

From: doug.wright@intermountainbank.com
To: [Director - FASB](#)
Subject: File Reference: No. 1810-100, "Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities"
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Douglas Wright
Chief Financial Officer
Intermountain Community Bancorp
801 W Riverside, Suite 400
Spokane, WA 99201-0908

September 13, 2010

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

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."

As Chief Financial Officer of Intermountain Community Bancorp, the largest independent community bank headquartered in Idaho, with \$1.05 billion in assets, I am writing to express my opinions on specific provisions of the exposure draft.

I. COMMENTS ON FAIR VALUE

I strongly oppose the proposals that require all financial instruments, including loans and deposits, to be reported at fair value.

My objections fall primarily into four areas:

1. We do not believe that the application of fair value provides more transparency to bank investors than the current requirements, and in fact, makes analysis and comparability more difficult. The vast majority of most bank's loans and deposits are maintained and held by the bank for ongoing operating purposes. They are not actively bought and sold, and therefore determining representative market values is difficult and subject to significant interpretation and judgment. We already face these types of issues even in determining an appropriate reserve for loan losses. Adding the complexity of interest rate, liquidity and other assumptions only makes the final value more tenuous and less relevant.

Comparability would also be reduced, as different organizations used different sets of assumptions and different models in deriving fair value for their loans and deposits.

While not perfect, we believe the current combination of providing cost

basis accounting on the balance sheet and fair value information in the footnotes provides the most transparent approach for current and potential investors.

2. We do not believe that the information derived is more useful or actionable for investors. In addition to the reasons noted in Section 1 above, fair valuing a bank's balance sheet would likely result in significant quarterly fluctuations in operating results, primarily as a result of the impact of changing interest rates on portfolio valuations. These fluctuations would not necessarily correspond well with either underlying bank performance or overall company valuations, as both are generally reliant on different considerations. Furthermore, should an investor be concerned about these types of changes, the impacts are already disclosed in the footnotes to the financials.

3. The imposition of fair value accounting could create challenges in complying with regulatory capital requirements. In general, I believe that FASB and bank regulators have tried to converge in terms of accounting treatment. The fluctuations created by fair value accounting would necessarily create divergence and likely result in a more complex regulatory scheme.

FASB's proposal also seems to diverge from the IASB position, creating additional difficulty in comparing results.

4. The imposition of fair value accounting would result in additional cost, which would be borne disproportionately by smaller banks. Presenting the information in the financials would result in much additional regulatory scrutiny and audit attention, requiring more extensive development, analysis, testing, and documentation. Small banks like ours already pay a disproportionately high price for accounting and auditing services, and this would only exacerbate the situation.

II. COMMENTS ON LOAN IMPAIRMENT

We generally support changes to the methodology for evaluating impairment and calculating the loan loss reserve. Clearly, the use of past systems made the industry more susceptible to the most recent banking crisis.

We believe that taking a more prospective approach in determining and reserving for potential losses makes sense and would be more congruent with regulatory considerations.

Our main concern here is that the proposals be well-vetted and discussed with both bank regulatory agencies and independent audit firms, so that there is general consensus on the approaches taken. We also believe that the proposed approaches should be thoroughly tested in banks of all sizes, and appropriate modifications made for differing characteristics of small versus large banks.

We also do not agree with the proposal for recording interest income. Interest income should continue to be calculated based on contractual terms and not on an after-impairment basis. This again provides the most understandable, comparable approach for potential investors.

III. COMMENTS ON HEDGE ACCOUNTING

We are also generally supportive of the proposals for revising hedge accounting, particularly the "reasonably effective" verbiage. This will make it easier for banks of all sizes to implement hedge accounting, as long as the definitions are clearly presented.

However, we also believe that the shortcut and critical terms match methods should be maintained, again to assist smaller in reducing the cost of compliance, particularly in the simpler types of derivative activity that these banks generally engage in.

Thank you for considering our comments, and we look forward to revised proposals that enhance the effectiveness, efficiency and useability of our financial statements.

Sincerely,

Douglas M. Wright
509-363-2635
Chief Financial Officer
Intermountain Community Bancorp

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