April 7, 2006

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


File Reference No. 1250-001

Dear Sir or Madam:

America's Community Bankers ("ACB") \(^1\) is pleased to comment on the Exposure Draft ("ED") issued by the Financial Accounting Standards Board ("FASB") containing a proposal for a Fair Value Option for Financial Assets and Financial Liabilities. The ED would create a Fair Value Option that would give the reporting entity the opportunity to irrevocably elect fair value as the initial and subsequent measurement method for certain financial assets and financial liabilities, with changes in fair value recognized in earnings. Our comments in this letter will focus on the concerns that community bankers have about the concept of a Fair Value Option specifically, and fair value accounting more generally.

**ACB Position**

As current reporting requirements vary depending on whether an entity is using the fair value measurement attribute or another methodology for different assets and liabilities, ACB appreciates FASB's efforts to simplify this mixed-attribute accounting which often leads to volatility in reported earnings. Nonetheless, ACB has concerns about the adoption of the Fair Value Option due to underlying issues regarding fair value measurements in general, the lack of comparability brought about by any optional accounting treatment, and the burdensome documentation requirements associated with electing the Fair Value Option. Although the accounting treatment laid out in this ED is optional, it still causes problems for community banks as they consider the issues.

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\(^1\) America's Community Bankers is the member-driven national trade association representing community banks that pursue progressive, entrepreneurial and service-oriented strategies to benefit their customers and communities. To learn more about ACB, visit www.AmericasCommunityBankers.com.
inherent in assigning a fair value to customer loans and deposits. We understand that the Fair Value Option may alleviate the problems some community banks are having with regard to complying with FASB Statement No. 133 as it relates to instances such as hedging mortgage loans held for sale or achieving fair value hedge accounting on certain liabilities for interest rate risk purposes.

The Fair Value Option project, although separate from the Fair Value Measurement project, raises many of the same concerns among community bankers. Primarily, there is concern that if the Fair Value Option is elected, the intellectual and conceptual problems involved in measuring the fair value of intangible customer relationships may result in financial assets and financial liabilities being valued solely on the basis of the present value of estimated tangible cash flows. Such an approach would be incomplete, misleading and not indicative of the actual value of an institution's account bases. ACB is concerned about the adoption of any valuation method, optional or not, for financial assets or financial liabilities that does not consider the full value of the intangible elements.

Introducing a Fair Value Option into financial reporting will hinder and confuse efforts at comparing financial statements across entities. Depending on which institutions have elected the Fair Value Option, in addition to how they choose to disclose this methodology, the lack of comparability will potentially confuse investors and hinder efforts of greater transparency.

In the proposal, financial instruments that are under the Fair Value Option will be reported differently than those under the current accounting scheme. Entities may either display separate line items for the fair value and non-fair-value carrying amounts or present the aggregate of fair value and non-fair-value amounts while disclosing parenthetically the amount of fair value included in the aggregate amount. Both alterations introduce significant complexities where simple reporting is presently found.

With respect to reporting requirements, the significant documentation required to report financial instruments by institutions that elect the Fair Value Option would be burdensome for community banks. The initial cost and maintenance expense required to properly disclose the fair value for these financial assets and financial liabilities would outweigh any benefit achieved in earnings from changes in fair value.

Conclusion:

ACB appreciates the efforts of FASB to provide high-quality accounting standards and ultimately improve financial reporting. However, ACB is not certain that the Fair Value Option would mitigate the concerns community bankers have regarding fair value accounting, especially when related to valuing customer relationships as well as reporting requirements, and it would significantly hinder comparability among financial statements of different entities. ACB continues to caution FASB on advancing any fair value guidance without first resolving the conceptual problems in connection with measuring the fair value of financial assets and liabilities that contain both tangible and intangible
elements such as customer loans and deposits. Until these issues are resolved, ACB continues to support confining any fair value measurements to the footnote disclosures of the basic financial statements.

ACB appreciates the opportunity to comment on this important matter. If you have any questions, please contact the undersigned at (202) 857-3158 or via email at jgoff@acbankers.org or Robert Davis at (202) 857-5088 or via email at rldavis@acbankers.org.

Sincerely,

Jodie G. Goff
Manager – Accounting and Financial Management Policy