

January 28, 2011

Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Via email: director@fasb.org

File Reference: No. 1890-100 *Effective Dates and Transition Methods*

Dear Technical Director:

The American Bankers Association (ABA) appreciates the opportunity to comment on the discussion paper *Effective Dates and Transition Methods* (DP). ABA brings together banks of all sizes and charters into one association. ABA represents banks of all sizes and charters and is the voice for our nation's \$13 trillion banking industry and its two million employees. The majority of ABA's members are banks with less than \$165 million in assets. ABA's extensive resources enhance the success of the nation's banks and strengthen America's economy and communities.

ABA appreciates FASB's efforts to obtain input on how to set effective dates for the many accounting standard updates (ASUs) that are expected to be issued over the next year. Indeed, implementing the sweeping changes proposed in the exposure draft *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities* alone are expected to be daunting. Adding the other ASUs noted in the DP, as well as any changes required for convergence with International Financial Reporting Standards (IFRS), and it is easy to see how banking operations could be overwhelmed by, essentially, an entire new set of accounting standards. Many in our industry are describing this volume of change as "new GAAP" versus "old GAAP".

At this point in time, we anticipate an enormous demand for resources required to implement the wide range of changes being considered. Our tentative preference is a sequential approach for implementation of the new ASUs to increase the likelihood that sufficient resources will indeed be available. Within this approach, sufficient time must be provided in order to implement each new ASU. Our tentative views on the sequential approach and the time frame needed could change, depending upon the answers to the following questions, which need to be addressed:

- ASU content
 - Will systems be required to retrieve data that is currently unavailable or produce information currently not used by management?
 - Will extra resources be required on an ongoing basis?
 - Will the standards be relatively easy to interpret and apply, or will they require significant additional work before generally accepted practice is attained?

- Will companies and their auditors have sufficient staff to tackle the new ASUs?
- Convergence
 - Will the “new GAAP” and the new IFRS be fully converged? If not, how significant are the differences?
 - What is the time frame for permitting U.S. registrants to follow IFRS?
 - Will the SEC require adoption of IFRS by U.S. companies, and if so, when?
- Business products
 - What impact will the ASUs have on business products?
 - Will there be a need to change the types of products offered and/or change agreements with customers (loan covenants, for example)?
- Investors
 - Will the ASUs change how companies or whole industries are viewed by investors?
 - How long will investors, which include those of private entities as well as public entities, need to absorb the volume of change without disrupting the marketplace?
- Regulators
 - Will the ASUs result in the need to change banking regulations?
 - Will the ASUs result in the need to raise additional capital for regulatory purposes?
 - How much overlap will there be in the timing of the ASUs with implementation of new banking laws and regulations (the Dodd-Frank Act and Basel III, for example)?

As is implied in our questions above, we believe the timing of implementation is extremely important for those companies that will be permitted or required to adopt IFRS. That is, any new ASUs or new IFRSs must be closely converged in order to minimize any subsequent implementation efforts. Moving from “old GAAP” to “new GAAP”, and then to a different set of standards under IFRS is unacceptable, and we believe that both financial statement users (of which banks are among the largest group) and preparers agree with this.

In the event a single-transition date is decided upon, we believe a minimum of five years transition will be required. This will enable companies approximately two years to implement systems and another three years to gather data to provide for sufficient historical data upon the effective date.

No matter the approach, we provide three recommendations:

- The SEC’s decision regarding a convergence roadmap is a critical factor that with regard to the implementation of the ASUs. If the new GAAP and new IFRS standards are not converged, then information about the roadmap is extremely important in determining the appropriate timing for implementing new GAAP; if the new standards are converged, this information is still important, but less critical. This needs to be considered before requiring implementation of new standards.
- Projects that create new standards unnecessary to converging existing U.S GAAP and IFRS should be postponed. With this in mind, we believe that FASB and the IASB should seriously consider postponing or eliminating the following projects:

- Financial statement presentation – From the perspective of the user of banking financial statements, there has been no compelling demand for the major changes that have been agreed upon by FASB and IASB for inclusion in an exposure draft. These changes (which currently include required direct-method statements of cash flows, roll-forwards of each balance sheet account, and classification of all line items by operating, investing, or financing activities) are expected to require enormous changes to the financial systems that banks use. The changes are also expected to have a similar impact on many other industries.
- Leases – Current GAAP is not significantly different from IFRS. While we understand that there are concerns with current “off-balance sheet” treatment of operating leases for lessees, we also know that equity and fixed income analysts, as well as commercial banking credit analysts, typically adjust for this treatment in their financial analyses. With this in mind, the efforts to implement systems and analyze and modify loan covenants will not be exceeded by the benefits of the on-balance sheet treatment. Financial analysis is not expected to change significantly, and in many cases, these analysts will be required to make more complex adjustments as a result of some of the key parts of the exposure draft to change lease accounting.
- Changes that will significantly impact loan covenants and regulatory requirements should be implemented at the same time.
 - Both the revenue recognition and the leases projects could result in financial covenants and regulatory capital requirements that will be violated without any economic change to a borrower’s ability to generate cash flows in order to pay off a credit facility. As a result, it is likely that covenants will be re-evaluated and considerable “front office” work will be required in order to change loan covenants. Additional capital may also be required for regulatory purposes. Loan covenants may need to be changed upon implementation of these two projects. We recommend that if both of these projects are completed as currently scheduled and a sequential transition is selected, that these two updates be implemented at the same date in order to avoid the need to change loan covenants twice.

Thank you for your attention to these matters and for considering our views. Please feel free to contact me (mgullette@aba.com, 202-663-4986) if you would like to discuss our views.

Sincerely,



Michael L. Gullette