April 7, 2006

Letter of Comment No: 14
File Reference: 1250-001

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

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Dear Sir or Madam:

North Shore Bank, FSB is a mutual federally chartered savings bank with approximately $2 billion in assets and 43 locations throughout Eastern Wisconsin and Northern Illinois. I appreciate the efforts of the Financial Accounting Standards Board (the “Board”) to improve financial reporting, and am pleased to comment on this Exposure Draft.

As a CPA and chief financial officer of a financial institution, I object to this proposal specifically and to the Board’s overall movement towards fair value financial statements generally. This objection is based on my understanding of sound accounting principles and theory, and practical application thereof in the preparation of transparent and usable financial statements.

The Board in fact indirectly articulates in this Exposure Draft the very reasons why the move towards fair value at this time is unsound policy. The Board justifies this Exposure Draft with the following reasons:

♦ “Creation of the fair value option would permit an entity to mitigate that volatility (of mixed-attribute accounting) by enabling entities to achieve an offset accounting effect for the changes in the fair values of related assets and liabilities without having to apply complex hedge accounting provisions.” Rather than deal with an overly-complicated, impractical rule such as SFAS 133 by proposing another complicated, difficult-to-apply set of rules, common sense would presumably dictate that the Board should go back and address the original problem. This Exposure Draft would simply compound the current problems. The Board also seems to be preoccupied with volatility. I would argue that volatility, theoretically, is
not necessarily something that is undesirable and worthy of being “ruled away” in financial statements if it reflects the economic reality of a situation.

♦ "Issuance of this proposed Statement would achieve further convergence with the International Accounting Standards Board." While this is a noble objective, a goal such as this should not trump the making of sound accounting policy. I wonder if IASB were somehow espouse more cost-based principles rather than fair value if the Board would still be so intent on achieving convergence.

♦ "Fair value...provide more relevant and understandable information than cost or cost-based measures." How certain is the Board of this position? I believe that the Board would find that many in the financial statement preparer, attest, and user communities would strongly object to that position. The large number of recent restatements and accounting controversies at large, high profile companies would seem to indicate that implementation of fair value principles such as SFAS 133 is a major problem. However the Board continues to use this false belief in the superiority of fair value principles as the basis for this and other projects.

♦ "The contract-by-contract approach ‘may impair comparability and consistency’ but is justified ‘to enable greater use of fair value and convergence.’" The Board seems to be using the “ends to justify the means,” however the end result is still of dubious value per my comments above. Also, the intentional impairment of comparability and consistency is not something that should be undertaken lightly. The implementation of the contract-by-contract approach will undoubtedly be difficult. And the flexibility permitted under this Exposure Draft will not only impair comparability and consistency, but also will allow for gamesmanship and abuse in applying the rules in order to obtain a desired outcome, rather than reflecting the economic reality.

In conclusion, this proposal, and the Board’s unrelenting push towards fair value need to be reevaluated. At this time, the dangers in impairing transparency, consistency, and comparability would far outweigh any perceived benefits of fair value principles.

Sincerely,

Jay F. McKenna
Senior Vice President
Chief Financial Officer and Treasurer