From: <u>Mick Reynolds</u>
To: <u>Director - FASB</u>

Subject: File Reference No 1810-100 - Fair Value Accounting Proposal

**Date:** Monday, September 13, 2010 5:07:02 PM

Thank you for the opportunity to comment on the exposure draft, Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities." As Executive Vice President and Chief Financial Officer of Pacific Continental Corporation, (Pacific Continental Bank as its only subsidiary) in Eugene, Oregon with \$1.2 billion in assets, I am writing my opinions on specific provisions of the exposure draft. Pacific Continental is a community bank operating in Oregon and Washington markets serving primarily business clients and is publicly traded on the NASDAQ Global system under the symbol PCBK.

## 1) COMMENTS ON FAIR VALUE

I am strongly opposed to the portion of the proposal that that requires all financial instruments including loans - to be reported at fair value or market value on the balance sheet. Our bank generally does not sell commercial or real estate loans. Basing our balance sheet position on fair value leads readers of our financial statements to assume that we do sell loans, and on a regular basis. In addition, there is no active market for many of our loans, thus estimating a market value is an exercise in accounting theory and makes no real sense. Even if a market value was easily obtained, since a loan is only one part of a client relationship, there is no incentive for a financial institution such as ours to sell loans. Marking all loans and deposits to market also could subject bank's capital to significantly volatility due to market fluctuations that are simply outside the control of bank management. In discussions with our individual investors, institutional investors, analysts who cover the banking industry, and regulators, it is unanimous from their perspectives that there is no interest by any of these highly concerned parties in receiving this information. In their view and our view it will make financial statements much less understandable and certainly less comparable. One of FASB's stated goals is to reduce inconsistencies in the reporting of financial institutions, and in my view should this proposal go forward and be implemented, FASB will have violated one of its primary goals and actually made the reporting of these instruments highly inconsistent as fair value assumptions will vary by institution. In addition, the costs and resources required to implement the fair value proposal will be significant, and would simply require us to pay exorbitant consulting and auditing fees for an exercise in theory. So, in effect, the FASB will enrich consultants and auditors at the expense to provide information that is not desired by any relevant party or reader of a financial statement.

I also strongly assert that if loans were marked to market, financial institutions will be less likely to accept the risk of longer-term loans for fear of changes in market conditions that could create "paper" losses. This would in turn lead to what I believe would be serious economic consequences for millions of small business borrowers who have regular long-term credit needs to expand buildings and equipment. This new rule would simply exacerbate economic downturns, and certainly FASB knows this just from last year when fair value rules were relaxed as accounting rules established by FASB worsened the effect of the financial crisis. In my view, this rule could very possibly lead to another financial crisis, this one in the area of commercial real estate and long-term equipment loans, as when seeking refinancing for long-term credit of this nature, borrowers would that even though it would be a good economic decision, banks would be unwilling to lend due to accounting rules. I believe this is just simply bad policy when accounting rules would lead banks and other firms to make bad economic decisions.

## 2) COMMENTS ON LOAN IMPAIRMENT

I am supportive of FASB's effort to revise the methodology to estimate loan loss provisions. However, I have serious concerns about how such changes as proposed can be implemented effectively. I recommend that any final model be tested by banks our size in order to ensure the model is solid and workable. It seems to me that it is extremely important that any new processes are agreed upon as well as understood by regulators, auditors, and bankers prior to finalizing the rules. It would seem to

me that if fair value as proposed was implemented along with loan loss provision changes, GAAP and regulatory accounting will and could diverge significantly. Again, I see this as very confusing to investors and analysts as it is likely that regulatory reports will show something significantly different than publicly available reports, then trying to determine which set of reports to believe.

I also cannot support the proposal for recording interest income. Interest income should continue to be calculated based on contractual terms and not on an after-impairment basis. Changing the way interest income is recorded to the proposed method again makes the accounting more confusing.

In conclusion and generally, my view is that if implemented as proposed this guidance will only serve to confuse readers of financial statements. Not only that, I believe you have and will continue to receive comments from investors, regulators, and auditors that they too are not in support of the proposal. Finally, I do believe that this proposal will lead to poor economic decisions and quite possibly worsen an already deep recession.

Thank you for the opportunity to comment on the exposure draft, "Accounting for Financial Instruments and Revisions to Accounting for Derivative Instruments and Hedging Activities."

Sincerely,

Michael A. Reynolds
Executive Vice President
Chief Financial Officer
Pacific Continental Corporation
Pacific Continental Bank

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