

June7, 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"). I am the Chief Financial Officer of a \$600 million community bank in the Upper Midwest. As a lender, we primarily serve agriculture producers and small to medium sized commercial enterprises. I oppose the proposal to require all financial instruments be marked to market value. Mark to market for loans that are not held for sale will have the following negative impacts:

- Disconnection of bank operations and management from financial reporting because it replaces fundamental lending structures, such as payment terms, collateral, guarantees, etc., with market values as the primary driver of loan portfolio performance,
- Introduction of increased volatility of bank capital,
- Loss of comparability and understandability of financial statements
- Escalation of bank operating cost.

When we discuss our bank and our loan portfolio performance, we never discuss how the market views our loan portfolio. We seek to understand if our customer loans are performing as agreed, whether these loans are appropriately collateralized, whether the guarantors are capable of performance. In short we operate the bank and measure our performance by understanding how our loan portfolio will cash flow. The proposal will replace these considerations for financial reporting purposes with market values. Since there is not a viable market for agriculture and commercial loans, any market value must rely on estimates of how a non-existent market would value loans based on complex assumptions. These assumptions would include an array of considerations about interest rates, duration, grain / livestock market conditions, foreign exchange markets, etc. As a result, the proposal will render our financial statements meaningless for management purposes.

I understand that a loan's intrinsic value may change because of current interest rates or because of problems the borrower may have. But if there is a problem in repayment, the banks' typical process is to work the problem out with the borrower rather than sell the loan. So, even if it were easy to find a market value, that market value is irrelevant, since the bank would not sell the loan. Intrinsic value is an interesting theoretical concept that has no form in the real world because it can only be determined based on an active and efficient market that does not exist for the majority of my Bank's loans or on a host of assumptions.

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Another serious concern I have is the volatility that will be introduced to the capital of my Bank. Our investors are keenly aware that capital is a primary regulatory measure and a fundamental financial measure of bank security. Mark to market will introduce increased volatility that is based on the results of complex assumptions. Because I do not view this as "true" volatility, I believe the proposal will put my Bank's investors and customers in a quandary about my Bank's true reported financial position. As a result, some investors and customers will likely put pressure on management to reduce the volatility. This could lead to shifting toward an investment banking model rather than a traditional banking model, or result in limiting products to those that are sheltered from market volatility. This, to me, seems to be an illogical and unintended result and a situation where the accounting would drive the business model.

Further, because I do not believe the proposal results in "true" volatility, I believe regulators will ultimately decide to exclude the resulting mark-to-market adjustments from regulatory assets and capital.

The proposal will increase the dependence of financial reporting on estimates and assumptions. To the extent that assumptions made by individual banks differ, an otherwise similar loan portfolio will be valued differently. This impairs comparability. Readers of the financial statements will then be forced to de-cipher the meaning of the assumptions and understand how changes in the assumptions might affect the financial statements of each bank, individually. This will destroy the understandability of the financials, which will in turn undermine investor confidence in the financial reporting process.

Additionally, I am very concerned about the costs and resources that will need to be dedicated to produce and audit such data. We have learned from the recent financial crisis that markets are sometimes illiquid and sometimes irrational. Because banks do not use fair values in managing their cash flows, I anticipate that this could require banks to hire more staff and/or consultants to assist with estimating fair values and to pay significantly higher audit fees. In the end, my Bank's investors will pay consultants and auditors significant sums to make estimates that the shareholders do not want and management will do nothing with.

In summary, it seems illogical to create a financial standard that produces financial statements that managers and regulators will ignore and investor will not understand or trust.

With this in mind, I recommend you to drop your proposal to mark loans to market, as, from my perspective as an investor, it does not improve financial reporting.

Thank you for considering my views. Please feel free to contact me if you would like to discuss my concerns.

Sincerely,

Brian L. Sudbrink Bank Midwest

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