March 14, 2013

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


To Whom It May Concern:

Thank you for the opportunity to provide comment on the proposed Accounting Standards Update-Financial Instruments that was recently issued for public comment by the Financial Accounting Standards Board.

The Institution for Savings in Newburyport and its Vicinity ("the Bank") is a $1.4 billion State Chartered Mutual Bank established in 1820. We have seven full time branches in addition to four high school branches serving the north shore of Massachusetts. We further service the community through our Institution for Savings and 2 Depot Square Ipswich charitable foundations.

A staple of the Bank’s investment philosophy has always been purchasing strong dividend yielding common stocks in high quality companies. Over the years the Bank has built a significant equity portfolio comprised of “legacy” stocks, purchased in the 1970’s and 80’s. Since then management has maintained this purchasing philosophy building a portfolio with a book value of $132.8 million and with a fair value with $146.7 million as of December 31, 2012. With such a large equity portfolio we have several concerns regarding the proposed accounting standards update, specifically recording the change in fair value of equity securities through the income statement.

First of all, such a radical change would seem to contradict the realization principal, one of the basic premises of accounting. Under the realization principal revenue should only be recorded when it is realized or realizable. We believe that the decision when a stock gain or loss should be realized should be left to management. We have been diligent over the years in monitoring our portfolio and realizing gains when we believe a holding has reached its full potential in addition to realizing losses when we believe a holding has lost value and will not regain it. This proposal would essentially remove this decision making process from management. We firmly believe that presenting stocks at their fair value on the balance sheet...
is sufficient and recording the unrealized gain or loss through the income statement to be burdensome and unnecessary.

In addition to the proposal affecting our philosophy on how we manage our equity portfolio we believe that with the volatile nature of the stock market the recording of the fair value adjustment through the income statement would provide misleading and potentially damaging financial results. See below for our last five years of net income and what it would have been if we had recorded the fair value adjustment on equities through the income statement:

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual Net Income</th>
<th>Net Income under the proposal</th>
<th>$ variance</th>
<th>% variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>7,076,259.41</td>
<td>(27,008,390.17)</td>
<td>(34,084,649.58)</td>
<td>-482%</td>
</tr>
<tr>
<td>2009</td>
<td>7,156,888.51</td>
<td>12,608,648.87</td>
<td>5,451,760.26</td>
<td>76%</td>
</tr>
<tr>
<td>2010</td>
<td>11,200,674.29</td>
<td>20,484,755.70</td>
<td>9,283,881.41</td>
<td>83%</td>
</tr>
<tr>
<td>2011</td>
<td>16,048,866.26</td>
<td>17,282,162.87</td>
<td>1,233,296.59</td>
<td>8%</td>
</tr>
<tr>
<td>2012</td>
<td>17,228,128.26</td>
<td>28,289,698.47</td>
<td>11,061,570.21</td>
<td>64%</td>
</tr>
</tbody>
</table>

Examining the results, our net income over the last five years under the new proposal would be more reflective of the performance of our equity portfolio than it would be of our operations. This proposal would render our results meaningless to the reader of the financial statements and could cause confusion and possibly panic amongst our customer base. We believe customer reaction would differ greatly between a $27 million decrease to capital due to an unrealized loss on investments held available for sale than would be reporting a $27 million loss on our income statement. Our Bank is extremely well capitalized reporting total capital of $184.8 million which is 13.44% of average total assets as of December 31, 2012. The impact of a large decrease to capital, such as the Bank experienced in 2008, would be cushioned by the fact that our capital ratio would still be well above the minimum percentage to be considered well capitalized. However there would be no such insulation on our income statement. A year such as 2008 would at the very least damage our reputation and at the very worst cause a run on the Bank’s deposits. However, if the rules remained the same and the fair value adjustment ran through other comprehensive income, our financial statements would be reflective of both the performance of our equity portfolio and the results of operations.

Banking regulators are already attempting to make it burdensome to hold equities through the Basel III proposals. Under these proposals the unrealized gain or loss on available for sale securities would be included in the common tier one capital calculation, additionally the risk weighting of equities would increase from 100% to 300% in the risk weighted capital calculation. We believe the impact that the proposed accounting standards update would have on earnings would lead to even greater regulatory scrutiny of banks that have significant equity portfolios. This potentially could lead regulators to disallow equities as an investment
option along with potential reduction in “CAMEL” ratings, specifically the “E” or earnings rating. In 2012 we realized $4.8 million in dividend and option income in addition to $9.9 million in gains from our equity portfolio. Total income from our equity portfolio was $14.7 million which is approximately 24% of our gross revenues, not taking into consideration the tax preferential treatment of the divided income. The loss of equities as an investment alternative would be devastating to our operations.

Furthermore, this proposal would negatively impact the ability to compare financial results to prior periods and to other financial institutions, primarily when comparing an institution that invests in equities to those that do not. This would be especially problematic during periods of increased stock market volatility, as industry benchmarks such as ROA and ROE would be rendered meaningless.

Over the last five years there have been drastic swings in the equity markets which have had little to do with the business fundamentals of the companies in which we invest. These swings have been caused by political, economic or societal issues. If one of these issues happens to occur prior to a reporting period the effect on earnings could be drastic. The prudent investor does not sell during these times, therefore it does not make sense to realize these swings through earnings.

Equities classified as trading are marked to market through the income statement. Perhaps an alternative to having all equities treated this way would be to increase the scope of the definition of trading. This way long term investors would not be penalized. Additionally disclosures related to fair value of equities could be enhanced providing increased transparency for equities much the same way as disclosures for loans and the allowance for loan loss were enhanced in 2010.

In conclusion, the Bank believes that recording the change in the unrealized gain or loss on equity securities through the income statement would report misleading and inconsistent results. We strongly recommend you reconsider this change in accounting treatment for equities or consider a less impactful alternative.

Sincerely,

Michael J. Jones
President and Chief Executive Officer