

From: gbrinley@peoples-bank.com
To: [Director - FASB](#)
Subject: Comments on No. 1810-100, "Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities" Exposure Draft
Date: Friday, September 24, 2010 3:48:19 PM

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601 E. Temperance St.
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September 24, 2010

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

Dear Mr. Golden:

Thank you for the opportunity to comment on FASB's Exposure Draft: Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities.

I am writing to urge FASB to not go forward with the proposal.

The Peoples State Bank is a \$190 million closely-held community bank located in South Central Indiana. Our market is a mix of small towns and rural communities. As such, the portfolio lending that we do consists of loans that we hold to maturity, collecting periodic principal and interest payments over the term of the loan. Our deposit mix is made up of time deposits and long-term non-maturity deposits.

I have been a CPA for almost 25 years. I have spent the last 22 years working in closely-held community banks. The financial statement users of these types of institutions would not benefit from FASB's proposal. The investors would only become more confused with the wide swings in the financial statements of these entities. Ultimately, the financial statements would become less user friendly under this proposal.

The accounting that would result from this proposal would greatly misrepresent the financial condition of our bank and other community banks. Our balance sheet and income statement would become distorted under this proposal. Our investors and board of directors (essentially one in the same) would have a difficult time understanding the changes wrought in our financial statements under this proposal. Their understanding of the value of their investment is predicated on the consistent profitability of the Bank. Under the proposal as we understand it, we believe that our financial condition would fluctuate more than it should.

The primary business of community banks, including ours is to hold financial instruments to collect contractual cash flows, not to trade them on a regular basis. Attempting to calculate a fair value would inject a wide range of assumptions related to the present value of the cash flows. Each financial institution would be able to control these assumptions

which would impair the ability to compare institutions against each other.

Community banks fund their operations by taking deposits and holding loans for the long term. Most financial instruments this bank holds are not readily marketable.

We oppose the proposed accounting treatment for core deposits which calls for them to be regularly measured using a present value calculation. This would not provide accurate information and the calculations would be expensive and time consuming, particularly for smaller banks like ours that have limited staff resources to conduct the analysis. If the proposal would become effective we would be spending resources to comply with this proposal that would be better used to promote economic development within our local community.

We oppose requiring institutions to record demand deposits at fair value.

We also oppose requiring fair value calculations for loans that are held for the long-term to collect cash flows.

Community banks such as this bank create and hold small business loans for which there is no active market; it would be very difficult and costly to mark them to market.

Establishing fair values for the types of loans held by many community banks like our bank would be costly and result in data of questionable reliability.

The expanded reporting of comprehensive income is unnecessary, confusing and of little use to most financial statement users. Our institution pays little to no attention to the comprehensive income portion of our financial statements. Expanding this section would only confuse our financial statement users, most of which do not have an accounting background.

Conservative community bankers (and bank regulators) see the need for more flexibility in setting the allowance for loan and lease losses. We are all well aware that economic cycles occur and it is very difficult to absorb losses and raise capital during times of economic difficulties, such as in the current environment.

Accounting standards and guidance should not be pro-cyclical. Recent market conditions have demonstrated the pro-cyclical nature of mark-to-market accounting as declining values of financial instruments necessitated write-downs and sales, causing further write-downs and sales. This type of activity has decimated the private mortgage backed securities market.

The proposed accounting changes will exacerbate cyclicity in financial results due to the greater reliance on fair value measurements, valuations that will be less accurate than current accounting requirements.

These accounting changes will increase the volatility of bank balance sheets, forcing them to face higher capital requirements or decrease lending at a time when regulators are calling for more capital and our economy needs more, not less, credit availability.

Again, we thank your for the opportunity to comment on this proposal.

Sincerely,

Gary E. Brinley, CPA
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