MORTGAGE BANKERS ASSOCIATION®
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July 29, 2011

Mr. James L. Kroeker
Chief Accountant
Securities Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: Proposed Work Plan for International Financial Reporting Standards Convergence for U.S. Issuers

Dear Mr. Kroeker:

On May 26, 2011, the Securities Exchange Commission (SEC) issued its staff paper, *Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting Standards of U.S. Issuers: Exploring a Possible Method of Incorporation* (Staff Paper). Mortgage Bankers Association[1] reviewed the Staff Paper and has the following comments and recommendations.

Background Information

On February 4, 2010, the SEC published SEC Release No. 33-9109, *Commission Statement in Support of Convergence and Global Accounting Standards,* directing the SEC staff to execute a work plan to consider specific areas and factors relevant to the SEC's determination as to whether, when and how the current financial reporting system for U.S. issuers should be transitioned to a system incorporating international financial reporting standards (IFRS). The purpose of the Staff Paper is to outline for consideration and comment a possible approach for the convergence process if the SEC decides that incorporation of IFRS is in the best interest of U.S. investors.

The Staff Paper states that the proposal is based on several principles:

[1] The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 280,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets; to expand homeownership and extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of more than 2,200 companies includes all elements of real estate finance: mortgage companies, mortgage brokers, commercial banks, thrifts, Wall Street conduits, life insurance companies and others in the mortgage lending field. For additional information, visit MBA's Web site: www.mortgagebankers.org.

- U.S. generally accepted accounting principles (GAAP) would be retained but FASB would incorporate IFRS over a defined period of time to minimize transition costs.
- For ongoing IFRS changes, FASB would incorporate IFRS changes into GAAP pursuant to an established endorsement protocol.
- The endorsement protocol would allow FASB to modify or supplement IFRS when it is in the public interest and necessary to protect investors.

The Staff Paper cites the two general approaches used by other countries in converging to IFRS:

- **Convergence Approach**—jurisdictions do not adopt IFRS as issued. Instead, they maintain their local standards but make efforts to converge those standards with IFRS over time.
- **Endorsement Approach**—jurisdictions incorporate individual IFRS's into their local body of standards.

The Staff Paper incorporates an approach referred to as "Condorsement". Condorsement is in essence the Endorsement Approach that would employ aspects of Convergence Approach to address existing differences between local standards and IFRS during the transitional period and would retain a local standard setter.

FASB's new role would be to participate in the process for developing IFRS rather than serving as the principal body responsible for developing GAAP. FASB would also become an educational resource to U.S. constituents. FASB would retain authority to add to the requirements of the IFRS's incorporated into GAAP. A protocol would be established to govern this process. The protocol would call for such variances from IFRS to meet a minimum threshold that would include protection of the public interest and investors. The last paragraph on page 10 of the Staff Paper indicates that the objective for GAAP is to remain consistent with IFRS, stating: "... FASB should find the need to exercise its authority to issue any requirement in conflict with IFRS only in unusual circumstances."

Under the Staff Paper, the SEC would maintain its oversight of the FASB as the designated U.S. national accounting standards setter. It would have less direct oversight relationship of the IASB but would be actively engaged in the IASB standard setting process.

The transition to IFRS would be done based upon the following categories by priority:

- Category 1—IFRSs subject to the existing Memorandum of Understanding (MoU) projects--- financial instruments, revenue recognition, leases, presentation of OCI, fair value measurement, balance sheet netting, and consolidation of investment companies. The assumption here is that "reasonably converged standards" will be issued for these projects during 2011.

- Category 2—for all IFRS in the "subject to standard setting", the FASB would need to evaluate the magnitude of the standard setting expected in order to identify and isolate those IFRSs expected to be newly issued or modified significantly in the near term. Once these IFRSs are finalized, the FASB would review individual IFRSs to determine how to incorporate the standards into GAAP.

- Category 3—FASB to assess the "static" IFRS (those not in Category 1 or 2) for earliest for incorporation into GAAP because there would be no ongoing or expected standard-setting. Generally, prospective application would be required for such static standards as adopted.

MBA's Comments and Recommendations

Is IFRS an Improvement?

In vetting proposed accounting principles, accounting standard setters usually ask some fundamental questions: How will this statement improve financial reporting? What are the costs vs. benefits of the proposed change? As MBA's working group reviewed the Staff Paper, the answers to these did not appear to be clearly stated. We think it is necessary to understand how the SEC thought about the costs vs. benefits of IFRS adoption as well as how the SEC views the adoption of IFRS as an improvement to financial reporting. The following observations express the variety of views our members have with respect to convergence to IFRS:

- MBA's members believe that it is critical that any standard setting process have a primary goal of high quality standards which improve accounting and reporting. For some members, the question is whether IFRS standards represent an improvement in accounting and reporting. The SEC paper appears to be written from the perspective that U.S. adoption of IFRS is a foregone conclusion but there is no discussion on how the SEC and FASB have addressed this point.

- Some MBA members are not publicly held or are domestically focused. They question why IFRS should be the goal when companies are not publicly held or subject to international transactions and jurisdictions. These members believe that the significant cost to them to convert to IFRS will far exceed any benefits that would be received in return.

- Some members also question whether IFRS is an improvement over GAAP because they believe GAAP is more comprehensive and provides more detailed guidance to promote consistency of application. In contrast, some members prefer IFRS over GAAP as they believe principles-based rather than rules-based standards should be the goal.

- Some members also have concerns about the financial stability of the IASB and whether the IASB is, or may become, unduly influenced politically by certain countries.

- Some MBA members believe that the notion of having a single set of global accounting standards may be an unrealistic objective due to the significant diversity that exists in global markets, business practices, and regulations. As the Staff Paper notes, most other countries which have adopted IFRS do not follow a pure application of IFRS. It may be impossible to have a single set of global accounting standards that are applied in the same manner by all countries. If the intended purpose of IFRS is to create worldwide accounting and reporting consistency, MBA questions whether this can be achieved given the variations in interpretation and application of IFRS.

- MBA acknowledges that it is not realistic in the near or medium term to have a single set of global accounting standards. MBA believes, therefore, that it is important that FASB maintain a substantive role in the development of IFRS.

- Adoption of IFRS would assist users of financial statements of multi-national enterprises by making accounting principles more consistent from one sovereign jurisdiction to another.

As detailed above, MBA members have diverse views regarding the adoption of IFRS; however, most members agree on the following general comments.

The Following Should Apply to IFRS Convergence

- The FASB Should Have a Proactive Role in IFRS Standard Setting

MBA is concerned that the Staff Paper proposal would significantly reduce the role of FASB in the standard-setting process. Page 8 of the Staff Paper states the SEC's vision of the future role of FASB:

> Most significantly, the FASB would participate in the process for developing IFRS, rather than serving as the principal body responsible for developing new accounting standards or modifying existing standards under U.S. GAAP. The FASB would play an instrumental role in global standard setting by providing input and support to the IASB in developing and promoting high-quality, globally accepted standards; by advancing the consideration of U.S. perspectives in those standards; and by incorporating those standards, by way of an endorsement process, into U.S. GAAP. Additionally, the FASB would become an educational resource for U.S. constituents to facilitate the understanding and proper application of IFRS and promote ongoing improvement in the quality of financial reporting in the United States.

Page 10 of the Staff Paper further elaborates FASB's ability to promulgate accounting principles that are different from IFRS:

> If the FASB were to exercise this authority, a U.S. "flavor" of IFRS could result. However, U.S.-specific circumstances for which the FASB would consider modifying IFRS should be similar to the circumstances in which the Commission exercises its authority to amend or add to the standards issued by the FASB and, therefore, modifications should be rare and generally avoidable. The objective would be for U.S. GAAP to remain consistent with IFRS, and the FASB should find the need to exercise its authority to issue any requirement in conflict with IFRS in only unusual circumstances.

Page 12 indicates when there is uncertainty with respect to interpreting an IFRS, that the function would be performed by the SEC staff (Staff) and not by the FASB:

> Under the framework, the issuance of Staff guidance should be an infrequent occurrence, and, in all instances, the Staff would make efforts to develop any incremental requirements such that they would not conflict with IFRS.

Rather than having a strong voice in the IASB, the SEC would relegate FASB's standard setting role to a party that voices its views through comment letters. Page 13 states:

> The FASB would perform an important role in representing U.S. interests broadly in the standard-setting process, by participating in the standard-setting effort and sharing its views with the IASB both informally and likely also through written comment letters.

MBA believes the above comments indicate a FASB that assumes a more passive role with regard to standard setting. We disagree with this approach and believe the FASB should be a proactive participant in IFRS standard setting. The FASB should be involved in identifying the need for IFRS accounting guidance, crafting that guidance, and should have a significant say in the adoption of accounting guidance. We believe this is important for the following reasons:

- MBA notes that during the past twenty years, the U.S. has been a market leader in the financial services area in the development of financial and derivative instrument products and markets. Many emerging accounting issues stem from the sophisticated U.S. market and, at least initially, the issue may be confined to the U.S. markets. FASB is in a better position to recognize and address those issues since it is closer to U.S. business practices and markets.

- There are many significant accounting principles in GAAP that are not included in Categories 1 and 2. We believe the FASB should have a strong voice in determining if and when those principles are converged.

- MBA believes that the Staff Paper does not adequately address the issue of what happens when the FASB and the IASB disagree over a significant accounting principle in the future? An excellent example is the recent disagreement between FASB and the IASB on the offsetting of assets and liabilities. We do not believe that the Staff Paper provides strong enough and explicit enough guidance on what happens when FASB and IASB cannot converge on a material accounting principle.

- MBA is concerned that legislative and regulatory changes in the U.S. often trigger accounting issues unique to the United States. An example of this is the accounting resulting from legislative and regulatory changes related to the new national health care bill. IASB is less equipped to respond to such country-unique issues on a timely basis.

- The current constitution of the IFRS Foundation specifies how IASB board members are appointed. IFRS' Monitoring Board participates in the process of appointing trustees to the IASC Foundation which, in turn, appoints members to the board of the IASB. The IASB is comprised of 16 members to include the following geographic dispersion by July 1, 2012:

    - 4 members from Asia/Oceana region;
    - 4 members from Europe;
    - 4 members from North America;
    - 1 member from Africa;
    - 1 member from South America; and
    - 2 members appointed from any area, subject to maintaining overall geographical balance.

  Paragraph 27 of the IASB constitution states: "The trustees shall select IASB members so that the IASB as a group provides an appropriate mix of recent practical experience among auditors, preparers, users, and academics." Further, paragraph 28 of the IASB constitution states: "The IASB will, in consultation with the Trustees, be expected to establish and maintain liaison with national accounting setters ... in order to assist in the development of IFRS and to promote the convergence of national accounting standards setters and IFRSs."

Per the above, the IASB's constitution does not explicitly allow for FASB to hold board seats. For the reasons stated above, MBA believes the FASB should be guaranteed a prominent role on the IASB board in the form of at least one seat, and we believe this should be a condition of U.S. adoption of IFRS. MBA further believes that the aforementioned allocation of seats could be modified from a geographic allocation to an allocation based upon each region's respective market capitalization.

We agree with the SEC Paper that FASB needs to remain the principal accounting standards setter for the U.S. and, as a result, should have more authority to ensure that IFRS meets the needs of investors in the U.S. and can ensure that adopted standards are a feasible (cost vs. benefit) solution for U.S. entities. Furthermore, MBA believes that the SEC should continue to delegate the authority for standard setting to the FASB, while maintaining oversight as the ultimate party responsible for GAAP for publicly held companies.

Considerations for IFRS Adoption

Assuming that IFRS adoption proceeds, following are our concerns/considerations related to the adoption process:

- Need for Complete Inventory of Accounting Standards and Prioritization Plan for Addressing U.S. GAAP and IFRS Differences

  The Staff Paper states that Category 3 accounting principles are those that are not subject to MoU projects and not currently "subject to standard setting." Category 3 principles would be assessed by the FASB for incorporation into GAAP. However, the SEC Paper does not propose an adoption plan for U.S. GAAP that is not currently in IFRS. Examples of GAAP not currently incorporated in IFRS include accounting for troubled debt restructuring and accounting for mortgage servicing rights. These topics have a significant impact on the mortgage banking industry. MBA recommends that FASB and IASB undertake a project to inventory and compare existing GAAP with existing IFRS to identify: 1) topics in IFRS not in GAAP, 2) topics in GAAP not in IFRS, and 3) topics in both IFRS and in GAAP that are divergent. The purpose of this project would be to ensure that significant accounting principle differences between GAAP and IFRS are identified and a plan is created to address those differences. Results of this project should result in a new MoU with detail regarding individual standard setting objectives and prioritization with a reasonable but firm timeline for adoption and implementation.

- The Process of IFRS Adoption Should Focus on Maximizing Preparers' and Users' Understanding of IFRS and Should Allow for an Appropriately Lengthy Adoption Period

  MBA members are concerned that the process for IFRS adoption should allow for preparers and users to have maximum knowledge of adopted IFRS standards and should allow sufficient time for users to implement adopted IFRS standards. With those goals in mind, MBA members believe the "Condorsement Approach" defined in the Staff Paper has several disadvantages:

  - As mentioned above, MBA is concerned that FASB and IASB have not performed a complete inventory of GAAP compared with IFRS to determine the extent of the effort that would exist after convergence of Category 1 and Category 2 principles. It would be difficult for a U.S. reporting entity to assert that its financial statements were prepared in accordance with IFRS without knowing what differences between GAAP and IFRS remain in Category 3.

  - Members note that after several years working towards converged standards with respect to the principles listed in Category 1, there are still significant differences in opinion between FASB and IASB on classification and measurement, impairment, hedging, offsetting assets and liabilities, accounting for insurance contracts and other Category 1 items. MBA believes that as FASB and IASB continue their work on Category 2 principles, the road to convergence will lengthen significantly, and there remains a significant amount of work to be done with regard to Category 3 principles.

  - MBA is further concerned that cross-cutting issues remain on standards converged and standards not yet converged that will force IASB and FASB to constantly re-visit issues thought to be resolved.

  - If convergence occurs over time, it will be difficult for users of financial statements to differentiate between financial results driven by business operations and financial results driven by changes in accounting principles. For any given company, the comparability of financial statements between years will be changing, and the nature of the changes affecting comparability will differ each year.

- Page 10 of the SEC states that the FASB could exercise authority to stray from an IFRS standard although it is anticipated that would happen only in certain rare situations. However, it is unclear to MBA whether that divergence would require multi-national companies to report under both GAAP and IFRS? Or would an entity be given a choice to report under one set of standards? Maintaining accounting records under more than one set of accounting principles, even for disclosure purposes, would require preparers to incur significant costs and would put such entities at a disadvantage.

- Generally, many MBA members prefer a "big bang" convergence method, allowing sufficient time for final standards to be issued and sufficient time for implementation. This "big bang" approach would provide time for the work to be accomplished related to Categories 1, 2, and 3. Further, our members support transition rules that are prospective as well as effective dates that are sufficiently long to allow for accounting and reporting data to be captured in real time and for changes in systems and work processes to occur. Without sufficient lead time, implementation would be extremely costly to preparers of financial statements, especially for smaller preparers. If the convergence plan is other than "big bang", preparers and users of financial statements will need to address remaining, and possibly material, differences between GAAP and IFRS reporting.

- **Retention of the EITF**

  Under the current FASB structure, the Emerging Issues Task Force (EITF) deals with emerging issues. This has been effective because EITF members understand accounting principles as well as emerging trends, products, practice issues, laws, and regulations in the United States. A new financial product can be developed and a market built around it in the United States long before it is on the radar screen of other countries. MBA notes that the Staff Paper does not appear to anticipate the continuation of the EITF and its role in dealing with emerging issues and practices. With so many constituents and economic, market, and regulatory differences that exist on a global scale, it would seem difficult for the IASB to issue timely guidance on an issue that emerges in the U.S. MBA recommends that FASB maintain the EITF to deal with emerging accounting issues and practice inconsistencies.

MBA appreciates the opportunity to share its observations and recommendations on the proposed transition plan to international accounting standards convergence. We would be pleased to meet with you or your staff to discuss our comments and observations. Any questions about MBA's comments should be directed to Jim Gross, Vice President Financial Accounting and Public Policy and Staff Representative to MBA's Financial Management Committee, at (202) 557-2860 or jgross@mortgagebankers.org.

Sincerely,

David H. Stevens
President and Chief Executive Officer