

September 29, 2010

VIA EMAIL: [director@fasb.org](mailto:director@fasb.org)

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:

We truly appreciate the opportunity to comment on the exposure draft "Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities" ("proposal") and respectfully request sincere consideration be given to our comments. As CFO for Arrow Financial Corporation, a two-bank holding company headquartered in Glens Falls, NY with \$1.85 billion in total assets, I am writing to express our opinions on specific provisions within the proposal related to fair value, loan impairment and hedge accounting.

We are strongly opposed to the provisions within the proposal which require all financial instruments, including loans, to be reported at fair value on the balance sheet. Our banks do not sell our commercial loans. There is no active market for many of our loans, and estimating a market value based on pricing model would add a layer of complexity, increase costs to comply with this provision and create volatility within bank capital which then would need to be explained to our investors, customers and depositors. From the reader of our banks financial statements, we believe this proposal will cloud transparency rather than improve it, and put into question the most critical element of bank financial statements, bank capital. Even if there were active markets for selling all loans, fair value is not the appropriate measurement for these loans since it does not represent the cash flow the bank will receive.

Another serious concern I have is whether, 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 our business models. As an investor, my desire to hold equity securities 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 is under the proposal. Some investors will likely put pressure on banks to reduce the volatility, and, in many cases, this may result in 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 seems to be an illogical and an unintended result, and a situation where the accounting principles should not be driving our business model.

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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 our cash flows, I anticipate that this could require banks like ours to hire more staff and/or consultants to assist with estimating fair values and to pay significantly higher audit fees. In the end, investors will be paying consultants and auditors significant sums to make estimates that our shareholders and I will not utilize for decision making. Based on our deep concerns and opposition to this portion of the proposal, we respectfully request that the fair value section of the proposal be dropped.

In your proposal, we do support the Board's efforts to revise the methodology to estimate loan loss provisions. However, I have serious concerns about how such changes can be implemented in community banks like ours. I recommend that any final model be thoroughly tested by community banks in order to ensure the model is solid and workable. The lack of clarity in the proposal's impairment requirements raises significant concerns. Changing the methodology on how interest income is recognized in the proposal makes the accounting more confusing and would subject otherwise firm data to the volatility that comes naturally from the provisioning process. I recommend maintaining the current methodology. We believe interest income should continue to be calculated based on contractual terms and not on an after-impairment basis.

Lastly, we support the change of the requirement that a hedge is "reasonably effective", as opposed to being "highly effective". The detailed requirements in the authoritative accounting literature related to hedge accounting are excessively complex. The use of derivative instruments such as interest rate swaps, caps and floors are tools that banks have to effectively reduce exposure to interest rate risk. However, the requirements for a hedge to be considered a cash flow hedge and qualify for the shortcut method are excessive. Community banks, like ours, typically do not have the ability to match cash flow with individual loan transactions because of size requirements within the market. In order to ensure a level playing field with large financial institutions, we encourage the standard setters to address the need to develop a hedge accounting approach that reduces complexity while promoting sound hedge and risk management principles for all banks regardless of asset size.

Thank you for considering my views.

Sincerely yours,

/s/ Terry R. Goodemote

Terry R. Goodemote

Senior Vice President, Treasurer and Chief Financial Officer