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Technical Director, File Reference No. 1810-100
Financial Accounting Standards Board
401 Merritt 7
P. O. Box 5116
Norwalk, CT 06856-5116

Re: Proposed Accounting Standards Update
Financial Instruments (Topic 825)

As a long-experienced buy-side security analyst of financial intermediaries, I strongly oppose the FASB Proposal to value non-trading investments, loans, and liability instruments at so-called fair value rather than amortized cost. The business of banking is to extend credit to borrowers and fund such credits with deposits and borrowed funds rather than to trade such instruments. The stated costs of these instruments are very much current value numbers, representing asset amounts owed by borrowers, and actual liabilities owed at maturity to others for deposits and other borrowed funds - unlike the outdated nature of historical cost numbers for an older industrial company. The elimination or modification of such loan and funding cost data would essentially destroy the usefulness and transparency of financial intermediary financial statements.

The structure of the present disclosure model for financial intermediaries was formed over thirty years ago with substantial input from the SEC, and has served investors well. Beyond the balance sheet, it includes detailed breakdowns of loans and funding sources in numerous footnotes and supplemental tables, including daily average balances and interest income or expense by sector. Given such apples-to-apples data, yields on earning assets and liabilities by type of credit can be calculated, as can the net interest margin for the entity. As for credit quality issues, data on loan charge-offs, non-accrual loans, and reserves by type of credit can be related to loan values at cost on an apples-to-apples basis, and the types of credit showing rapid growth or decline can be seen. If only fair value balances were provided, all such trend and yield analysis would be obscured or lost, since the fair value numbers would be modified by both credit quality and interest rate factors.

To make matters even more confusing, the FASB Proposal seems to recommend that investors be given TWO balance sheets - one at so-called fair value and another at amortized cost for financial instruments - along with a single income statement that would be a confused mixture of the two - neither fish nor fowl. I saw no indication that the full array of footnotes and

supplemental tables would be provided for each methodology, and in fact I am not sure how fair value daily average balances and related yields on earning assets and liabilities could be calculated and produced, or would mean anything. In short, the financial statements that would be forthcoming from the Proposal would be huge, and virtually unreadable.

I wish to question a major justification for this accounting change made in the Proposal (page 1) that the fair value approach would remove the high threshold that supposedly now exists for recognizing credit impairments. For me, whether reviewing loan loss potential for a fair value approach or for calculating loan loss provisions and charge-off decisions today, a similar analytic process must take place, involving human judgment and shades of gray. Some managements will be optimistic and others conservative in assessing potential risk, and I assume that this would continue to be the case regardless of a fair value or cost approach. The recent credit disasters were brought about because of poor management decisions, weak regulation, and importantly by ineffective outside auditing. One can only hope outside oversight can be improved, but fair value accounting by itself will not solve the problem.

Further on the determination of credit losses, I am concerned that section IG115 in the Proposal relating to financial assets that are individually evaluated for impairment only seems to relate to credits where estimates of future cash flows relating to impairment have deteriorated. This suggests that no provision for potential losses on performing loans would be made, even though some losses should be expected over time. Some such provision as in IG114 would seem appropriate in order to match possible loss estimates with related income.

Respectfully submitted

Peter C. Lincoln

<u>Professional background</u>:

Investment analyst since 1961, including career at United States Steel and Carnegie Pension Fund for 32 years until retirement in 2002. Member of CFA Institute, and active member of its Corporate Reporting and Accounting Committees for many years. Member of FASAC for three years in mid-1990s.