

233 South 13th Street, Suite 700
Lincoln, Nebraska 68508
Phone: (402) 474-1555
Fax: (402) 474-2946
www.nebankers.org



September 30, 2010

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

Re: Classification and Measurement of Financial Assets and Liabilities

Dear Mr. Golden:

The Nebraska Bankers Association (NBA) appreciates the opportunity to comment on the Exposure Draft: *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities (ED)*. The NBA represents 226 of 228 banks and 12 of the 13 Savings and Loan institutions in the state of Nebraska.

The ED represents major changes to bank financial reporting, and we respectfully disagree with the proposal to expand "fair value accounting" to all financial instruments. Bankers have warned against the various unintended consequences that will result from "fair value accounting," and their concerns with the devastating procyclical effects of this measurement of value became virtually self-evident during the recent financial crisis. The proposal to expand fair value accounting to all financial assets and liabilities appears to fly directly in the face of the desires of virtually all users of financial statements; investors have expressed relatively uniform opposition to the proposal and bank managers have indicated the dangers associated with adoption of this proposal.

Accounting for financial instruments should be based on the business model: instruments managed for fair value and trading purposes should be accounted for at fair value, while those managed for long-term investment in order to collect the contractual cash flows should be accounted for at amortized costs, with a rigid impairment model. Retaining this accounting model reflects how the institution will generate future cash flows and how the company manages its operations, which is key information for potential investors.

In the vast majority of cases, in the event issues arise regarding a borrower's ability to repay a loan, Nebraska banks work through the collection process with the individual borrower, rather than selling the loan. There is no active market for these loans, and estimating or creating a market value serves no practical purpose, and in most cases would be fictitious, if not outright erroneous. Even if the bank could readily obtain a market price, since the loan is but one

element of the financial relationship that they have with their customers, there is little likelihood that the loan would ever be sold. The consistent earnings stream is what community banks have and will continue to seek from their loan portfolio.

The ED also would impose significant costs upon the banking industry. The amount of costs and resources that banks will need to dedicate to produce and audit data regarding their loan portfolios will be significant. Smaller banks may be required to hire more staff and/or consultants to assist with the process of estimating for fair values and additional auditing fees may be incurred, as well. Banks will simply incur significant costs to make estimates and compile information in which their shareholder/investors have little or no interest.

For the reasons stated above, the NBA would respectfully request that the fair value section of the ED be dropped, or at the very least, be considered only for institutions that trade and sell assets prior to maturity in their ordinary course of business. Thank you for your attention to these matters and for considering our views on this subject.

Sincerely,



George Beattie
NBA President & CEO
george.beattie@nebankers.org

/jks