

From: cguarino@bankcnb.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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September 29, 2010

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

Dear Mr. Golden:

Thank you for the opportunity to comment on FASB's Exposure Draft: Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities.

As CFO of CNB Bank, a \$1.3 billion institution primarily operating in central and northwestern Pennsylvania, I believe the accounting that would result from this proposal would greatly misrepresent the financial condition of the community banking sector. The primary business of community banks is to hold financial instruments to collect contractual cash flows, not to trade them on a regular basis. In your proposal, for example, banks must record loans on the balance sheet at their market value while the community banking business model is generally to hold loans to maturity. Community banks such as this bank create and hold loans for which there is no active market; as a result it would be very difficult and costly to mark them to market. In addition, significant interpretative judgment will be necessary in the valuation of a loan which will lead to inconsistencies among institutions.

We also oppose the proposed accounting treatment for core deposits which calls for them to be regularly re measured using a present value calculation. This would not provide accurate information and the calculations would be expensive and time consuming, particularly for community banks such as CNB Bank that have limited staff resources to conduct the analysis.

Volatility which will be introduced to financial reporting is another primary concern, as bank balance sheets will be affected by fair value adjustments subject to significant estimates which will most likely never be realized in earnings. The reliability and comparability of bank capital will become largely dependent on the fair values of instruments with no independent markets thus leading to unintended results. Individual institutions' calculations of credit and liquidity spreads will likely confuse investors and introduce unnecessary complexity into the process.

Accounting standards and guidance should not be pro-cyclical. Recent

market conditions have demonstrated the pro-cyclical nature of mark-to-market accounting as declining values of financial instruments necessitated write-downs and sales, causing further write-downs and sales. The proposed accounting changes will exacerbate cyclicity in financial results due to the greater reliance on fair value estimates, and valuations that will be less accurate than current accounting requirements.

Additionally, I am very concerned about the costs and resources that will need to be dedicated to produce and audit fair value estimates for loans and deposits. We have learned from the recent financial crisis that markets are sometimes illiquid and irrational. Because banks have historically not used fair values in managing their cash flows, I anticipate that, if issued as proposed, this accounting standard will require community banks such as ours to hire more staff and/or consultants to assist with estimating fair values, resulting in significantly higher audit fees.

In light of the aforementioned concerns, I respectfully suggest the withdrawal of the previously mentioned proposal.

Again, we thank you for the opportunity to comment and hope that you will fully consider the impact this proposal has on community bankers, investors and other users of bank financial statements.

Sincerely,

Charles Guarino
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