



Danversbank

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August 4, 2008

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



LETTER OF COMMENT NO. 10

Re: File Reference Number 1590-100, Proposed Statement of Financial Accounting Standards, *Accounting for Hedging Activities, an amendment of FASB Statement No. 133*

Dear Mr. Golden:

Danvers Bancorp, Inc. appreciates the opportunity to provide comments and observations on the Financial Accounting Standards Board's ("FASB") Exposure Draft of Proposed Statement of Financial Accounting Standards, *Accounting for Hedging Activities, an amendment of FASB Statement No. 133* (the "Exposure Draft"). Our Company's primary competency is in the area of Commercial and Industrial and Commercial Real Estate lending. Many of these credits are underwritten at variable rates of interest. As such our Company engages in hedging activities from time to time to protect our earnings stream during periods of steady or prolonged declines in interest rates.

Although we support the FASB's desire to simplify the accounting for hedging activities, resolve certain practice issues, and improve the financial reporting of hedging activities in financial statements, we do not necessarily believe that the Exposure Draft in its current form meets those objectives. Rather, we are concerned that certain of the proposed amendments will result in significantly increased complexity, increased costs, and less dependable and meaningful financial disclosure.

In particular, we disagree with the decision to prohibit (except in the very narrowly defined circumstances provided for in the Exposure Draft) an entity from hedging individual risks (in this case interest rate risk). Our company is very concerned that we will be unable to qualify for hedge accounting—even using a "reasonably effective" standard—for our most common and straightforward hedging strategies. Even in situations in which we do qualify under the new model, we believe the potential earnings volatility could be extreme and fundamentally misleading. As a result, we are concerned that the proposed hedging model is inconsistent with how we manage our risks, would obscure the true effectiveness of our risk management activities and might lead us to make business decisions that are not in the best interest of the Company.

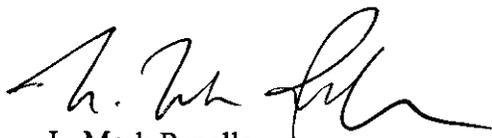
We actively manage our interest rate risk and have historically entered into derivative transactions that are extremely effective at managing that risk. Those same derivative transactions do not hedge credit risk and were not designed to hedge credit risk. Our Company is not trying to hedge our own credit risk, and we are not interested in hedging that risk for many of the same reasons noted in the Alternative Views section of the Exposure Draft. In particular, we have concerns about the implications of “self-assessment”, concerns about the message that hedging one’s own credit risk sends to the marketplace, and concerns about the magnitude of the transaction costs that could be incurred with a prospective counterparty. Accordingly, we do not believe the proposed model is practical or operational in practice, and we strongly advocate that the FASB retain a “bifurcation-by-risk” approach to hedge accounting.

Another concern is that the new hedge accounting model is heavily reliant on unobservable and unreliable inputs. Modeling theoretical transactions in theoretical markets would be subjective at best. It certainly does not represent “simplification” when compared to the current bifurcation-by-risk approach.

Finally, with the increased emphasis on converging with international accounting standards, we do not believe that a significant change to the hedging model, especially one that diverges from the current international model, is warranted at this time. We are concerned about overhauling the hedge accounting standards in the U.S. only to have to change again in the near future. Making significant changes to our systems, approaches, documentation, etc., as would be required by the proposed amendment, is very costly and frequently underestimated. From our perspective, it seems that many of the critical practice issues and differences in interpretation surrounding hedge accounting have been resolved over the past several years, and we believe significant new amendments to the hedge accounting model will create a multitude of new implementation questions and interpretation risks. Thus, we would strongly recommend either (1) retaining a bifurcation-by-risk approach to hedge accounting or (2) delaying the current project until such time as the Board can pursue a joint initiative with the International Accounting Standards Board to develop a hedging model that will apply under both U.S. GAAP and IFRS.

We thank the Board for its consideration of our recommendations and would be pleased to discuss these issues in more detail with the Board or staff at your convenience.

Sincerely,



L. Mark Panella
Chief Financial Officer
Danvers Bancorp, Inc.