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

September 30, 2010

Re: File Reference No. 1810-100: Exposure Draft of a Proposed Statement of Financial Accounting Standards Update of Topic 825 and Topic 815: Accounting for Financial Instruments and Revisions to the Accounting for Derivative instruments and Hedging Activities

Dear Mr. Golden:

Southside Bancshares, Inc. ("Southside") appreciates the opportunity to provide comments and observations on the Financial Standards Board's ("FASB") Exposure Draft, Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities ("Proposal"). Our input is based on our role as a community bank, a lender and a preparer of financial statements.

Southside is an SEC registered $3 billion bank holding company that operates a community bank headquartered in Tyler, Texas located in East Texas. Southside has approximately 48 facilities and 50 ATMs, which provide community banking services in 13 communities of East, North Central and Central Texas. The majority of our loans are commercial, commercial real estate, 1-4 family real estate, consumer, municipal and construction and development. These loans were originated to hold to maturity on our balance sheet and there is no active market for the vast majority of those loans.

Southside is very concerned that the Proposal will result in less reliable, less useful and less comparable financial statements for community banks and will likely forever negatively alter the type of credit available to small business and consumers. Fundamentally, the manner in which community bank lending has been conducted successfully for decades will likely be changed if the Proposal is implemented. Southside has the following concerns regarding the Proposal:

1. Fair Value of traditionally Held to Maturity Loans will not be reliable or comparable and no active markets exist for the majority of our loans.
2. The ALLL calculation and loan fair valuing will result in significant inconsistencies.
3. There are tremendous potential capital ramifications.
4. Potential change to the community banking model.
5. Deposit and loan fair value inconsistency.
6. Proposal further complicates the convergence of GAAP with IFRS.

Southside is strongly opposed to the proposed fair valuing of held to maturity loans on the balance sheet. These loans were not originated with the contemplation of selling them. Most of our loans represent loan categories for which there is not an active and liquid secondary market.

Therefore determining an exit price for these loans will lead to significant inconsistencies among financial institutions. Bid/ask spreads for relatively liquid U.S. Agency mortgage backed securities can at times be extremely wide. One can only imagine the bid/ask spread that should be considered when fair valuing illiquid loans.

Community banks like Southside originate loans in the communities we serve with the primary objective of balancing the needs of our customers with creating an acceptable return for our shareholders within acceptable credit parameters. The Proposal will change that focus to finding loan structures that will mitigate the fair valuing concern. Southside, along with all other financial institutions will likely rethink the types of sound community based loans we have successfully originated for decades. The result will likely be that we alter or delete many current loan structures, leaving customers with less choice and even more uncertainty.

Interest rates on loans will likely gravitate to purely floating rate, adding to small business and consumer uncertainty. Volatile and illiquid markets like the one experienced during late 2007 to early 2009 will cause exit prices for loans to vary significantly. Our area of the country experienced less economic distress during the financial crisis and as a result our losses were less than those in other areas more deeply impacted. The Proposal would have resulted in an exit price decrease during the crisis far in excess of the actual increase in risk of our loan portfolio. Interestingly under the Proposal non-maturity deposits which became extremely valuable to banks during the peak of the liquidity crisis in late 2008 would likely not reflect much fair value change even though these deposits were one of the few if not only reliable sources of liquidity for several months.

This type of inconsistent financial reporting does not appear to be transparent to a reader of financial statements and could prove to be very misleading. The Proposal will transform the loan decision from one of credit worthiness and interest rate to one of balancing the economics with the accounting.

The Proposal lacks support from the International Accounting Standards Board, banking regulators and has little support from institutional investors.

The Proposal changes the Allowance for Loan Losses calculation from an incurred loss model to an expected loss model. Expected losses are recorded day one and the basis of the expected loss is very constrained and could only take into account historical losses and current economic conditions. The proposal does not reconcile the differences in the subjective assumptions to be used to fair value loans and the fact that these assumptions are not to be considered when considering the reserve for loan losses. We strongly oppose this inconsistency.

The concept of remeasurement value introduced to fair value deposits is inconsistent with the requirements to fair value loans. It is likely under the proposed concept our most valuable core deposits will not have the appropriate fair value above par that an exit price might indicate. Non-maturity bank deposits have a more liquid secondary market than our illiquid held to maturity

loans, but the Proposal does not appear to recognize this fact. The Proposal will likely in the end undervalue non-maturity deposits and during a period of extreme volatility the inconsistencies between the fair value requirements on the asset side of a bank's balance sheet when compared to the requirements on the liability side will likely lead to unrealistic swings in a financial institutions capital account. The volatility created in a bank's capital account due to the inconsistencies could lead to devastating unintended consequences. The reliability of capital standards for community banks is imperative for regulators, depositors, investors and ultimately the health of the economy.

The Proposal would likely change the business model of community banking. We work hard in our communities to work with borrowers to find ways to make them and us successful. If a borrower falls on hard times we work with that borrower to find a solution, (i.e. additional collateral, modified payment terms, etc.). The value of the loan is not realized through an immediate sale. As a result the market value is irrelevant because the loan will not be sold. Borrowers need the flexibility community banks provide so that they can proactively manage their businesses.

In conclusion, the Proposal should not be implemented for the reasons stated above.

Thank you for the opportunity to comment.

Sincerely,

Lee R. Gibson