

From: kingr@fnbtn.com
To: [Director - FASB](#)
Subject: Comments on No. 1810-100, "Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities" Exposure Draft
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Russell Golden
Technical Director, Financial Accounting Standards Board
401 Merritt 7
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Dear Mr. Golden:

I am writing to urge FASB to not go forward with the Exposure Draft: Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities. The proposed treatments of loans and deposits for community banks is resource intensive (very expensive) and the marginal improvement in reducing the subjectivity in financial reporting would be small at best.

While I understand the theoretical benefits of "fair value" accounting, it is my opinion that the methodology is only practical if there are active markets with sufficient volumes to actually obtain a "fair value". As we have seen recently, even the very active financial markets (stocks, bonds, and other actively traded financial instruments) are subject to temporary distortion and might or might not reflect a "fair value" on a specific date. While I agree that these markets are generally efficient over the long term, they are subject to short term influences that can cause major distortions in valuations on any specific date.

If our most active markets are subject to "fair value" distortions, how are community banks going to ascertain a "fair value" on a loan to a small business person in a suburban area? First, there is no active market for the types of loans most community banks have on their books. Second, when these loans are purchased or sold the valuation is highly dependent on the specifics of the terms and the borrower. Attempting to apply a "fair value" to a portfolio of several thousand of these loans would be time consuming and highly subjective.

The current methodology of applying a loss reserve to the loan portfolio taken as a whole is a good balance between presenting a "fair value" in the financial statements and the resource intensive and still very subjective proposals included in the Exposure Draft. The marginal improvement in the information presented in the financial statements will be more than offset with the disclosures of the methodology used in implementing the "fair value" adjustments. I believe that these proposals will create financial statements that will become incomprehensible to everyone except the most sophisticated users.

While I believe disclosure is important in financial statement presentation, adding subjective "fair value" adjustments to each line item of the balance sheet and washing the difference through OCI will only confuse financial statement users and GAAP income will become even more subjective than it is currently. I admire the goal of bringing better economic information to financial statement users but these proposals will add only confusion and subjectivity.

Thank your for the opportunity to comment on this proposal.

Best Regards

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