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August 12, 2009

Mr. Robert H. Herz
Chairman
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Sir David Tweedie
Chairman
International Accounting Standards Board
First Floor
30 Cannon Street
London, EC4M 6XH
United Kingdom

Re: The Current Pace and Direction of Accounting Standard Setting

Dear Sirs,

The American Bankers Association[1] is concerned about the process being taken on the FASB and IASB projects relating to financial instruments. The changes that the FASB and IASB are considering represent the most significant accounting changes we have ever experienced. We encourage the FASB and IASB to make such changes only with utmost caution and the appropriate level of due process to correspond with the magnitude of the changes. The purpose of this letter is to provide you with our views about the process and provide recommendations for the Boards to consider.

Although we agree that a certain amount of change is urgently needed, the FASB and IASB direction may cause significant disruption, with both preparers and users of financial statements. Rule-makers must be very careful in this effort to ensure that any changes: 1) represent solid and meaningful change that is valuable and understandable to financial statement users; 2) focus on the business models used by entities that prepare the financial statements, and 3) can be implemented and maintained at a reasonable cost.

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[1] ABA brings together banks of all sizes and charters into one association. ABA works to enhance the competitiveness of the nation's banking industry and strengthen America's economy and communities. Its members – the majority of which are banks with less than $125 million in assets – represent over 95 percent of the industry's $14 trillion in assets and employ over 2 million men and women.

The rapid paces at which both organizations are working, as well as the paths being taken, are causing some to question whether there is due process in evaluating these important issues. Some bankers also question whether such efforts are driven by a search for simplicity, transparency, and accuracy or by an appetite to expand fair value accounting, no matter the implications.

A major concern is that the current directions in which the FASB and IASB are moving appear to be similarly requiring more mark to market accounting (MTM) within the financial statements, more capital for many existing banking activities, and more operational challenges to comply with these rules for banks of all sizes. The cost of accounting compliance puts continued participation in certain market activities at risk for some smaller institutions.

Another concern is the current divergence between the FASB and IASB proposed models and time frames for completion. The IASB plans to finalize its accounting standard in 2009, and the FASB's completion date will be subsequent to that date. In such case, the FASB will have only one of two choices: (1) to follow the IASB model – which will not provide U.S. companies with appropriate due process for providing input, or (2) a lack of international convergence – which should be avoided. Also related to this is that the IASB appears to be solving the accounting puzzle on a piecemeal basis, which may result in pre-determining the outcome for subsequent parts of the puzzle that may not fit.

We recognize that the FASB and IASB are under some pressure to finalize their rules quickly; however, we do not believe this should be at the expense of undermining the foundations of financial reporting – which could be the case with these dramatic changes. It is extremely important that these new standards be developed jointly by the FASB and IASB, with proper due process and open consultation with a wide range of constituents that ensures a holistic review.

Additionally, as noted in our letter to the FASB and IASB (dated August 4, 2009), the following points should also be considered when making substantial changes to the accounting model:

- Serious consideration must be give to field testing proposals prior to implementation, and sufficient transition time must be provided.
- Regulatory accounting rules should be consistent with GAAP.
- Accounting changes must meet a "costs vs. benefits" test.

Attached is our paper, which provides additional information about our views. Please contact either Mike Gullette (202-663-4986; mgullette@aba.com) or me if you would like to discuss our views.

Sincerely,

Donna J. Fisher

Donna Fisher

Enclosure