

From: pthompson@countryclubbank.com
To: [Director - FASB](#)
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 7:33:23 PM

Paul Thompson
414 Nichols Road
Kansas City, MO 64112-2005

September 29, 2010

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

Dear Mr. Golden:

As President & CEO of Country Club Bank, a banking institution in Kansas City, MO with \$1 billion in total assets, I am writing to express my opinions on specific provisions of the exposure draft, "Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities."

In addition to our commercial bank, our wholly-owned trust company subsidiary also manages \$1.4 billion of trust assets and our capital markets broker-dealer conducts business with institutional entities--primarily other commercial banks--in approximately 35 states.

As a community banker and licensed CPA myself (Missouri), I feel particularly qualified to, interested in and thankful for the opportunity to address issues surrounding the above-mentioned 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 (market value) on the balance sheet.

I join almost every other banker I am aware of (and many other non-bankers aware of the proposal) in thinking that this will be an unmitigated disaster because, remarkably, it will only further cloud the issue of transparency in accounting. In addition, such a fundamental change in the presentation of financial statements will cost an immense amount of resources (time and money) to implement.

I believe that the benefit derived by the users of the financial statements of the information presented therein will NOT outweigh the additional cost associated with such.

Ironically and counter-intuitively, I believe that in this age of desired financial transparency, the end result will be that management will have more leeway and subjectivity in the manner in which they present financial values on their financial statements—not less.

Objectivity, which should be the cornerstone upon which credible and "fairly presented" financial information is laid and built upon, would give way to values—not presented "in the eye of the interested yet unbiased beholder" but instead, in the eye of the "presenter"—subject to the intended and unintended biases/perversions of the presenter!

I believe that the lessons learned from cases such as Enron and World Com was that there was real danger in allowing management and/or ownership to unduly influence or manipulate the value at which an asset or liability is recorded on the books of the entity. The beauty of cost accounting is that there is little argument on what an asset or liability should be recorded at on the financial records of an entity. This particular aspect of "Fair Value" or "Mark-to-Market" accounting allows subjectivity into the process that can only open Pandora's Box in the efforts to provide reliable, consistent, reasonably comparable and fairly presented financial values on financial statements. Such subjective estimations of value are more appropriately addressed and reflected in the schedules and narratives contained in the footnotes and management discussion and analysis sections which accompany the financial statements. Let management opine on "fair" values in the footnotes and the "MD&A" sections as opposed to in the body of the financial statements!

Further, please do not discount the fact that in addition to "sophisticated" investors, the "users of the financial statements" include those that would otherwise be unsophisticated users such as readers of local periodicals who, themselves, will not understand and, consequently, misinterpret this new and complex accounting policy.

Indeed, social policy effects should be considered as net income and capital will vary wildly as they will quite possibly be subject to incredible volatility caused by asset and liability "paper gains and losses" being digested through the income statement. Accordingly, non-sophisticated users (such as the general public) of financial statements (who I maintain outnumber the "sophisticated" users), will be left with less transparency and more ambiguity in trying to make sense of the financial statements upon which they would otherwise rely. This will cause unnecessary angst and fear and chip away at the confidence in our financial institutions--AND ACCOUNTING INTEGRITY/POLICY--at exactly the wrong time!

Indeed, our bank does not sell our 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.

If there are issues with a borrower's ability to repay a loan, we work through the collection process with the borrower rather than sell the loan.

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

Even if we could easily obtain a market price, 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.

As I alluded to earlier, marking all loans to market would cause our bank's capital to sway with fluctuations in the markets - even if the entire loan portfolio is performing. Instead of providing better information about our bank's health or its ability to pay dividends, the

proposal would mask it.

Even if the banking 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.

Finally, none of our investors have expressed any interest in receiving this information. We believe our investors would not view these costs, which must come out of bank earnings, as being either reasonable or worthwhile.

For the reasons stated above, our bank respectfully requests that the fair value section of the exposure draft be dropped.

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.

In summary, I oppose the various components of this accounting policy/exposure draft that I have addressed herein because I believe that such a policy, if adopted, will only result in more and unnecessary costs to the preparers of the financial statements (business entities) and create further ambiguity--not transparency or real useful information--to

the users of the financial statements.

Again, I thank you for the opportunity to present my thoughts on this matter and trust that they will be considered with the same amount of care and seriousness in which they have been prepared and offered.

Sincerely & Respectfully,

Paul J. Thompson

Sincerely,

816-931-4060
President & CEO
Country Club Bank