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August 25, 2011

Securities and Exchange Commission (SEC)
Washington DC

Re: Staff Paper, *Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers – Exploring a Possible Method of Incorporation*, May 26, 2011

Commissioners:

We appreciate the opportunity to submit comments on the SEC Staff Paper referenced above.

We are a regional certified public accounting firm that is registered with the Public Company Accounting Oversight Board. We currently audit six issuers of securities subject to SEC reporting requirements, all of which are community banks.

General Observations and Conclusions

We begin with several observations that we believe should inform the SEC's decision in this matter:

1. There is little, if any, conceptual support for the use of different bases of accounting by U.S. and foreign issuers. The investing markets operate on a global basis. Many issuers have substantial international operations, customers and investors. Operations in different countries are affected by similar economic factors, and these economic factors – supply and demand, interest rates, prices of materials and labor – are driven increasingly by global events. International investors make use of similar information in a similar way to make investment decisions, regardless of where they or the companies they invest in are located. As the objective of accounting for such companies is to present decision-useful information for investors, it seems incontrovertible that the investing community is best served by a single set of high-quality accounting standards, in use by all issuers in all markets.

2. The impact of the U.S. economy on global markets continues to exceed that of any other country, by a substantial margin. According to the Economic Research Service of the U.S. Department of Agriculture, the United States' share of global gross domestic product in 2010 was 26.3%. The next largest share was that of Japan, at 8.74%. Due to the impact of American businesses on the global economy, it also seems incontrovertible that the accounting standards they employ – U.S. generally accepted accounting principles (GAAP) - have necessarily been more thoroughly tested than those in other countries, simply due to the sheer volume of economic activity to which these standards have been applied. Accordingly, it is reasonable to conclude that the perspective of those who have responsibility for developing guidance for reporting information to investors by companies in the U.S. market, and thus have developed and overseen the application of these standards, should have an important impact on the development of such guidance globally.

3. Given the benefits to investors of uniform international standards, as described in the first point above, a national standard setter or regulator should approve a departure from internationally accepted standards only if doing so provides investors a sufficient benefit to offset the loss of those they derive from comparability across national markets. As the trend toward globalization continues, this comparability benefit will become more significant to investors. Accordingly, a national standard setter or regulator should identify a compelling need, from the standpoint of investor information and protection, before approving departures from international standards.

4. Given the pace of the convergence efforts of the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB), we are not optimistic about the likelihood they will be able to achieve substantial convergence in the foreseeable future. This observation is not intended as a condemnation of either organization, or of the convergence initiative. It is simply inordinately difficult for two independent organizations, responsive to separate constituencies and oversight, to reach substantially the same conclusions on complex, difficult issues such as those involving accounting standards. FASB and IASB have been working on convergence for nearly ten years, and while this effort has impacted U.S. standards for share-based payment, business combinations and comprehensive income, progress has been very slow. We find it instructive that, as we write these comments in August 2011, with FASB and IASB under tremendous pressure to achieve convergence by the end of 2011, FASB is poised to issue a new pronouncement regarding goodwill impairment that marks a direct step <u>away</u> from convergence on the business combination standard both bodies agreed to in 2007!

5. A number of the factors listed in the SEC's *Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers*, issued in February 2010, as crucial to the transition to International Financial Reporting Standards (IFRS), are themselves affected by the fact that the SEC has yet to announce a decision to mandate the use of IFRS by U.S. issuers. This "Catch-22" is especially evident with respect to human capital readiness and investor understanding of IFRS, as investors, preparers, auditors, students and faculty alike see little benefit in devoting significant resources to learning standards that a) may never apply to U.S. issuers and b) will likely be substantively different in some (presently unknown) respects if and when they do apply, due to the current convergence efforts and the likely long lead time to transition U.S. issuers from GAAP to IFRS.

<u>Specific Feedback on the May 26, 2011 Staff Paper</u>

We are supportive of the "endorsement" element of the May 26, 2011 Staff Paper. We believe it is advisable for the SEC to retain its ultimate authority, via delegation to FASB, to prescribe accounting standards for U.S. issuers. In addition, while the size of the U.S. market should naturally result in the SEC's continued significant voice in future accounting standards deliberations, its ability to modify international standards if needed to adequately protect investors in U.S. securities markets will likely provide additional assurance such influence will continue, and provide a safeguard for investors if it does not. However, as noted above, we believe investors' ability to compare company financial information across national borders is an important benefit that should only be sacrificed in rare circumstances, if at all.

We are not supportive of the "convergence" element of the May 26, 2011 Staff Paper. As noted above, progress toward convergence of IFRS and GAAP has been very slow to date. The Staff Paper's proposal that FASB implement a plan to substantially converge remaining differences between GAAP and IFRS in a five- to seven-year time frame is simply not realistic. The Staff Paper mentions accounting for property, plant and equipment, a relatively noncontroversial area of GAAP, as one example of GAAP/IFRS differences that might be converged via this process, then lists a full page of specific differences in this area that would need to be addressed. Given FASB's appropriately open process for considering changes to GAAP, tackling myriad such differences, including a number that would likely be more controversial, is in our view an unreasonably daunting prospect.

We recommend the SEC review and update its assessment of the status of the "milestones" laid out in its November 2008 *Roadmap for the Potential Use of Financial Statements Prepared in Accordance with International Financial Reporting Standards by U.S. Issuers,* and make a decision based on that assessment. We believe such an assessment would result in the following conclusions with respect to these milestones:

1. Improvements in Accounting Standards – As noted above, some progress has been made, resulting in meaningful improvements in IFRS. However, much work remains.

2. Accountability and Funding of the IASC Foundation – This has presumably been resolved. However, the SEC's retention of its ability to endorse future standards, or not, provides a safeguard in the event the new funding mechanism proves insufficient to protect the independence and impartiality of the IASB.

3. Improvement in the Ability to Use Interactive Data for IFRS Reporting – Much progress has been made in this area, and more is underway.

4. Education and Training – As noted above, progress in this area will likely be limited until the SEC makes a definitive decision regarding the use of IFRS. Once it does, we have little doubt that sufficient tools will be developed to train constituents, as has been the case in countries that have adopted IFRS, and in the U.S. when major changes in accounting or tax rules have taken effect in the past.

The remaining milestones in the Roadmap relate to the SEC's plan for transition to IFRS.

An updated assessment of the status of these milestones by the SEC, as described above, will likely result in the conclusion that the only substantive milestones remaining are:

1. Improvements in accounting standards
2. Education and training

We believe the second of these milestones will be adequately resolved by market forces, if and when the SEC makes a definitive determination to approve the use of IFRS. We believe the first of these milestones is still a work in progress, and the process the SEC uses to approve IFRS in the U.S. may affect future advancements in this area.

<u>Our Recommendation</u>

We therefore recommend the SEC resolve the question of the use of IFRS in U.S. markets as follows:

1. Announce by the end of 2011 that the use of IFRS as promulgated by IASB is mandatory for U.S. issuers for periods beginning after December 15, 2017. We do not recommend the SEC require the use of IFRS for comparative periods beginning on or before this date.

2. Announce its view that the development of IFRS as a high-quality accounting standards framework is still a work in process, and that the SEC therefore reserves the right to revoke its decision at any time prior to 2018, should it determine that the use of IFRS beginning in 2018 will not provide sufficient high-quality information for decision making by investors in U.S. capital markets.

3. Establish a protocol whereby the SEC or its designee (such as FASB) will, following initial implementation of IFRS in the U.S., review any future changes to IFRS before endorsing their use, with or without modification, by U.S. issuers. As noted above, the benefit to investors of comparability across national capital markets should be weighed as significant, and likely to become more so, in making the endorsement decision.

We believe this approach has the following benefits:

1. The certainty that the SEC will require the use of IFRS (absent the revocation option described in step 2 of our recommendation) will enable issuers, investors, auditors, and the education and training community to develop methodologies to learn IFRS, implement systems to facilitate IFRS reporting, and modify procedures for auditing and analyzing financial data to incorporate these rules. An effective date seven years in the future should provide a reasonable timeframe for doing so.

2. The announcement that the SEC remains focused on continued progress in the development of IFRS, and is willing to revoke its decision if necessary to protect investors, should provide IASB sufficient incentive to continue to work with FASB in its ongoing efforts to improve IFRS.

3. The endorsement protocol described in the Staff Paper ensures the SEC (through FASB, if the current delegation model is continued) retains the authority to make changes to IFRS for purposes of U.S. issuer financial reporting if needed to protect investors.

We believe a “date certain”, full-fledged implementation of IFRS will be less costly for U.S. issuers than a phased implementation, as described in the Staff Paper, quite simply because the latter will take longer. In addition, the convergence methodology laid out in the Staff Paper will result in a large number of changes in GAAP, to be implemented at different dates, which will lead to confusion for investors and added costs for issuers and their auditors.

We appreciate the opportunity to submit comments on the Staff Paper, and we look forward to the SEC’s continued deliberations in this area.

Sincerely,

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