From: Byron Maynes
To: Director - FASB
Subject: 1810-100 Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities
Date: Monday, September 20, 2010 4:09:34 PM

I am president of a small community bank in Southwestern Colorado, First National Bank, Cortez, Cortez, Colorado, and would like to take this 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 writing to express my deep concerns and opposition to the portion of the proposal that requires all financial instruments to be marked to market. From my perspective, this will cloud financial reporting transparency, rather than improve it.

In your proposal, banks must record loans on the balance sheet at their market value. In my experience, bank management and investors never discuss a loan's market value. The reason for this is, as investors, we are interested in how the loans perform, not how the market performs. Although I understand the rationale for providing banks with the ability to provide more robust loan loss reserves, I believe the focus on mark to market is not relevant for loans that are not being sold, of which almost all of ours are not.

I understand that a loan's market 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 bank doesn't try to sell the loan, it works the problem out with the borrower. So, even if it were easy to find a market value, that market value is irrelevant, since the bank would not sell its loans.

Another serious concern I have is whether banks may change their business models as a result of this new accounting standard. Because the proposal to mark loans to market does not reflect a bank's business model, requiring them to do so could result in a need for banks to change their business models. As an investor, my desire to hold bank stocks generally declines as volatility increases. Because I do not view this as "true" volatility, I will be in a quandary about the true reported financial position under the proposal. Some investors will likely put pressure on banks to reduce the volatility, and, in many cases, this may result in shifting more toward an investment banking model rather than a traditional banking model. This, to me, seems an illogical result and a situation where accounting should not be driving the business model.

Additionally, I am very concerned about the costs and resources that will need to be dedicated to this effort. 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 consultants to assist with estimating fair values and to pay significantly higher audit fees. In the end, we will be paying consultants to make estimates with which my fellow shareholders and I will do nothing.

I strongly urge you to drop your proposal to mark loans to market, as, from my perspective as an investor, it does not improve financial reporting.

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