
**Office of the Comptroller of the Currency
Board of Governors of the Federal Reserve System
Federal Deposit Insurance Corporation
Office of Thrift Supervision**

October 17, 2008

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

Re: File Reference No. 1560-100
 Invitation to Comment, *Reducing Complexity in Reporting Financial Instruments*

Dear Mr. Golden:

We are pleased to submit comments on behalf of the staffs of the four federal banking agencies on the Invitation to Comment (ITC), *Reducing Complexity in Reporting Financial Instruments*. We appreciate your efforts and those of the International Accounting Standards Board (IASB) to reduce complexity and simplify and improve standards for financial reporting of financial instruments. However, we continue to have concerns about the wider use of fair value accounting for financial instruments.

We have supported the FASB's efforts to continue its long-term research to carefully evaluate important issues and concerns related to fair value accounting, including reliability of fair value measurements. Nevertheless, we continue to strongly oppose an expansion of the required use of fair value accounting in the primary financial statements beyond where it is currently required or permitted, particularly for non-traded, illiquid financial instruments whose fair value cannot be reliably measured.¹

In our view, the IASB Discussion Paper included in the ITC has not established that a single measurement method for financial instruments is the ideal approach or is superior to the mixed measurement attribute approach. We believe that measurement should reflect the way in which instruments are used to generate earnings and cash flows, regardless of whether active markets for the instruments in question typically exist. For

¹ This comment letter is solely in response to the ITC on reducing complexity and does not address recent requests to suspend fair value accounting.

example, we agree that fair value accounting through earnings is appropriate for trading activities where cash flows are generated by active buying and selling. However, most financial institutions in the United States do not manage their business on a fair value basis. In this regard, only about 3 percent of the nation's nearly 8,400 banks and savings associations report trading assets or liabilities.

In any case, we believe that concerns about the complexity of the accounting standards applicable to financial instruments are often not relevant to financial institutions with positions only in traditional financial instruments. Moreover, the Board should take into account that the complexity of accounting depends not only on the standards per se, but also on the difficulties of practical implementation. Broader use of fair value accounting would increase the complexity of application of financial instrument accounting standards for these financial institutions – especially medium-sized and smaller institutions, which represent the overwhelming majority of preparers by number – which in general do not use fair values to manage their exposures.

Notwithstanding the recent issuances by the FASB and the Securities and Exchange Commission concerning fair value, the market turbulence during the past year has emphasized a number of lessons, including:

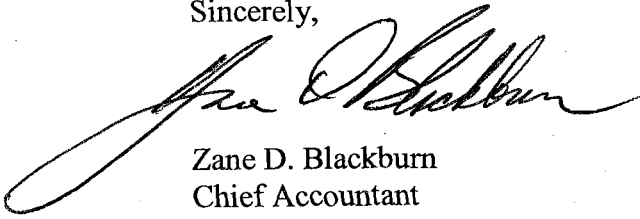
- There are important unresolved conceptual and practical issues surrounding the definition and meaning of “fair value” when markets are illiquid.
- In illiquid markets, measurement of fair values can be very difficult, involve considerable subjective judgment, and require a high level of technical sophistication.
- Disclosures concerning measurement methods and measurement uncertainty are in need of further improvement.

We strongly encourage the FASB to work on these issues as they relate to existing fair value measurement and disclosure requirements, drawing on groups of experts such as the FASB Valuation Resource Group and the IASB Expert Advisory Panel on valuation when markets have become illiquid. The current market turmoil has increased instances where the range of uncertainty regarding certain fair value estimates is material in relation to the overall balance sheets of financial institutions.

Regarding the proposed changes to hedge accounting in the Invitation to Comment, please see our comment letter dated August 22, 2008, for our views on the Board's recent exposure draft on changes to Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*.

The agencies appreciate your consideration of the above comments. We would be pleased to discuss our views with you further.

Sincerely,



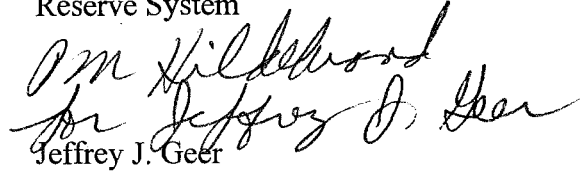
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