



FIRST NATIONAL BANK OF HUTCHINSON

Established 1876

September 9, 2010

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

Re: Exposure draft comment
File reference 1810-100
Accounting for Financial Instruments

I am the Chief Financial Officer of a closely held community bank in Hutchinson, Kansas, a community of 40,000 people. My staff and I prepare the financial statements of the bank which communicate to directors, shareholders, and regulators the financial position and results of operations of the bank. I believe that my opinion presented below is representative of the users of our bank's financial statements in the various capacities they represent.

I am extremely concerned that measuring long-term assets (such as loans and debt securities that are expected to be held to maturity) at fair value using a current "exit price" will not provide useful information to the users of our financial statements. I believe that assets and liabilities that are intended to be held to maturity or collection in the normal course of business should not be included in the scope of the proposed standard. Loans not held for sale are appropriately addressed by ASC 310 and core deposit liabilities are appropriately accounted for at expected settlement amounts. Marking these financial instruments to market in the basic financial statements is inconsistent with the business strategy of our bank, and would create information that is confusing to users of our community bank's financial statements.

Furthermore, the proposed guidance in the Exposure Draft regarding financial instruments initially measured at the transaction price, in tandem with relevant literature on determining fair value and adjusting for liquidity risk, underscores the concern that users of community bank financial statements have about "mark to market" reporting of assets that are not intended to be sold at market; they are intended to be held to maturity, but may be "marked to market" despite the long-term intentions and nature of the assets. Immediate losses may have to be recognized because such loans may be illiquid and therefore not have a fair value that is at transaction cost even though we and thousands of community banks may willingly choose to enter into these transactions because we are in the business of making loans to members of the community and holding them to maturity because our business model works and makes our local community thrive.

Additionally, the recognition of changes in fair value in other comprehensive income or elsewhere in the financial statements as provided for in the Exposure Draft doesn't provide any useful information because of the absence of a ready market for the loans and inherent subjectivity in measuring the change in value. Likewise, measuring and reporting long-term assets at short time exit values does not provide useful information upon which users of the financial statements should make decisions.

Also, I believe that the proposed measurement approach for core deposit liabilities provided for in the Exposure Draft is inappropriate and that core deposit liabilities should be exempt from the scope of the Exposure Draft because the liabilities are intended to be settled with the depositors in accordance with the contractual terms of deposit agreements between our community bank and our customers, and that the current method is a reasonable approach reflecting the economic realities of the agreement with our customers. However, if held to maturity loans remain included within the scope of any new accounting standard, core deposit liabilities should also be reflected using a present value approach in order to be consistent throughout the financial statements.

I do not believe that imposing rules on community banks that may have worked better for large trading banks that caused the current economic crisis, if you can truly call them banks, is relevant to the community bank setting in which we make loans and accept deposits and deal with our customers on a day in and day out basis and provide the comprehensive financial services that our customers need and deserve, will solve any problem that those "banks" created. In reality, these proposed changes could confuse the reality of how community banks operate and vastly overstate or understate assets and liabilities and the results of our operations.

As a responsible preparer of the financial statements of a community bank, I believe that "mark to market" changes in assets and liabilities not expected to be sold in the current market provides information that can be counter-productive.

Sincerely,

A handwritten signature in black ink, appearing to read "Phil Watson". The signature is fluid and cursive, with a long, sweeping underline that extends to the right.

Phil Watson
Senior Vice President and Chief Financial Officer