



September 24, 2010

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File Reference: No. 1810-100 Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities

*Introduction & Overview*

The Ohio Bankers League [“OBL”] is a non-profit trade association that represents the interests of Ohio’s commercial banks, savings banks, and savings associations, as well as their holding companies and affiliated organizations. The OBL has over 200 members, which represents the overwhelming majority of all depository institutions doing business in this state. OBL membership is very diverse and represents the full spectrum of FDIC insured depository institutions. OBL member institutions include small savings associations that are organized as mutual thrifts owned by their depositors and community banks that are the quintessential locally owned and operated businesses. The OBL also represents large multistate holding companies that are publically traded and conduct business from coast to coast. Ohio depository institutions directly employ more than 120,000 people.

The OBL is strongly opposed to the expansion of fair value as the primary balance sheet measurement for all financial instruments. For the reasons detailed below, we believe that the fair value accounting will be cumbersome, very expensive to implement, economically counter productive and provide data that is of little value. Yet the proposals will have a profound and adverse impact on how banks do business. Furthermore, based on the feedback we have received from investors in Ohio financial institutions, we do not believe the use of fair value for loans which management intends to hold to maturity is supported by even a small minority of investors.

*Accounting Standards Should Not Influence Bank Policy*

The FASB proposal to recognize and measure virtually all financial instruments at fair value will create unnecessary volatility in financial statements, and the longer the term of the loan, the greater the volatility. Banks will be required to value a loan as if they were going to have to sell it today, even though they have no intention to sell it at all. As a result, banks are going to be reluctant to accept the risk of longer term loans.

It is not inconceivable that some longer term performing loans like mortgages could be below par the moment they are closed. This could be magnified for local banks doing business in smaller communities where there are fewer potential buyers for loans. Banks will inevitably adjust their business strategies accordingly, steering away from loans that could be more volatile and have an adverse impact on their financial statements, regardless of the demand for these loans in the community.

In our view, the role of accounting rules should be to recognize actual results and explain the impact of decisions made by management. Accounting requirements should never become a driver of business policy, yet we are concerned that will be the practical result of the proposal.

*Contrary to the Stated Goals of FASB, Converting to Fair Value Accounting will make Financial Statements LESS Transparent*

One of the goals of the new standards is to reduce inconsistencies in the reporting of financial instruments. The OBL is concerned however that this goal will not be realized. Currently, assets and liabilities are reported on an amortized cost basis, except for those assets that are available for sale, which are reported at fair value. These available-for-sale loans and securities are more liquid so their values can be easily and efficiently determined.

The vast majority of loans and all of the deposits at most banks are however illiquid. In fact, banks have no intention of selling most loans or deposits because their primary business model is to earn income from the periodic payments from their borrowers. Requiring banks to develop values for these illiquid assets will have to be built on assumptions that will be subjective.

Assumptions that establish the fair value of assets, especially those with no ready market, are neither precise nor will they be applied consistently. Fair value assumptions will in fact vary from institution to institution. This variation will destroy the ability to compare financial results between banks. Financial statements will become less useful for investors.

*The New Rule Will Exaggerate Economic Cycles*

As proposed, financial institutions would be required to recognize changes in fair value under “other comprehensive income” on the balance sheet. This will cause huge swings in the book value of assets, especially those assets that are illiquid. This type of volatility does not support long term lending or an efficient capital market. These swings will be difficult to explain to the public, and will undermine confidence in the banking system. As we learned in the 4<sup>th</sup> quarter 2008 and the 1<sup>st</sup> quarter 2009, these wide swings will be the greatest when the markets and prices are falling.

Unfortunately, the proposal will be unnecessarily pro-cyclical. During periods of economic contraction falling asset values will exaggerate the weakness in the banking system at the worst possible time, creating a negative feedback loop.

*The Additional Cost will be Material and even Dramatic, yet the Benefits to Investors will be Illusory or Non-Existent*

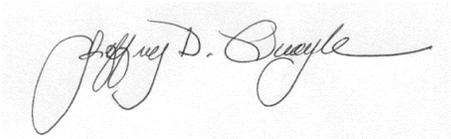
To support the changes proposed, substantial systems and software upgrades will be required. Like most other regulatory changes in banking, the cost of these changes will fall disproportionately on community banks. These smaller institutions just have fewer customers over which to spread these technology and development costs.

In spite of these higher costs, the feedback we have received from investors and analysts indicates that the majority of investors do not support fair value accounting. This input is consistent with the results of comprehensive, independent surveys done by PricewaterhouseCoopers and Barclays. This could be due to uncertainty as well as the concern that the subjective nature of fair value calculations will make it more difficult to compare the results at financial institutions.

*Conclusion*

The current system where changes in fair value to assets-held-for-sale are reported in the footnotes works well, and should not be cast aside. Investors are provided important information without distorting the financial statements, and the required information on these more liquid assets is readily available. The Ohio banking industry remains open to dialogue about how financial reporting can be improved, but we are deeply concerned that the current proposal will have the unintended adverse consequences outlined in this letter, and will provide little to no benefit for investors.

Respectfully submitted;

A handwritten signature in black ink, reading "Jeffrey D. Quayle". The signature is written in a cursive style with a long, sweeping tail on the final letter.

Jeffrey D. Quayle  
Senior Vice President & General Counsel