

**From:** [gr@kybanks.com](mailto:gr@kybanks.com)  
**To:** [Director - FASB](#)  
**Subject:** File Reference: No. 1810-100, "Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities"  
**Date:** Monday, September 20, 2010 10:37:57 AM

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Ballard Cassady  
600 W. Main St; Suite 400  
Louisville, KY 40202-2998

September 20, 2010

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

Dear Mr. Golden:

The Kentucky Bankers Association (KBA) appreciates the opportunity to comment on the Proposed Update, Accounting for Financial Instruments (Topic 825) and Revisions to the Accounting for Derivative Instruments and Hedging Activities (Topic 815).

The KBA represents over 200 financial institutions operating in the Commonwealth of Kentucky, most of which are Kentucky-based and all of which will be impacted in some way by this Proposal. The majority of Kentucky-based financial institutions are traditional "community banks", have an average asset base of \$269 million, and whose balance sheets are fairly devoid of complex financial instruments.

While we applaud the FASB for its efforts to increase transparency and disclosure by standardizing financial instrument pricing methodologies, we cannot support the proposal as it is currently written. Our contention is actually rather straightforward and can be summarized as follows:

- It is impractically-suited for the business model employed and investments held by traditional community banks;
- Upon adoption, the financial statements issued by traditional community banks would become more complex and therefore, less useful to investors;
- The cost of complying with these new standards would place downward pressure on bank profits and upward pressure on the cost of credit.

The traditional community bank business model is to hold deposits and to make/service loans to individuals and businesses that reside in their local community. Community banks do not hold complex financial instruments, nor do they hold loans for resale in secondary markets. This is especially true for commercial loans, where no readily available secondary market exists. In short, loans are typically held to maturity and are amortized accordingly. Granted, loan values will always fluctuate and will typically do so for a variety of reasons. When this happens, banks respond accordingly by making the proper adjustments to loan loss

reserves. This is the accepted and preferred method developed through years of utilization by the industry. To propose that a fair-value standard could be imposed on institutions whose loan portfolio consists primarily of long-term or held-to-maturity loans is inappropriate and impractical. The only scenario, arguably, that would make sense for fair-value standards to be employed, as written in this proposal, would be a bank that held debt instruments for resale.

One of the stated objectives of the Proposal is to provide more meaningful and useful financial information to investors and other users of financial statements. While on the surface this would seem to be a reasonable thing to strive for, we believe that the proposal will actually accomplish the opposite. The proposed fair-value measurements require sophisticated accounting systems and treatment, the goal being to capture marketplace volatility and risk into pricing financial instruments. We believe that once established and then published, this financial information will require an equal amount of sophistication to interpret. Traditional users of community bank financial statements will typically not possess this level of expertise and as such could misinterpret or be misled by the reported information. Furthermore, since this information is prepared at a particular point in time, it could become stale very quickly, depending on marketplace volatility and would also require at least a general understanding of market conditions as of the report date.

Community banks do not currently possess the accounting expertise and reporting systems needed to comply with this proposed standard. As such, they will be required to expend significant capital and human resources not only to implement these changes initially, but to comply with them on an ongoing basis. In many cases, outside consultants will need to be employed to assist in this endeavor and to provide ongoing valuation assistance. If the proposal is enacted, the profitability of every community bank will suffer, which will in turn hinder their ability to provide affordable credit and other important banking services to their customers and to the community at large.

In summary, we feel that the proposed fair value standard is ill-suited for community banks, and if required to comply will place them with a cost burden that is incommensurate with the benefits achieved, benefits that very well could be viewed as a detriment. As such, we are opposed to the proposed standard and strongly implore the FASB to not proceed with its implementation.

Thank you again for the opportunity to comment on this proposal.

Sincerely,

President and CEO  
Kentucky Bankers Association