

Letter of Comment No: 19 File Reference: 1201-100 Date Received: 9-7-04

September 3, 2004

Technical Director - File Reference No. 1201-100 Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, Connecticut 06856-5116

Exposure Draft: Proposed Statement of Financial Accounting Standards – Fair Re:

Value Measurement

Dear Director:

America's Community Bankers ("ACB")¹ is pleased to comment on the exposure draft ("ED") issued by the Financial Accounting Standards Board ("FASB") containing proposed guidance on fair value measurements for certain financial and non-financial assets and liabilities. This ED is intended to codify existing GAAP literature and provide clearer guidance on how to measure the fair value of assets and liabilities as currently required under other existing pronouncements. The measurement guidance will provide a fair value framework that will replace the current guidance for measuring fair value that is dispersed among those pronouncements. Additionally, this ED would expand current disclosure requirements regarding the use of fair value measurements.

ACB Position

ACB supports the efforts of the FASB in developing a uniform standard that would increase the consistency and comparability in fair value measurements while clarifying the fair value measurement objective and application under existing pronouncements that require fair value measurements. However, ACB is concerned that the proposed expanded measurement and disclosure requirements would impose substantial undue burdens and costs on community banks. Under the proposed guidance, disclosures on the methods used for fair value measurements would apply much more broadly when assets and liabilities are measured at fair value in all periods and even when they are measured at fair value in some periods. Additionally, the ED would require disclosures in both interim and annual financial statements.

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.

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ACB is concerned that the expanded disclosure requirements and revised measurement criteria would not provide additional useful information to users of financial statements than what is provided through existing practice. ACB believes the increased costs and resource requirements will prove to be especially onerous for smaller organizations, which will be forced to significantly revise their reporting systems in order to comply with the new requirements, and users of financial statements will gain little if anything.

Additionally, this ED represents an advancement of the Board's much broader fair value project to develop conceptual guidance to use in determining when to measure fair value. ACB recognizes the potential promise that comprehensive fair value accounting may hold for users of financial statements through the provision of a more current and potentially more relevant representation of a firm's financial condition. However, ACB would like to re-emphasize our position on the potential intellectual and conceptual problems associated with fair value measurements for loans and deposits. We remain concerned that fair value measurements would not properly reflect the full value of customer relationships and that fair value accounting is less relevant where no active market for the financial instruments exists. Without proper consideration of these concerns, a standard requiring full fair value reporting in the primary financial statements could result in less useful information in financial statements issued under the current, mixed-attribute standards.

Proposed Guidance

The purpose of the ED is to establish a framework for measuring fair value that would apply broadly to assets and liabilities and effectively takes aim at improving the consistency, comparability, and reliability of the measurements. The expanded disclosure requirements in the ED focus on the methods used for the measurements and their impact on earnings. The new disclosures would be required for assets and liabilities measured at fair value in all periods, such as trading securities, or in only some periods, such as impaired assets.

The Statement formalizes the hierarchy that currently exists in other literature. The hierarchy establishes three levels of estimates of fair value. The highest level of evidence available would be required to be used to determine fair value.

At the top of the hierarchy are Level 1 estimates. They result from quoted prices for identical assets or liabilities in active reference markets. When active market prices exist, they would be used to determine the fair value of an item. The guidance in the ED does not permit adjustments of this price since it would be for an identical item.

Level 2 estimates arise from quoted prices for similar, but not identical items. In these cases, the quoted price must be adjusted for differences between the item being valued and the quoted item. An example of a Level 2 estimate is the value obtained by adjusting the price of a security to reflect the restrictions that exist in an otherwise identical restricted security.

Level 3 estimates would only be able to be used when Level 1 or Level 2 estimates are

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not available. These result from the application of valuation techniques, such as a discounted cash flow or option pricing model. The ED requires that Level 3 estimates be determined using multiple valuation techniques consistent with the market approach, the income approach and the cost approach whenever the information required to apply those techniques is available without undue costs. These techniques are typically used in valuing real estate. The ED emphasizes that valuation techniques should, whenever possible, emphasize inputs that are supported by observable market transactions.

The ED also requires disclosures in both interim and annual financial statements about the use of fair values in the financial statements. The information required through the disclosures would include the reported fair value amounts, a description of how those fair values were determined and the effect of the fair value re-measurements on earnings for the periods. In addition, for re-measurements at fair value that occur on a non-recurring basis, such as one resulting from asset impairment, disclosure would also be required about the reason for the re-measurement.

Conclusion

ACB supports the Board's efforts in trying to establish a framework for measuring fair value that will improve the consistency, comparability, and reliability of the measurements. We would also welcome a single Statement that would contain comprehensive guidance on how to determine fair value. We urge the FASB to reconsider the cost implications of some of the onerous requirements as outlined in the ED, especially how these costs may impact small businesses. ACB would also advise FASB to continue working with the banking industry to reconcile the long-standing difficulties in trying to measure the fair value of certain bank assets and liabilities, with the hope that it could lead to widely recognizable and achievable improvements in the information provided by banks to the users of their financial statements.

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

Sincerely,

/s/ Dennis M. Hild

Dennis M. Hild Vice President - Accounting and Financial Management Policy