



September 22, 2010

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

File Reference: No. 1810-100 *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities*

Dear Mr. Golden:

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* ("proposal"). As the external reporting manager of a bank, I am writing to express my concerns and opposition to the portion of the proposal that requires all financial instruments to be marked to market. I feel this will cloud transparency rather than improve it, and put into question the most critical element of bank financial statements: bank capital.

In your proposal, banks must record loans on the balance sheet at their market value. I believe the focus on mark to market is not relevant for loans that are not being sold. With individualized payment terms, collateralization, and guarantee structures, the vast majority of commercial loans have no reliable market in which they could be sold, calling into question the reliability of using fair value as the basis for financial statements. Even if there were active markets, fair value is not the appropriate measurement for these loans since it does not represent the cash the bank will receive.

I understand that a loan's intrinsic value may change because of current interest rates or because of problems the borrower may have. However, since banks rarely sell problem loans (the more typical response is to work the problem out with the borrower), market value is irrelevant. Your proposal will subject bank capital to market swings that cannot reasonably be expected to ever be realized.

Another concern I have is whether, because the proposal to mark loans to market increases volatility in earnings, investors will find bank equity securities a desirable investment. Investors will likely pressure banks to reduce volatility, and, in many cases, this may result in the shifting away from a traditional banking model toward an investment banking model, or result in banks limiting product offerings to those that are sheltered from market volatility. It is not prudent to allow accounting considerations to drive a business model and this is a very real possibility should the proposal be approved.

Additionally, I am very concerned about the costs and resources that will need to be dedicated to produce and audit fair value data. Because banks do not use fair values in managing their cash flows, I anticipate banks will find it necessary to increase staff or hire outside consultants to assist with estimating fair values. I also anticipate significantly higher fees for auditing such subjective data. In the end, investors will pay for these increased costs through lower dividends.

From my perspective, this proposal will not improve financial reporting and will make financial statement more difficult to understand and less comparative with peer financial statements. I recommend your proposal to mark loans to market be dropped.

Sincerely,

A handwritten signature in black ink that reads "Laura Bailey". The signature is written in a cursive, flowing style.

Laura Bailey  
Vice President and External Reporting Manager