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Via Email: director@fasb.org

September 25, 2012

Susan M. Cosper Technical Director File Reference No. 2011-210 Financial Accounting Standards Board 401 Merritt 7 Post Office Box 5116 Norwalk, Connecticut 06856-5116

RE: File Reference No. 2012-200

Dear Ms. Cosper:

Ameriprise Financial, Inc., one of the nation's leading financial planning, asset management and insurance and annuity companies, respectfully offers comments for your consideration with respect to the Financial Accounting Standards Board (the "FASB") Proposed Accounting Standards Update, *Financial Instruments (Topic 825) – Disclosures about Liquidity Risk and Interest Rate Risk* (the "ED").

## **Executive Summary**

We acknowledge the need for investors to understand a reporting entity's liquidity and interest rate risks, but this need should not result in the disclosure of proprietary and strategic information. We question the relevance and usefulness of the information prescribed by the ED specific to "financial institutions". Standardized tables and the underlying principles introduced by the ED do not reflect existing liquidity and interest rate risks nor do they appropriately portray our risk management practices. In direct conflict with assertions made by the FASB, we do not currently, nor would we in the future, use the proposed tables for risk management purposes. We do not use a single metric to manage liquidity risk and interest rate risk exposure. Rather, exposure is illustrated through an array of metrics with various economic projections and assumption sensitivity that is evaluated under a cohesive framework, ultimately driving management action. A standardized tabular format does not capture the complexity of the business nor will it communicate to the users our true liquidity position and interest rate

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<sup>&</sup>lt;sup>1</sup> 825 Background Information and Basis for Conclusions - BC24 "the Board proposed disclosures that would (a) strike an appropriate balance of costs and benefits and (b) align with information that entities prepare internally"

exposures. In fact, the proposed standardized tables will confuse users since they are prepared on a basis that differs from how we manage the respective risks and ultimately how we discuss the risks within the Management's Discussion and Analysis (MD&A). The proposed disclosures inappropriately create a false sense of comparability between peer companies by requiring prescriptive disclosures and scenarios which would otherwise incorporate significant management judgment. Based on the above, the proposed disclosures are misleading and will not result in an improvement to existing U.S. GAAP.

In addition, as we discuss further in our responses below, we do not believe it is appropriate for forward-looking results to be included in the footnotes of audited financial statements. Audited financial statements have generally been based upon historical, point-in-time financial information; however, except for the proposed available liquid funds table, forward-looking assumptions will be necessary to develop the proposed disclosures.

The FASB should partner with the SEC to clarify existing MD&A disclosure requirements regarding liquidity and interest rate risks to fulfill the needs of investors and regulators. Although it was the FASB's intention to supplement the MD&A, the proposed disclosures will be duplicative and will present inconsistent information that will be confusing for users.

In conclusion, we suggest that the ED be indefinitely delayed and encourage the FASB to partner with the SEC to strengthen the MD&A requirements surrounding liquidity and interest rate risks.

# **Specific Observations**

To the extent the FASB chooses to move forward with this proposed standard, we bring to your attention the following matters that should be addressed and amended prior to finalization of any new disclosure requirements:

## Scope and Definition-related Issues

To assess what disclosures a reporting entity must make under this ED, a reportable segment (or reporting entity) must determine its "primary business activity." <sup>2</sup> The term "primary" may be misinterpreted or misapplied across peer companies resulting in a lack of comparability. For example, one company may interpret "primary" as a function of net income, other entities may interpret "primary" as a function of assets. The judgment applied by entities will result in inconsistent disclosures. Therefore, we recommend that the FASB work to define "primary" in such a way that will enable consistent disclosures for similar entities or reporting segments.

In addition, reportable segments may contain both spread and non-spread business. If the non-spread business is determined to be the primary driver of income the financial institution disclosures would be not be required, regardless of the materiality of the spread business to the

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<sup>&</sup>lt;sup>2</sup> 825-10-50-23A "For the purposes of these disclosures, the term *financial institution* refers to entities or reportable segments for which the primary business activity is to do either of the following a) earn, as a primary source of income, the difference between interest income generated by earning assets and interest paid on borrowed funds, b) provide insurance."

overall entity. To alleviate this possible inconsistent application, we recommend that the FASB provide the option for reporting entities to aggregate all of their financial institution activities if management determines that is a more appropriate disclosure of the risks they face.

We would like to bring to your attention that *depository institution* is not defined in Codification. Without defining this term, inconsistent disclosures by similar entities or reportable segments could arise upon adoption. It is also not clear as to whether or not the definition of a depository institution should be applied at the entity level or the reportable segment level.

Finally, we do not believe it is appropriate to include in the proposed disclosures the assets and liabilities of consolidated vehicles (e.g., collateralized debt obligations) where consolidation is driven by asset management agreements and insignificant beneficial interest ownership. The liquidity and interest rate risk of these entities do not impact the liquidity and interest rate exposure of the general operations of our reporting entity nor are the assets and liabilities included in our management of such risks. We recommend the FASB scope out such entities from the proposed disclosures.

# **Liquidity Risk Disclosures**

The ED requires disclosure of actions taken by management to manage liquidity risk in any given quarter.<sup>3</sup> Coupling this narrative disclosure requirement with a tabular presentation of amounts that management does not utilize to manage risk would likely mislead users of the financial statements. For example, we could not faithfully describe actions taken to manage the exposure related to period-over-period changes that are not a component of our risk monitoring system. Further, we believe that it will be challenging to overcome the information in the table with our qualitative discussion due to the perceived comparability and prominence of the tabular disclosures.

We believe that our liquidity testing and asset/liability risk management processes that drive quarterly actions is proprietary information that should not be disclosed as doing so may eliminate competitive advantages.

The ED proposes that a company should explain the significant assumptions used in estimating expected maturities. We would be required to disclose significant proprietary information relating to our insurance business such as the behaviors of our policyholders that would harm our competitive advantages. Examples of the propriety information which may be disclosed in order to comply with the proposal include surrender rates, mortality, and other policyholder behavior assumptions.

In addition, we do not believe *expected maturity* for financial assets and liabilities adequately portrays liquidity risk. For example, the proposed calculation does not include recurring interest

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<sup>&</sup>lt;sup>3</sup> 825-10-50-23J "a financial institution shall discuss the significant changes related to the timing and amounts of financial assets and financial liabilities in the tabular disclosures about liquidity risk and available liquid funds from the last reporting period to the current reporting period, including the reasons for the changes and actions taken, if any, during the current period to manage the exposure related to those changes."

payments of fixed maturity securities, periodic payments of interest rate swap contracts or certain customer behaviors, such as contract renewals, that should be taken into consideration when projecting liquidity expectations. Additionally, the ED is not clear in how to estimate maturities for investments with periodic pay-downs (e.g., mortgage backed securities). All the sources and uses of cash flows that are material components of an insurance entity's liquidity risk management are essential in understanding liquidity risks of a reporting entity, but many sources and uses are not accurately reflected in the proposed disclosures. Due to the exclusion of many cash flow estimates, we do not believe the disclosures would provide meaningful information to the users nor would the proposed disclosures be used by management to evaluate liquidity risk.

Certain forward-looking assumptions are necessary to calculate expected maturity as defined by the ED. However, the ED excludes other forward-looking assumptions (e.g., policyholder behaviors, periodic derivative cash flows, management's intent regarding asset sales). The result is an unrealistic representation of liquidity risk as it forces a financial institution to project unreasonable scenarios, distorting how a financial institution manages its risk.

We also note that solvency of our insurance entities are monitored by industry regulators utilizing an accounting basis that is focused on determining an insurer's ability to satisfy its obligations to its policyholders and creditors. Insurance regulators, through periodic financial exams, may also request data that is used to assess liquidity exposure and financial flexibility for coping with both expected and unexpected cash demands including utilizing forward-looking assumptions of policyholder behaviors. Insurance regulators acknowledge the confidential and proprietary nature of this forward looking data and do not require disclosure of such data in annual statutory filings.

In any case, forward-looking assumptions should not be included in audited notes to the financial statements that portray historical results and point-in-time views of an entity and may be difficult, if not impossible, to audit. Instead we recommend that the FASB work with the SEC to ensure that appropriate disclosures are included in MD&A.

#### **Cash Flow Obligations**

The ED requires disclosure of all off-balance sheet obligations<sup>4</sup> for nonfinancial institution entities (or reportable segments) and the ED does not require a similar disclosure for financial institutions. However, we noted that the examples of the liquidity gap maturity table<sup>5</sup> do include a line for "Off-balance sheet commitments and obligations". The FASB should clarify whether or not this information is required for financial institutions.

Further, it is unclear if long term service contracts that are cancellable would be considered an off-balance sheet obligation. If it is the intent of the FASB to include these, the cost to identify contracts, capture the data and develop an undiscounted cash flow estimate by period would be

<sup>&</sup>lt;sup>4</sup> 825-10-50-23M "An entity that is not a financial institution shall provide a cash flow obligation table that includes...off-balance-sheet obligations"

<sup>&</sup>lt;sup>5</sup> 825-10-55A and 55B

significant. It would also pose operational challenges that would require new systems and controls to ensure completeness of the population. Additionally, we do not believe it is feasible to reasonably estimate off balance sheet arrangements that have variable payment terms. For example, long term service contracts where the cost is dependent on use or lease contracts where the lease payments are dependent on future revenue.

# **Interest Rate Repricing Gap Analysis**

Similar to our comments on liquidity risk proposals above, a tabular presentation of amounts that management does not utilize to manage interest risk would likely mislead users of the financial statements.

As discussed in the ED, there is no single, pre-defined methodology to calculate liability durations. Various methodologies are deployed within and across institutions, making it impossible to adequately compare durations of an entity's assets and liabilities, especially for insurance-related liabilities. Further, since it is only one of many inputs into the process of managing interest rate risk, a single duration measure alone does not provide enough useful information to draw conclusions about our interest rate exposure. The duration position varies with the level of interest rates along with the shape of the interest rate curve. Additionally, a net duration position can be derived under an array of mismatches, such as a bar-belled investment portfolio or a consistent mismatch across various key rates. While we do not believe that having only a net duration disclosure provides information useful for drawing conclusions about our interest rate risk, providing additional detailed disclosures will likely necessitate the disclosure of proprietary information and strategic positioning of our investment portfolio.

## **Interest Rate Sensitivity**

As discussed earlier, we strongly believe that no forward-looking analysis should be included in the financial statements. Additionally, the inclusion of only certain forward-looking assumptions and the exclusion of other reasonably possible forward-looking assumptions in the projection of net income and shareholder's equity impacts will be misleading. For example, in the case of an insurance or annuity product, policyholder behavior is an important consideration when trying to project future net income. Changes in policyholder behavior may materially impact net income and shareholder's equity in any interest rate scenario.

Another example of how the proposed disclosure may be misleading is by including only financial assets and financial liabilities in the disclosure. Significant nonfinancial assets can be impacted by changes in interest rates, such as deferred acquisition costs ("DAC"). DAC is a nonfinancial asset where interest rates are a significant assumption embedded in the amortization pattern of DAC. If interest rates change significantly, DAC amortization patterns may change significantly, impacting both net income and shareholder's equity; therefore we recommend that this disclosure be limited to the impact of changes in interest rates on the most relevant financial statement line item(s) determined by management.

Similar to the proposed liquidity risk disclosures, we believe that it will be challenging to overcome the information in this table with our qualitative discussion due to the perceived

comparability and prominence of the tabular disclosures.

## **Designing and Implementing Internal Controls**

Although some underlying information requested by the FASB is core to our risk management and asset liability processes, significant additional data gathering would be required to aggregate the data in the proposed form. The underlying information is located in a number of different information systems including administrative, asset liability management, hedging, investment accounting and actuarial valuation systems. Accumulating, aggregating and reporting the information from these systems would result in significant expense to us.

Also, certain information that is used in our risk management and proprietary asset liability matching processes has not been subjected to an assessment by management of the design and effectiveness of internal controls in accordance with Sarbanes Oxley rules (SOX). To require disclosure in the audited financial statements would require us to incur a significant amount of time and cost to design, implement and test internal controls, including potentially expensive technology enhancements.

## Implementation Timetable, Related Costs and Auditability

We believe that implementation of the ED as proposed would require approximately 24 to 36 months given the significant number of systems involved, the need to develop management judgments and estimates, development of models to incorporate such judgment and estimates and the requirement to adhere to internal control testing requirements. Although not quantified, we believe that significant resources would need to be dedicated to developing the proposed disclosures. We believe it will be very difficult to perform audit procedures beyond that of relying on management representations when testing forward-looking assumptions and results included in calculations of expected maturities, durations and impact of changes in interest rates. We also believe audit costs will be significant when testing the completeness and accuracy of the disclosures.

In conclusion, we believe the proposed disclosures results in misleading information; however, we are concerned that providing more meaningful information would require us to disclose strategic and proprietary information. We suggest that the ED be indefinitely delayed and encourage the FASB to partner with the SEC to strengthen the MD&A requirements surrounding liquidity and interest rate risks.

Thank you for your consideration of our comments on this topic. If you have any questions, comments or would like further information, please contact me at (612) 678-4769.

Sincerely,

David K. Stewart

Senior Vice President and Controller