnings volatility due to what could potentially be insignificant correlation in terms of dollars that causes effectiveness to fall outside of the parameters of “highly effective” as currently interpreted.

Regarding ongoing effectiveness assessments, we are supportive of the proposed requirement that a new evaluation should be performed if circumstances warrant. We do not believe it would be appropriate to require re-evaluation if circumstances remain consistent nor do we believe it would be appropriate to allow hedge accounting to continue without re-evaluation when circumstances change such that a relationship may no longer be reasonably effective.

Regarding the proposed provision to eliminate the ability to voluntarily discontinue hedge accounting, we would be supportive of limiting the circumstances under which discontinuance can be elected to circumstances that are pre-defined in the original hedging documentation and that are necessary to an overall effective hedging program.

Scope and Effective Date (Questions 1, 2, 69, 70)

We have concerns with the inclusion of loan commitments in the scope of the project. Valuing these commitments involves the additional difficulty and subjectivity of estimating fallout and usage, in addition to the difficulties and subjectivity in valuing the underlying loans for those that do not have an active market. Additionally, we are not aware of practice issues or demand by investors that would warrant such a change to the recognition of these instruments.

Should the FASB proceed down the path of requiring fair value as the default measurement method for those instruments for which the business purpose is to hold for the collection or payment of contractual cash flows, we believe consideration should be given to scoping out certain smaller entities, such as those with assets below one billion as we do not believe the costs to comply for such entities will justify the perceived potential benefits to investors and other users of financial statements. If, alternatively, the FASB proceeds with a four-year deferral, we believe that the deferral should be for all requirements of the standard rather than just the provisions for loans, loan commitments and core deposits, as currently proposed.

Regarding the timing of effective date, we believe that three full years from the date of issuance would be a reasonable time period for compliance.

We would be pleased to respond to any questions the Board or its staff may have about any of the preceding comments. Please direct any questions to Jay D. Hanson (952-921-7785) or Faye Miller (410-246-9194).

Sincerely,



McGladrey & Pullen, LLP