1810-100 Comment Letter No. 2729

From: <a href="mailto:lheilbronner@cnbank.com">lheilbronner@cnbank.com</a>

To: <u>Director - FASB</u>

Subject: File Reference: No. 1810-100, "Accounting for Financial Instruments and Revisions to the Accounting for

Derivative Instruments and Hedging Activities"

Date: Wednesday, September 29, 2010 3:48:20 PM

Lawrence Heilbronner 72 S. Main Street Canandaigua, NY 14424-1905

September 29, 2010

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

Dear Mr. Golden:

Thank you for the opportunity to comment on the exposure draft, "Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities."

As Chief Financial Officer of Canandaigua National Corporation (a bank holding company and SEC registrant) and its subsidiaiaries, including iits principal bank The Canandaigua National Bank and Trust Company, a national bank in Canandaigua, NY with over \$1.6 Billion in total assets, I am writing to express my opinions on specific provisions of the exposure draft.

## I. COMMENTS ON FAIR VALUE

I am strongly opposed to the portion of the proposal that requires all financial instruments - including loans - to be reported at fair value on the balance sheet.

Our bank does not sell our consumer or commercial loans. Basing our balance sheet on fair values leads readers of our financial statements to assume that we will sell the loans, which is not the case.

There is no active market for many of our loans, and estimating a fairvalue makes no real sense.

Even if we could easily obtain a market price, and thus determine a fair value estimate, since the loan is just one part of the financial relationship that we have with the customer (multiple loans, investment and trust services, etc.), there is no financial incentive to sell.

Marking all loans to fair value would cause our Company's capital to sway with fluctuations in the markets - even if the entire loan portfolio is performing. Instead of providing better information about our Company's health or its ability to pay dividends, the proposal would mask it.

Even if the finanial regulators' Tier 1 capital excludes fair value fluctuations, we still will have to explain it to our investors, customers

and depositors.

The costs and resources that we will need to comply with this new requirement would be significant. This will require us to pay consultants and auditors to estimate market value, hire additional finance staff, and, ultimately redirect resources (money) from productive activities supporting the financing and growth of our community to unproductive activities of reporting superfluous financial data.

Our shareholders have expressed no interest in receiving this information. We believe our shareholders would not view these costs, as being either reasonable or worthwhile.

## II. COMMENTS ON LOAN IMPAIRMENT

I support the Board's efforts to revise the methodology to estimate loan loss provisions. However, I have serious concerns about how such changes can be implemented by banks like mine.

I recommend that any final model be tested by banks my size in order to ensure that the model is solid and workable.

It is very important that any new processes are agreed upon and well understood by regulators, auditors, and bankers prior to finalizing the rules.

I do not support the proposal for recording interest income. Interest income should continue to be calculated based on contractual terms and not on an after-impairment basis.

Changing the way interest income is recorded to the proposed method makes the accounting more confusing and subjects otherwise firm data to the volatility that comes naturally from the provisioning process. I recommend maintaining the current method.

## III. COMMENTS ON HEDGE ACCOUNTING

I support the change of the requirement that a hedge is "reasonably effective" (as opposed to being "highly effective"). This should make it easier for banks like mine to implement hedge accounting.

It is very important that the term "reasonably effective" be better defined.

The "shortcut" and the "critical terms match" methods should be maintained. This greatly helps medium and smaller banks like mine to reduce the cost of compliance with the hedge accounting rules.

Thank you for considering my comments.

Sincerely,

585-394-4260 Executive Vice President and Chief Financial Officer Canandaigua National Corporation