15 March 2013

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

RE: Proposed Accounting Standards Update
Financial Instruments – File reference No. 2013-220

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 ("FASB").

The Savings Bank is a $450 million state-chartered mutual bank established in 1869. We have eight full-time branches in addition to a high school-based branch serving the primary communities of Wakefield, Lynnfield, Andover, North Reading, and Methuen, Massachusetts. We also service our communities through The Savings Bank Charitable Foundation and the Donald E. Garrant Foundation.

For over a century a component of our investment philosophy has always been the purchase of strong dividend yielding common stocks issued by high quality companies. Over the years the Bank has built a significant equity portfolio comprised of "legacy" stocks purchased in the 1970’s and 1980’s. Since that time, the Bank has maintained this purchase/investment philosophy building a portfolio with a book value of $12 million and with a fair value of $20.3 million as of March 14, 2013. 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, such a radical change would seem to contradict the realization principal, one of the basic premises of accounting. Under this 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 both with regard to gains and losses taken. The proposed change would essentially remove this decision making process from the Bank’s 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, more importantly, 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 ten 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>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>$2.4 million</td>
<td>$5.7 million</td>
</tr>
<tr>
<td>2004</td>
<td>$1.1 million</td>
<td>$3.1 million</td>
</tr>
<tr>
<td>2005</td>
<td>($ .3) million</td>
<td>$.1 million</td>
</tr>
<tr>
<td>2006</td>
<td>($ .4) million</td>
<td>$1.8 million</td>
</tr>
<tr>
<td>2007</td>
<td>$0</td>
<td>$3.1 million</td>
</tr>
<tr>
<td>2008</td>
<td>($1.3) million</td>
<td>$.4 million</td>
</tr>
<tr>
<td>2009</td>
<td>$.3 million</td>
<td>$3.2 million</td>
</tr>
<tr>
<td>2010</td>
<td>$1.4 million</td>
<td>$5.0 million</td>
</tr>
<tr>
<td>2011</td>
<td>$.6 million</td>
<td>$4.7 million</td>
</tr>
<tr>
<td>2012</td>
<td>$2.1 million</td>
<td>$6.6 million</td>
</tr>
</tbody>
</table>

Examining these results, our net income under the new proposal would be more reflective of the performance of the equity portfolio than it would be of our operations. The proposal would render our results meaningless to the reader of the financial statements and could potentially cause confusion and possibly panic among our customer base because of the volatility in the equities market. The Savings Bank is extremely well-capitalized based on the following capital ratios as of December 31, 2012:

- Total capital to risk-weighted assets of 19.1%
- Tier 1 capital to risk-weighted assets of 17.3%
- Tier 1 capital to average assets of 11.6%

The impact of a large decrease in capital would be cushioned by the fact that our capital ratio would still be well above the minimum to be considered well-capitalized. However, there would be no such insulation on our income statement. We could experience reputational damage at the least and, at the very worst, a possible 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 our operations.

Banking regulators are already attempting to make it burdensome to hold equity securities 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 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 a potential reduction in CAMEL ratings, specifically the “E” or earnings component. Our income from our equity portfolio is approximately $689,000 with a
pre-tax yield of 5.76% (not taking into consideration the tax preferential treatment of the dividend income). The loss of equities as an investment alternative would be devastating to our operations. Even today if we were “mandated” to divest our equity portfolio, recognizing the significant gains that we would take we would also be in the position of re-investing $20 million. In the absence of prudent loan demand these funds would earn, at the Federal Reserve, 25 basis points.

We also believe this proposal would negatively impact the ability to compare financial results to prior periods and to other financial institutions, primarily when comparing a bank that invests in equities with a bank that does not. This would, of course, be especially problematic during periods of increased stock market volatility, as industry benchmarks such as Return on Assets and Return on Equity would be rendered meaningless.

Since the onset of the “Great Recession” five years ago there have been dramatic 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 makes no sense to realize these swings through earnings.

Perhaps additional disclosures (i.e. in financial statement footnotes) related to the fair value of equities could be enhanced providing increased transparency for equities. Disclosures for loans and the allowance for loan loss were enhanced in this manner in 2010.

The Savings Bank believes that recording the change in the unrealized gain or loss on equity securities through the income statement would be to report misleading and inconsistent results. We strongly recommend you reconsider this change in accounting treatment for equities or consider a less impactful alternative. We appreciate your consideration of our request.

Sincerely,

[Signature]

Brian D. McCoubrey
President and Chief Executive Officer