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September 30, 2010

Mr. Russell Golden
Technical Director
Financial Accounting Standards Board
401 Merritt 7
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File Reference: No. 1810-100 *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities*

Dear Mr. Golden:

I appreciate the opportunity to comment on the exposure draft *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities* ("proposal"). I am a CPA in public practice with over twenty-four years of accounting and auditing experience. My family and I own stock in a publicly traded community bank. In evaluating my stock investments, the financial condition of the bank and transparent financial reporting are important factors which I consider. I am deeply concerned with and opposed to the portion of the exposure draft that requires all financial instruments to be marked to market. I believe that the requirement to report loans at market value will be very difficult and costly to implement and do nothing to improve financial reporting transparency to the shareholder. Reporting the loan portfolio at market value would be confusing to shareholders and result in less relevant information than the amortized cost method. Fair value accounting for loans will result in bank capital being affected by market fluctuations, based on the fair values of assets with no active markets. The reliability and comparability of bank capital will drastically diminish.

As an investor, I am interested in how loans perform and how well the bank performs financially, not with how the market views loan performance. Fair value accounting is not relevant for loans that are not being sold. Most commercial bank loans have no reliable market, making them Level 3 investments in the fair value hierarchy, and the fair value measurements would be very difficult to determine. Even if there were active markets, fair value is not the appropriate measurement for these loans since it does not represent the cash the bank will receive.

The proposal to value loans at fair value does not reflect a bank's business model. Under fair value accounting, shareholders will be confused by the volatility which will result from valuing loans at market value. There will be a decline in confidence due to perceived increased risk resulting in more short-term trading activities. Investors will be uncertain about the true reported financial position under the proposal and likely pressure management to reduce the volatility. Requiring banks to report loans at market value could result in a need for banks to change their business models. This will result in accounting procedures driving the business model and a possible shift toward an investment banking model rather than a traditional banking model, or result in limiting products to those that are not subject to this market volatility.

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The costs of implementing and making fair value determinations for loans will be a burden to community banks. I am concerned about the costs and resources that will be needed to produce and audit such data. Ultimately, it is the investors and customers who will be paying the consultants and auditors.

I respectfully request that you remove the requirement to mark loans to market. Please feel free to contact me if you would like to discuss my concerns.

Sincerely,

Katherine D. McDaniel, CPA
Partner