1810-100 Comment Letter No. 2710

From: <u>scott.greer@citizensbank24.com</u>

To: <u>Director - FASB</u>

Subject: Comments on No. 1810-100, "Accounting for Financial Instruments and Revisions to the Accounting for

Derivative Instruments and Hedging Activities" Exposure Draft

**Date:** Tuesday, September 28, 2010 11:34:12 PM

C. Scott Greer PO Box 1900 Elizabethton, TN 37644-1900

September 28, 2010

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

Dear Mr. Golden:

I am the CFO at Citizens Bank, a \$600 million asset community bank headquartered in Elizabethton, TN. We are located in the Tri-Cities, TN-VA market and serve the Johnson City, TN MSA and the Kingsport-Bristol, TN-VA MSA. Our bank has 12 offices and provides retail banking services to consumers and commercial loans and deposit services to small businesses throughout our region.

In regards to the referenced exposure draft, it is known that FASB has been moving for several years in the direction of increased fair value accounting. In fact, FASB has been shifting financial reporting from reporting "results of operations" to requiring recurring "valuations." Our investors are interested in results of operations. They do not find value in the introduction of significant volatility to our financial statements brought on by fair value accounting of assets which the bank intends and is able to hold to maturity.

The primary business of community banks is to hold financial instruments to collect contractual cash flows, not to trade them on a regular basis. That is especially true for customer loans held in our portfolio. In fact, if this exposure draft is approved and fair value accounting is required for portfolio loans; many community banks such as ours will be required to restrict credit options for many businesses and customers to adjustable rate loans. It is not prudent management to introduce the risk of significant volatility to our income statement and capital associated with these requirements. As our economy seeks to recover from the Great Recession, further restrictions on credit to small businesses and consumers are not appropriate but that is exactly what the requirements in this draft will do.

Some banks may choose to attempt to enter into or increase their participation in the derivative markets in order to hedge their interest rate risk associated with fixed rate loans. They will attempt to manage the impact to their income and capital that fair value accounting will introduce. However, the complexities of these activities are such that many community banks simply lack sufficient expertise to manage the associated risks. As a result, fair value accounting will likely

encourage increased risk exposures in banks at a time when management is being pushed by regulators to improve risk management and lower exposure.

In addition, establishing fair values for the types of loans held by many community banks like our bank would be costly and result in data of questionable reliability. The accounting that would result from this proposal would greatly misrepresent the financial condition of our bank and other community banks.

We also oppose requiring institutions to record demand deposits at fair value. The value of this proposal is suspect at best. When do banks ever liquidate their deposit portfolio at "fair value" (other than could be argued through an M&A transaction)? The reality is deposits are paid out at face amount. Current accounting for M&A transactions already require fair value accounting. Introducing volatility to the income statement for temporary fair value changes associated with changes in market interest rates does not benefit the readers of financial statements of financial institutions.

On top all this, fair value accounting for loans and deposits will only create more volatility in bank capital levels. Capital will be inflated during peaks of economic cycles and deflated during valleys. Why bring paper losses onto the balance sheet to reduce capital that will reduce access to credit and potentially cost taxpayers if banks fail due to these "false" losses? And this can happen while the loans being subject to the devaluations are performing. What's "fair" about that?

I urge FASB to not go forward with the proposals in this exposure draft. I do not believe they provide any appreciable benefit to the readers of financial statements. For small and privately held companies, they will significantly increase costs and add no value. Access to credit will be reduced as banks are forced to limit the terms available to businesses in order to manage the risks introduced by these proposals. They will also increase risk for the industry as a whole as many banks will be pushed into derivative activities when they may lack the skills to do so.

To some, it appears that FASB is hell-bent on forcing "valuation" reporting for all companies without acknowledging the reality that many businesses simply need to report "results of operations." This has been the underlying debate for years and it's time that FASB acknowledge valuations are not needed every quarter for every business. If we need a valuation, we will go contract with a qualified third-party to obtain it. Otherwise, let us report the results of our operations and provide appropriate disclosures and go about serving the credit and banking needs of our customers and our communities!

I thank you for the opportunity to comment on this proposal.

Sincerely,

C. Scott Greer, CPA 423-543-2265