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Nancy M. Morris
Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

Re: File Number S7-20-07

Ms. Morris:

The American Bankers Association (ABA) appreciates the opportunity to comment on the Securities and Exchange Commission's (Commission) *Concept Release on Allowing U.S. Issuers To Prepare Financial Statements in Accordance With International Financial Reporting Standards* (Concept Release). The American Bankers Association unites community, regional and money center banks and holding companies, as well as savings associations, trust companies and savings banks under one association that works to enhance the competitiveness of the nation's banking industry. ABA's members -- the majority of which are banks with less than $500 million in assets -- represent 95 percent of the industry's $11.5 trillion in assets and employ nearly 2 million men and women.

We commend the Commission on its efforts to converge U.S. and international accounting standards and for its focus on U.S. financial reporting. We believe that if International Financial Reporting Standards (IFRS) are sufficiently comparable to U.S. GAAP such that the reconciliations for foreign filers are eliminated, then U.S. filers should also be able to elect IFRS rather than U.S. GAAP. However, if the Commission accepts IFRS for filers, it is imperative that the Commission also follow IFRS for the purpose of regulating those filers rather than following U.S. GAAP as the basis for regulation.

We have several additional concerns that are provided below in response to questions raised in the Concept Release. (Please note that the question numbers below correspond with the questions raised in the Concept Release.)

1. *Do investors, U.S. issuers, and market participants believe the Commission should allow U.S. issuers to prepare financial statements in accordance with IFRS as published by the IASB?*

   We believe that harmonization of IFRS and U.S. GAAP is an important goal. We also believe that if IFRS and U.S. GAAP are sufficiently converged such that IFRS becomes the accepted basis for foreign filers in the U.S., then IFRS should be accepted by the Commission for U.S. filers. However, the option to use either IFRS or U.S. GAAP should be made by the filer and should not be directed by the Commission or by the filer's auditing firm.

   Additionally, prior to accepting IFRS, the Commission should make sure that IFRS is actually acceptable to the Commission. If the use of IFRS is permitted, but the Commission is not in agreement with the standards, then subsequent interpretations by the Commission (formally or informally) could heighten the risk of restatements. Subsequently, the Commission should accept the standards and enforce the standards based solely on the standards themselves and not on what the Commission staff believes the standards should be. In short, the Commission must be willing to regulate based on IFRS if it accepts IFRS as the basis for filings.

2. *What would be the effects on the U.S. public capital market of some U.S. issuers reporting in accordance with IFRS and others in accordance with U.S. GAAP? Specifically, what would be the resulting consequences and opportunities, and for whom? For example, would capital formation in the U.S. public capital market be better facilitated? Would the cost of capital be reduced? Would comparative advantages be conferred upon those U.S. issuers who move to IFRS versus those U.S. issuers who do not (or feel they can not)? Would comparative advantages be conferred upon those investors who have the resources to learn two sets of accounting principles (IFRS and U.S. GAAP) as compared to those who do not?*

   This is an area where additional research is needed. Unfortunately, the time frame provided for comments on the Concept Release has not been sufficient enough for us to identify how financial institutions, as users of financial statements, view IFRS. We would anticipate that some financial institution users – similar to the Commission staff, audit firms, and others – will need additional time to understand the differences between U.S. GAAP and IFRS and identify how the use of IFRS might change their analyses prior to being able to answer these questions.

3. *What would be the effects on the U.S. public capital market of not affording the opportunity for U.S. issuers to report in accordance with either IFRS or U.S. GAAP? Specifically, what would be the resulting consequences and opportunities, and for whom? Would capital formation in the U.S. public capital market be better facilitated? Would the cost of capital be reduced? Alternatively, are there certain types of U.S. issuers for which the Commission should not afford this opportunity?*

   The answer to this question depends upon how acceptable IFRS are to the Commission and how the Commission plans to interpret and enforce IFRS.

   First, the Commission should determine whether it is comfortable with IFRS and with the IASB's process of standard-setting. Additionally, will the Commission be willing to adopt IFRS without adjustments?

   Second, the Commission should determine whether IFRS will be applied consistently from country to country (or, at least applied at an acceptable level of consistency). If the Commission is not comfortable, will new Commission interpretations (via comment letters, speeches, SABs, CAQ alerts, etc.) begin? If so, there could be a return to a *U.S. version* of IFRS, and a global standard will not truly exist (unless a reconciliation of country-specific IFRS to globally-recognized IFRS is required).

Third, the interpretation and enforcement by the Commission should be consistent, whether the filer is U.S. or foreign. If IFRS is truly principles-based and permitted for U.S. and foreign filers, then it is imperative that the Commission be dedicated to oversight based on principles. One large, international accounting firm has written that IFRS "allows the exercise of more professional judgment", the presumption being that "more" means "more than U.S. GAAP". The question is whether the Commission is prepared to accept such a notion in its oversight role.

Fourth, the Commission should evaluate how much second-guessing is appropriate in a principles-based environment. Naturally, with the Commission's review and enforcement process, a certain level of second-guessing may be appropriate. At the same time, if the Commission is viewed as creating written or unwritten rules to accompany (what is purported to be) principles-based standards, then principles-based standards will no longer exist.

If the above does result in U.S. filers having different rules or processes from foreign filers, then competitive disadvantages – or advantages – could result. The direction of the advantage for U.S. filers depends upon the topic and the Commission's interpretation of the topic.

4. *To what degree would investors and other market participants desire to and be able to understand and use financial statements of U.S. issuers prepared in accordance with IFRS? Would the desire and ability of an investor to understand and use such financial statements vary with factors such as the size and nature of the investor, the value of the investment, the market capitalization of the U.S issuer, the industry to which it belongs, the trading volume of its securities, or any other factors?*

   We believe that the size and nature of the investor contribute directly to the investor's ability to understand and use IFRS financial statements. We do not believe that a majority of retail investors have the knowledge requisite to understand and use IFRS financial statements. Generally, we believe that the analyst community and institutional investor community have the capacity and resources to accommodate and use IFRS financial statements; however, some transition time may be needed.

6. *What immediate, short-term or long-term barriers would a U.S. issuer encounter in seeking to prepare IFRS financial statements? For example, would the U.S. issuer's other regulatory (e.g., banking, insurance, taxation) or contractual (e.g., loan covenants) financial reporting requirements present a barrier to moving to IFRS, and if so, to what degree?*

   In an industry as heavily regulated as banking, the regulatory structure could heavily influence the decision about which framework to follow. For example, federal banking regulators currently require the use of U.S. GAAP for regulatory reporting (with some exceptions). If the federal or state banking agencies do not permit the use of IFRS, then banking institutions are likely to be slow to adopt IFRS, because maintaining two sets of books will be too burdensome. The location in which capital is raised is important, because that location's regulator would have the ability to influence the decision to adopt or not to adopt IFRS.

The barriers described in the question could all be barriers to the use of IFRS. Additionally, IFRS, at least initially, may be for entities with global footprints or those that wish to be able to provide a comparison of their domestic company with other companies that use IFRS. Some U.S. international companies have spent small fortunes training their staffs in U.S. GAAP, EITF issues, DIG issues, AICPA issues, and banking regulatory issues, and are not necessarily eager to move quickly to IFRS.

In the banking industry, where approximately 90% of the institutions consists of community banks, it may be difficult for them to share the enthusiasm for converting to a different set of standards simply for the sake of globalization. That is because their owners or shareholders and virtually all of their customers do not see globalization as relevant to the institution. We need to ensure that these companies are not required to undergo significant costs to change their accounting without good reason.

Additionally, our litigious environment in the U.S. may also be a barrier to the use of IFRS in the U.S. If IFRS is principles-based, then will filers be establishing themselves as targets for litigation, or will they be protected by adequate regulatory safe harbors?

7. *Are there additional market forces that would provide incentives for market participants to want U.S. issuers to prepare IFRS financial statements?*

   At this point, the primary reasons for adopting IFRS would be to reduce burdens for entities that have an international footprint and for those who wish to compare their results with entities that use IFRS. If the Commission permits electing U.S. GAAP or IFRS, then the marketplace may subsequently force the use of IFRS for the sake of comparability. Management may also recognize the ability to enter foreign markets for capital more easily using IFRS financial statements.

9. *Would giving U.S. issuers the opportunity to report in accordance with IFRS affect the standard setting role of the FASB? If so, why? If not, why not? What effect might there be on the development of U.S. GAAP?*

   Assuming that U.S. GAAP would no longer apply to those U.S. issuers that elect to file under IFRS, the FASB would no longer have them as a direct constituent. Pursuing this hypothetical further, this loss of jurisdiction would call into question the funding that the FASB receives from that company under the Sarbanes-Oxley Act of 2002. This would appear to necessitate a law change surrounding FASB's funding that may lead to a reduction in funding should companies move off U.S. GAAP en masse. This would then likely impair the FASB's ability to make progress on standards due to subsequent staff reductions to accommodate reduced funding. The reduced influence and funding may result in an inability at the FASB to entice experts to work at FASB, resulting in "brain drain" at the standard setter. This, in turn, could lead to a larger role for IASB and may result in IFRS receiving insufficient input from the U.S. Funding of the FASB and IASB is an important part of the decision to move to IFRS and needs to be considered carefully in order to avoid double funding and in order to ensure a fair allocation of costs.

10. *What are investors', issuers' and other market participants' opinions on the effectiveness of the processes of the IASB and the FASB for convergence? Are investors and other market participants satisfied with the convergence progress to date, and the robustness of the ongoing process for convergence?*

    It seems that some joint projects are new projects to both IASB and FASB rather than true convergence projects (such as standards where conflicts currently exist between the two sets of standards). If we are attempting to move toward true convergence within a short time frame, then true convergence projects should be the focus.

    One of the most recent examples of this is Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157). This project *increased* the divergence of IFRS and U.S. GAAP by creating new U.S. GAAP rules for estimating and disclosing fair value measurements. Now, the IASB must field a project to eliminate differences between SFAS 157 and IFRS fair value measurement rules.

11. *How would the convergence work of the IASB and the FASB be affected, if at all, if the Commission were to accept IFRS financial statements from U.S. issuers? If the Commission were to accept IFRS financial statements from U.S. issuers, would market participants still have an incentive to support convergence work?*

    The elimination of the reconciliation is likely to be a key factor in slowing down the convergence process, because those who are currently reconciling to U.S. GAAP (including companies and accounting firms) appear to be the most vocal about pushing for convergence. This Concept Release will likely add to that slowdown. The cry for convergence will not be as enthusiastic and will likely be sounded only if the lack of convergence results in competitive advantages or disadvantages.

12. *If IFRS financial statements were to be accepted from U.S. issuers and subsequently the IASB and the FASB were to reach substantially different conclusions in the convergence projects, what actions, if any, would the Commission need to take?*

    The ability of FASB and the IASB to reach different conclusions would necessarily have to be curtailed in order to prevent future divergence. Although we support moving toward convergence, one of the disadvantages of global standards is the U.S. will have less influence over the process. For example, we meet at least annually with the FASB, the federal banking regulators meet quarterly with the FASB, and we have regular interaction with the FASB staff. The volume of change for financial instrument accounting has been enormous for many years, and this interaction has been important, often providing insights on the business of banking that result in more workable standards. Sometimes, different countries have different issues that must be addressed and/or the timing of the need for change differs from country to country. The IASB is not likely to be able to hold meetings such as these on an ongoing basis, and the message will likely lose much of its impetus as it travels through the chain of communication from one party through the FASB to the IASB. Additionally, location is important. The ABA sends a representative to many of the FASB meetings so that we can better understand the discussion and the individual points of view.

Even though websites and e-mails and telephones are advanced, on-site attendance at the meetings is much more meaningful. Although many banks currently listen to the webcasts, it is often difficult to identify who is speaking or what the nuances are, and the bankers often contact us to learn more. This important ability to interact is likely to be significantly reduced.

14. *Are investors, U.S. issuers and other market participants confident that IFRS have been, and will continue to be, issued through a robust process by a stand-alone standard setter, resulting in high quality accounting standards? Why or why not?*

    Although the IASB has a robust process, we are concerned about the reduced ability to interact with the IASB versus the FASB. Even with the FASB there are examples of the lack of due process, such as their declaration that fair value is the most relevant measurement attribute for financial instruments. With IASB, we would be one big step further removed from the locus of standard setting.

15. *Would it make a difference to investors, U.S. issuers and other market participants whether the Commission officially recognized the accounting principles established by the IASB?*

    It is our understanding that the Commission would need to recognize IFRS as acceptable GAAP in order for it to be accepted for filing with the Commission.

16. *What are investors', U.S. issuers' and other market participants' views on how the nature of our relationship with the IASB, a relationship that is different and less direct than our oversight role with the FASB, affects the Commission's responsibilities under the U.S. securities laws?*

    The Commission will need to evaluate this carefully. As mentioned earlier, the role of the Commission will likely be reduced as a result of the elimination of the reconciliations and a determination to permit U.S. filers to follow IFRS. Clearly, however, the Commission has its role in determining whether IFRS is of sufficient quality for its use in the U.S., just as is true with the FASB. The Commission will need to be involved enough in the IASB's process to be able to determine whether its standards continue to meet the needs of U.S. investors. This could be challenging, especially because the Commission has appeared in the past to enforce based on rules and because our litigious environment creates a demand for clear rules.

17. *In what ways might the Commission be able to assist in improving investors' ability to understand and use financial statements prepared in accordance with IFRS?*

    The Commission could undertake an education effort and make materials available to investors/users on U.S. GAAP/IFRS similarities and differences. The materials should be updated regularly and maintained on the Commission's website. This should be the role of the Commission rather than the AICPA.

20. *What issues would be encountered by U.S. issuers and auditors in the application of IFRS in practice within the context of the U.S. financial reporting environment?*

Initially, transition is likely to be the biggest issue. If IFRS is truly principles-based, and U.S. GAAP is truly rules-based, do we toss out all the decisions of the Emerging Issues Task Force, the Derivatives Implementation Group, FASB Staff Interpretations and other guidance? If not, are we really implementing IFRS and using more judgment?

It is our understanding that, in the absence of IFRS guidance, auditors often look to U.S. GAAP. This not only raises the question of whether IFRS is truly principles-based, but it also raises the question of what to do with existing guidance in an IFRS world.

22. *What do issuers believe the cost of converting from U.S. GAAP to IFRS would be? How would one conclude that the benefits of converting justify those costs?*

    There should not be a requirement from the Commission to move to IFRS. Eventually, we anticipate that the Commission will receive pressure from the audit firms to adopt IFRS, which is understandable, since they may want to follow one set of standards. However, it may be difficult to identify the benefits of conversion for companies, especially smaller companies.

24. *What factors, if any, might lead to concern about the quality of audits of IFRS financial statements of U.S. issuers?*

    In a principles-based framework, auditors may attempt to write rules. This would circumvent due process. It may also be difficult to get answers to questions about IFRS from the audit firms.

27. *Do you think that the information sharing infrastructure among securities regulators through both multilateral and bilateral platforms will improve securities regulators' ability to identify and address inconsistent and inaccurate applications of IFRS?*

    Yes, but decisions will likely take longer than they currently do.

30. *Who do commenters think should make the decision as to whether a U.S. issuer should switch to reporting in IFRS: a company's management, its board of directors or its shareholders? What, if any, disclosure would be warranted to inform investors of the reasons for and the timing to implement such a decision? If management were to make the decision to switch to IFRS, do investors and market participants have any concerns with respect to management's reasons for that decision?*

    We believe that management should be responsible for the decision, in consultation with the board of directors.

32. *Should the Commission establish the timing for when particular U.S. issuers could have the option to switch from preparing U.S. GAAP to IFRS financial statements? Should market forces dictate when a U.S. issuer would make the choice to switch from U.S. GAAP to IFRS financial statement reporting? If the former, what would be the best basis for the Commission's determination about timing?*

The timing should be consistent with the elimination of the reconciliation. However, the Commission also needs to be prepared to interpret and enforce in an IFRS environment.

33. *Should the opportunity, if any, to switch to IFRS reporting be available to U.S. issuers only for a particular period of time? If so, why and for what period? At the end of that period of time, could commenters foresee a scenario under which it would be appropriate for the Commission to call for all remaining U.S. issuers to move their financial reporting to IFRS?*

    At this point, the opportunity to adopt IFRS should be open-ended. The Commission should not have plans to call for all remaining U.S. issuers to move to IFRS, unless the costs outweigh the benefits for the remaining filers.

35. *Would it be appropriate for U.S. issuers that move to IFRS to be allowed to switch back to GAAP? If so, under what conditions?*

    Yes. Until IFRS has a longer track record, this option needs to be open-ended.

Conclusion

We recognize the significant work that the Commission has undertaken in this movement toward converging international accounting standards, and we appreciate the consideration of our comments. Please contact Charlie Gilman, ABA's Accounting Policy Advisor (202-663-4986 or cgilman@aba.com), or me with any questions.

Sincerely,

Donna J. Fisher

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