ICBA
INDEPENDENT COMMUNITY BANKERS of AMERICA

July 25, 2011

U.S Securities & Exchange Commission
Office of the Chief Accountant
100 F Street, NE
Washington, DC 20549

Re: Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers

Dear Ladies and Gentlemen:

The Independent Community Bankers of America (ICBA)[1] appreciates the opportunity to comment on the Securities and Exchange Commission (SEC) 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* dated May 26, 2011. The purpose of the staff paper is to explore an approach for transitioning U.S. generally accepted accounting principles (GAAP) to International Financial Reporting Standards (IFRS). Developing a framework for merging GAAP with IFRS is consistent with the SEC's previous documented views that a single set of high-quality international accounting standards would benefit U.S. stakeholders. The incorporation approach outlined in the staff paper, condorsement, represents a hybrid approach combining the traditional IFRS transition practices known as convergence and endorsement.

[1] The Independent Community Bankers of America represents nearly 5,000 community banks of all sizes and charter types throughout the United States and is dedicated exclusively to representing the interests of the community banking industry and the communities and customers we serve. ICBA aggregates the power of its members to provide a voice for community banking interests in Washington, resources to enhance community bank education and marketability, and profitability options to help community banks compete in an ever-changing marketplace.

With nearly 5,000 members, representing more than 20,000 locations nationwide and employing nearly 300,000 Americans, ICBA members hold $1 trillion in assets, $800 billion in deposits, and $700 billion in loans to consumers, small businesses and the agricultural community. For more information, visit ICBA's website at www.icba.org.

INDEPENDENT COMMUNITY BANKERS of AMERICA The Nation's Voice for Community Banks.®
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Background

ICBA acknowledges that the SEC has previously favored the convergence of GAAP with IFRS with the end goal of establishing a single set of high-quality accounting standards that could be adopted internationally. As previously documented[2], the SEC believes the act of convergence of GAAP and IFRS will diminish or even eliminate current differences between the two approaches with the expected benefits consistent with the Commission's goal of protecting investors while maintaining efficient capital markets. Although the Commission has not yet formally determined whether IFRS should be incorporated into GAAP, previous supporting statements as evidenced above suggest that the SEC has in the past and will continue to drive toward IFRS adoption for its registrants. Additionally, commitments by the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) to complete joint projects on complex and divergent topics like financial instruments and revenue recognition demonstrate that convergence of GAAP and IFRS already exists and is progressing.

Historically, countries have incorporated IFRS into their accounting framework through two common methods. Under the first approach, known as convergence, the country maintains its current accounting standard with phased-in amendments over time to bring the current standard in line with the IFRS framework. Under the second approach, known as endorsement, countries adopt IFRS in favor of their current standards with varying degrees deviation in order to protect local regulatory guidance. As an alternative to these two approaches, the SEC staff has proposed a third approach, known as condorsement, which has characteristics of both convergence and endorsement. While maintaining the goal of having a single set of global accounting standards, this alternative seeks to minimize the costs associated with incorporation of IFRS by facilitating an orderly transition.

Through the framework established in the staff paper, the FASB would continue to exist as the U.S. accounting standard setter and GAAP would be retained. The FASB's role would change to incorporating IFRS into GAAP by establishing convergence and endorsement methodologies with a goal of minimizing the burdens of transition. Both the SEC and the FASB would retain the ability to modify issued IFRS standards when in the best interest of investors and the public. However, it is assumed that potential amendments to IFRS by FASB would be avoided whenever possible and would occur only rarely. FASB would shift to becoming an active participant in developing new accounting standards by supporting the IASB and providing input based on the views of U.S. stakeholders. FASB would also continue to serve constituents to ensure that IFRS is applied correctly in the U.S.

Transition to IFRS under condorsement would involve separate treatment for three different categories of IFRS standards and would occur over a period of time. The first

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[2] See SEC Release Nos. 33-9109; 34-61578, *Commission Statement in Support of Convergence and Global Accounting Standards*

category represents the joint projects currently being deliberated by both the FASB and the IASB, which include financial instruments, revenue recognition, and leases. Final deliberations on these joint projects are expected to be completed in 2011. With the issuance of joint standards for these projects, any impact on transition of GAAP to IFRS would be minimal since these standards would have their own established transition approaches. The second category represents projects where the IASB is expected to develop new standards. For these projects FASB would participate in the deliberations and provide input based on the views of U.S. stakeholders. FASB would also determine the timing for incorporation into GAAP and the relevance of the standard for adoption by U.S. companies. For the third category, which represents all other areas, FASB would develop transition plans for incorporating IFRS into GAAP based on key factors such as comparability and costs versus benefits with a focus on prospective adoption to minimize the burden of transition. Each individual IFRS would be evaluated by the FASB to determine the best form of adoption for preparers while ensuring that the integrity of the standard is not compromised.

Proposed Condorsement Framework

ICBA believes that any transition from GAAP to IFRS should give due consideration to the impact on smaller reporting companies who may not have the resources available to transition to a new accounting standards methodology in a short period of time. These small companies who file financial statements under GAAP will need additional time to study the impact of any new transition framework on financial systems, regulatory reporting systems, prudential regulator reaction, performance metrics, and stakeholder education. As the proposal in the staff paper does not give any indication of potential timing with regard to transition under the three categories of IFRS adoption, ICBA is concerned that this vital component of any incorporation of IFRS may be overlooked. Transition periods should be carefully explored to ensure that a given IFRS can be adopted without compromising the quality of implementation. The transition should also minimize the expense burden on smaller reporting companies by allowing for a transition that follows prospective application. Any retrospective application of IFRS could cause great financial hardship for small institutions as they would be forced to outsource much of the work to restate prior periods with little incremental benefit.

ICBA notes that IFRS, as currently applied, requires adoption to be completed on a retrospective basis with certain exceptions. If the FASB and the Commission favor prospective adoption to ease in transition, the ability to adopt IFRS on a prospective basis and meet full compliance will need to be specifically addressed in light of the current retrospective application requirement.

Regardless of the transition framework adopted, ICBA supports retaining the FASB as the primary standard-setting body for U.S. GAAP and commends the staff for taking this position in the paper. ICBA agrees with the staff that the FASB plays a vital role in the standard setting process and is best equipped to act in the best interest of U.S. companies and the capital markets. ICBA also supports the view that the FASB should be an active

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participant in any IFRS development by providing input that gives due consideration to the views of U.S. preparers and users including smaller reporting companies. The FASB should retain the ability to modify issued IFRS standards for adoption in the U.S. when the substance of the guidance is not in the best interest of its U.S. constituents.

With regard to the incorporation of IFRS standards that are not currently subject to future changes (described as category 3 in the staff paper), ICBA cautions against a transition to IFRS by adopting a large number of standards in a short period of time. Along with increased costs and strained resources, a sizable, short-term adoption of IFRS introduces the risks of inaccurate or incomplete adoption for smaller companies. ICBA favors a comprehensive, well-planned, staggered approach to adopting IFRS where companies have adequate time to prepare for transition and educate their stakeholders on the associated impacts.

ICBA appreciates the opportunity to comment on the staff paper. If you have any questions or would like additional information, please do not hesitate to contact me at (202) 659-8111 or james.kendrick@icba.org.

Sincerely,

/s/

James Kendrick
Vice President, Accounting & Capital Policy