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Ms. Susan M. Cosper Technical Director Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5166 Norwalk, CT 06856-5116 25 September 2012

Proposed Accounting Standards Update, Disclosures about Liquidity Risk and Interest Rate Risk (File Reference No. 2012-200)

Dear Ms. Cosper,

We appreciate the opportunity to comment on the Financial Accounting Standards Board's (FASB or Board) Proposed Accounting Standards Update, *Disclosures about Liquidity Risk and Interest Rate Risk* (the proposed Update). We believe that recent economic events have underscored the need for investors to better understand an entity's exposure to liquidity risk and interest rate risk and how the entity manages those exposures. However, we do not support finalizing the proposed Update in its current form.

Disclosure redundancy

We believe that many of the proposed disclosures are redundant given current United States Securities and Exchange Commission (SEC) reporting requirements, and we question why they should be also provided in the financial statements. For example, public companies are already required to comprehensively explain their liquidity and capital resources and related funding risks in management's discussion and analysis of financial condition and results of operations (MD&A). Public companies are also required to disclose known trends or demands, commitments or uncertainties that will or are reasonably likely to materially affect their liquidity. In addition, the proposed Update would require a contractual obligations tabular disclosure that is substantially similar to one required by the SEC.

While the SEC already requires registrants to disclose in MD&A any reliance on certain financing arrangements and maturity mismatches between borrowing sources and the assets funded by the sources, the proposed Update would require financial institutions to disclose a detailed liquidity gap maturity analysis. Further, notwithstanding Item 305 of Regulation S-K, which requires registrants to disclose quantitative information about each market risk category, including interest rate risk, the proposed Update would also require financial institutions to provide a number of prescriptive tables with respect to interest rate risk, including a repricing gap table and interest rate sensitivity analysis.

The proposed Update's extensive and prescriptive disclosures indicate that the Board is hearing from financial statement users that they need more information to fully understand a financial institution's liquidity risk and interest rate risk. If that is the case, we believe that the FASB staff should first share



its research with the SEC staff, which can determine whether further interpretive guidance or rulemaking is required. If, for example, the SEC staff determines that the additional disclosures should be included in MD&A, it would seem that those disclosures would not need to be repeated in the audited financial statements.

Importantly, to help provide more meaningful disclosures, companies often make certain forward-looking statements. When they appear in MD&A, these statements are afforded statutory safe harbors that would not extend to the audited financial statements. Excluding these forward-looking statements may make the disclosures less meaningful. In addition, while financial statement users could benefit from having the information audited, the proposed Update indicated that most users were not concerned about this. As a result, we question whether there is a need to have these disclosures duplicated in the financial statements.

Standardized disclosures

If the Board concludes that interest rate risk and liquidity risk disclosures should be included in the financial statements, we do not believe that the proposed Update's prescriptive disclosures would be most meaningful for users. Financial institutions manage their liquidity risk and interest rate risk in different ways. They use different processes and systems depending on the institution's complexity, risk profile and scope of operations. While standardizing the quantitative disclosures could promote their comparability, it reduces relevance. We believe companies need more flexibility to disclose how they evaluate and manage their exposures to liquidity risk and interest rate risk.

We believe that, if the proposal is finalized as written, companies would need to supplement the disclosures with their specific policies and procedures because the tables themselves are unlikely to provide sufficient context for users to understand the company's liquidity risk and interest rate risk, particularly for entities that do not manage these risks in the way that the tables suggest they do. We expect that many companies might believe that it would be misleading to only provide the required disclosures given how they manage these risks. Although these entity-specific supplemental disclosures would not be as comparable, we believe they would better help users make judgments about how a company manages these risks.

We question whether the proposed disclosures would provide the level of comparability the Board is seeking. Much of the information to be included in the tables is based on the concept of expected maturity, which is not well defined in the proposed Update. Consider mortgage-backed securities. It is not clear to us that in considering the prepayment feature of these securities whether the entire carrying value of the securities should be classified in the time interval that represents the weighted-average maturity of the security or the cash flows the entity expects to receive should be allocated to each time interval. We are also unsure how to incorporate the allowance for uncollectible amounts into the table, particularly for pools of loans.

We also question the presentation of derivative instruments. It is not clear to us why the carrying value of a derivative instrument would be included in the time interval that corresponds with the instrument's contractual maturity given that the cash flows will affect each reporting period (other than for simplicity). Moreover, the carrying value for derivatives used for speculative purposes would be included in the period of the instrument's contractual maturity while the carrying value for other



instruments carried at fair value with changes in fair value recognized in net income would not be spread across the time intervals in which the cash flows are expected to be received or paid. We have many other questions about how expected maturity would be determined for common instruments.

Permitting companies to calculate expected maturities using significantly different assumptions would seem to detract from the overall goal of comparability. Even if those assumptions were disclosed, we believe it would be difficult for users to adjust each company's disclosures to make any comparisons meaningful. This leads us to further believe that any required disclosures should be based on how companies assess and manage their liquidity risk and interest rate risk exposures.

If the Board concludes that standardized disclosures would best promote comparability, we believe it needs to perform significantly more outreach with preparers. The proposed Update indicates that the FASB staff consulted with 20 preparers in developing the proposed disclosures. We believe that this population should be significantly expanded to include both financial and nonfinancial institutions of varying sizes and complexity, including small and mid-tier nonpublic financial institutions, who we believe will be particularly challenged to provide many of these disclosures. By examining how these different companies evaluate their liquidity risk and interest rate risk, the Board can develop a set of disclosures that better reflects how companies address these risks in practice.

Scope

We believe that nonpublic and not-for-profit entities should be exempted from the amendments in the proposed Update. We believe that most users of nonpublic entity financial statements have more access to management than users of public company financial statements and can obtain any additional information they need with respect to these risks.

We also do not believe that the proposed Update meets the cost/benefit test for not-for-profit entities. We question the benefit that users of not-for-profit financial statements would receive from these disclosures. We encourage the Board to obtain input from the Private Company Council and Not-for-Profit Advisory Committee on whether the proposed disclosures should be required.

We believe the Board should perform further outreach with the insurance industry before finalizing the proposal. We observe that many of the proposed disclosures that appear to have been designed to capture risks that are prevalent among traditional lending institutions seem less relevant for other financial institutions such as property and casualty and health insurers. For example, we don't understand how the proposed repricing gap analysis would provide meaningful information about a property and casualty insurance company whose primary obligations (policyholder liabilities) are not subject to interest rate risk and whose primary business activity is not to earn a spread between the interest generated by earning assets and interest paid on borrowed funds. We have other concerns with respect to the Board's definition that are discussed further in the appendix to this letter.

Benefits and costs

While we understand that performing a cost/benefit analysis on disclosures is difficult, we believe the Board needs to do more work in this area before finalizing the proposed Update. Complying with the proposed Update would be a significant undertaking for many companies, particularly smaller



financial institutions. All companies would likely be required to change their information systems and processes if they do not manage their risks in the manner suggested by the prescribed tables. Moreover, even for larger organizations that have provided this type of data to regulators, that information has likely not been audited and not in the scope of the company's internal controls. Nonpublic companies and not-for-profit entities would likely need to hire advisors to develop systems and processes necessary to compile the requested information.

We believe the Board should ask preparers about the costs of providing these disclosures and obtain their input on their experiences with users' information requests in this area to determine whether there are disclosures that can be provided in a more cost-effective manner.

Effective date

To comply with the proposed Update, companies may need significant lead time to make changes to information systems as well as process improvements. As a result, in determining the effective date for the proposal, we encourage the Board to carefully consider the comments from financial statement preparers.

These recommendations are more fully discussed in the appendix to this letter, which also provides our detailed responses to the *Questions for Respondents* included in the proposed Update. We have responded only to questions in the proposed Update highlighted as *Questions for All Respondents* or *Questions for Preparers and Auditors*.

* * * * *

We would be pleased to discuss our comments with the Board members or the FASB staff at your convenience.

Very truly yours,



Responses to specific questions raised in the Proposed Accounting Standards Update, *Disclosures about Liquidity Risk and Interest Rate Risk*

Questions for Preparers and Auditors-Liquidity Risk

Question 1:

For a financial institution, the proposed amendments would require a liquidity gap table that includes the expected maturities of an entity's financial assets and financial liabilities. Do you foresee any significant operational concerns or constraints in complying with this requirement? If yes, what operational concerns or constraints do you foresee and what would you suggest to alleviate them?

Response:

We believe that significant judgment will be needed to estimate expected maturities for financial instruments, which will impair the comparability of the disclosures across financial institutions. The following instruments illustrate some of the implementation challenges:

Mortgage-backed securities: When presenting the expected maturity of a mortgage-backed security, it is unclear whether an entity should allocate the carrying amount to the time interval that corresponds with the instrument's weighted-average maturity or spread the payments across the time intervals in which it expects to receive payments. If analogized to the application guidance included in the proposed Update for derivative instruments, it appears that the Board intended the former, but we are not sure.

Loans: When estimating the expected maturity for a portfolio of loans, it's unclear whether an entity would make the estimate at the individual loan level or at a more aggregated pool level. For example, in many cases, purchased credit-impaired assets are in pools that are considered the unit of account (rather than the individual loan) for measurement of both interest and credit impairment. It is unclear whether an entity could, consistent with the concept of unit of account, place the carrying amount of a pool of assets in one time interval (based on an overall weighted average maturity concept) or whether the carrying amount should be spread across several time intervals (based on the expected maturity of each individual loan within the pool). This question is similar to our concern about mortgage-backed securities. If entities are permitted to present the carrying amount of a pool of loans in one time interval, the Board should clarify whether entities would also be permitted to place any related allowance balance in the same time interval.

The proposed Update suggests that a financial institution should consider whether a borrower has the contractual right to prepay principal amounts. It is our understanding that some banks currently do not track prepayment options within their loan systems. This information typically resides in the individual loan agreement. Significant initial effort would be required to capture this information for existing loans and adjustments would need to be made to loan systems and processes to capture the information over time.

It's also unclear whether a financial institution would be able to consider renewal expectations on loans, similar to the consideration of prepayments. Some financial institutions issue certain commercial loans and lines of credit with annual renewal requirements. The disclosures may be

misleading if the bank is required to disclose a cash flow when it expects the loan will be renewed rather than paid off. The proposed Update should clarify how renewal options or expected renewals should be considered.

Allowance for credit losses and doubtful accounts: The proposed Update is silent on how the allowance for credit losses should be presented among the time intervals. Requiring companies to spread the allowance across time intervals based on expected maturity would be challenging because (1) a portion of the overall allowance is not assigned to an individual loan (it's attributed to a pool of similar assets) and (2) it is difficult to forecast the timing of estimated cash flow shortfalls.

Demand deposits: The proposal's application guidance indicates that the expected maturity of a bank's demand deposits would be determined based on expected run-off rates. Providing objective and auditable support of management's estimate of run-off rates and how they are used to determine the expected maturity may be challenging. Currently, run-off rates are not routinely or consistently calculated by banks. Some suggest demand deposits have an immediate maturity because they can be withdrawn at any time. Others assert that pools of deposits are more of a long-term funding source. Some banks currently prepare or engage third-party specialists on a non-routine basis to prepare deposit studies that, from an audit perspective, are used primarily for estimating the value of core deposit intangibles in a business combination. Preparing these studies can be costly, and the proposed quarterly disclosure requirements would amplify that cost by requiring routine updates. In some cases, the data necessary to perform such studies may not be readily available.

Insurance liabilities: The proposed Update would require an insurance company to present the carrying value of its insurance liabilities based on its expectation of the timing of the payout of the liabilities, which could be multiple periods for a single contract. We believe many insurance companies would be challenged to predict the timing of insurance liability payouts (some of which are also often subject to litigation) with the frequency and level of precision suggested by the proposed Update.

Instruments with call or put options: We recommend that the Board clarify how bifurcated put or call options affect the expected maturity of a host debt instrument.

Derivatives: The proposed Update would require entities to report the carrying amount of their derivative instruments in the time interval that corresponds with the instrument's contractual maturity, regardless of whether the instrument is used for hedging purposes or speculation. In all other instances, the proposed Update would require the carrying amount of financial instruments that are carried at fair value with changes in fair value recognized in net income to be shown as a total amount (i.e., the carrying amount would not be spread across the time intervals in which cash flows are expected to be received or paid). We do not understand the basis for the different treatments. Moreover, other than to simplify the preparation of the disclosure, we question why the expected maturity of derivative instruments should be based on their contractual maturity if such instruments involve settlement payments prior to their contractual maturities (e.g., interest rate swaps).

Lastly, if the Board decides to move forward with its proposal, it should also clarify its expectations regarding the presentation of derivatives and related cash collateral arrangements subject to master netting agreements, particularly for amounts that are reported net on the balance sheet in

accordance with ASC 815-10-45. We believe clarity is required because the proposed Update requires that information presented in the table be reconciled to the amounts reported on the balance sheet.

Leases: The proposed Update indicates that termination options should be considered when estimating the expected maturity of leases. It's unclear why there is no mention of renewal options. Not considering a probable renewal could distort the disclosure. We believe the Board should clarify how renewal options should be considered.

Financial instruments that require the return of principal but have no contractual means to prepay before maturity: The proposed application guidance for financial instruments that require the return of principal but have no contractual means to prepay before maturity is confusing. For example, it's unclear whether a lender would consider a consumer's prepayment patterns when determining expected maturity or whether a lender would use something other than the contractual maturity date if it is probable that a loan will be extended. The Board should clarify its thinking in this area.

Off-balance-sheet commitments and obligations: We believe additional application guidance is required to ensure consistent disclosure across reporting entities in this area, both with respect to the nature of commitments and contingencies and the level of disaggregation. For example, it is unclear whether these items should be aggregated into one line (as shown in the illustrations) or whether the principle of "classes of financial assets and financial liabilities" should be applied to these items. Additionally, it's unclear how reporting entities should apply the concept of expected maturity to off-balance sheet commitments and obligations (e.g., what assumptions should be considered when determining how loan commitments should be reflected in the various time intervals).

The proposed Update should clarify whether the amounts presented in the table about off-balance sheet items should be undiscounted cash flows or amounts that reflect the time value of money. We also observe that information about many of the off-balance sheet items subject to this proposal (e.g., operating leases, loan commitments, lines of credit), including minimum lease payments, is currently required to be disclosed under other US GAAP. It is unclear whether these other disclosures would satisfy the objectives of the proposed Update in paragraph 825-10-50-23F.

Expected maturity: The term expected maturity within the context of the proposed Update should be clarified so constituents understand whether a probability-weighted analysis would need to be performed or whether other approaches would be appropriate, such as the use of a best estimate, a most-likely outcome or a mean.

The proposed Update indicates that a company should also provide information about any "significant" differences between the disclosed expected maturities and contractual maturities. It's unclear what is meant by significant differences. Any final standard should clarify whether significance should be based on the difference relative to (1) the individual financial instrument, (2) aggregated amounts within a specific time interval or (3) materiality for purposes of the entity's financial statements.

Question 2:

For an entity that is not a financial institution, the proposed amendments would require a cash flow obligations table that includes the expected maturities of an entity's obligations. Do you foresee any significant operational concerns or constraints in complying with this requirement? If yes, what operational concerns or constraints do you foresee and what would you suggest to alleviate them?

Response:

The cash flow obligations table is substantially similar to the SEC's contractual obligations table (refer to our response to Question 22). Based on the guidance provided in the proposed Update, it appears that the expected maturity will often equal the contractual maturity of typical financial instruments held by nonfinancial institutions (excluding brokers and dealers in securities and investment companies).

Since the adoption of Item 303(a)(5), registrants and industry groups have raised questions about how to disclose a number of items in the contractual obligations table, including interest payments, repurchase agreements, synthetic leases and pension obligations, among others. We encourage the FASB to consider those questions in developing any final guidance.

There are some differences between the proposed disclosures and current SEC requirements that would require additional effort. The Board should consider these differences, including some of the application comments summarized in our response to Question 1 above, before finalizing any requirements.

Derivatives: In addition to our comments summarized in Question 1, we are concerned about the proposed disclosure of undiscounted cash flows expected from an entity's derivative obligations. We believe the proposed requirement would be particularly challenging for those entities that engage in significant derivatives activities because the required information could require significant data mining and information systems enhancements to obtain the information needed for disclosure.

Additionally, it's unclear what benefit would be derived from providing this information. Most companies manage their derivatives on a fair value basis because cash inflows and outflows may vary from one reporting period to the next. When derivatives are terminated, the fair value of the derivative better represents the actual cash outflow. Furthermore, many derivative transactions are collateralized with cash deposits, which are adjusted daily based on changes in fair value. As a result, the amount of cash exchanged to settle a derivative contract upon maturity may be relatively small compared with the notional value of the contract.

Frequency of disclosure: The SEC requires the annual disclosures to be updated quarterly only when there have been significant changes to the information presented since the last Form 10-K was filed. The FASB's proposed Update would require the disclosures on a quarterly basis, even if there have been no significant changes. We recommend that the FASB consider aligning its requirements with the SEC's updating requirements.

Time intervals: The time intervals to be used in the proposed table are different from those currently required by the SEC. We would challenge the Board to determine whether these differences are necessary.

Question 3:

The proposed amendments would require information about expected maturities for financial assets and financial liabilities to highlight liquidity risk. Expected maturity is the expected settlement of the instrument resulting from contractual terms (for example, call dates, put dates, maturity dates, and prepayment expectations) rather than an entity's expected timing of the sale or transfer of the instrument. Do you agree that the term expected maturity is more meaningful than the term contractual maturity in the context of the proposed liquidity risk disclosures? If not, please explain the reasons and suggest an alternative approach.

Response:

We agree that the use of expected maturities is more meaningful than contractual maturities for purposes of the proposed liquidity risk disclosures. However, we believe that clarifications are needed, as described in our responses to Questions 1 and 2 above to promote comparability of the disclosures.

Additionally, we believe the use of the term "expected" within the proposed Update could create confusion, particularly among the users of financial statements. Some believe the term inherently includes consideration of what management might expect to do with any given financial instrument; however, the proposed Update specifically prohibits consideration of the entity's expected timing of sale or transfer when estimating expected maturity. One alternative might be to use a term such as "expected contractual maturity." This might help clarify that the concept of expected maturity, within the context of the proposed Update, is confined to contractual terms.

Lastly, it's unclear whether the term "expected" implies the use of a probability-weighted analysis. As previously suggested, the Board should clarify how expected maturity should be calculated.

Question 4:

The proposed amendments would require a quantitative disclosure of an entity's available liquid funds, as discussed in paragraphs 825-10-50-23S through 50-23V. Do you foresee any significant operational concerns or constraints in complying with this requirement? If yes, what operational concerns or constraints do you foresee and what would you suggest to alleviate them?

Response:

The proposed Update defines available liquid funds as unencumbered cash and high-quality liquid assets that are free from restrictions and readily convertible to cash. They include:

- Cash
- Cash equivalents
- Unpledged liquid assets

Because the FASB has not defined the term "high-quality liquid assets," it's unclear whether it should have the same meaning as that provided by Basel III or another accounting or regulatory framework. As a result, there may be differences in how companies distinguish these types of assets.

For example, the proposed Update indicates that the term high quality generally refers to the level of nonperformance risk associated with fixed income financial instruments. As a result, some entities believe that equity securities should be excluded from the available liquid funds table. Others believe that equity securities should be included in the table if they can be easily and immediately converted into cash at little or no loss of value (e.g., because they are quoted in an active market that can quickly absorb the quantity held by the entity without significantly affecting the price). Given the potential significance attached to this number, this definition should be clarified.

Additionally, the level of disaggregation required for the proposed disclosure of available liquid funds is unclear. It is unclear whether this information would need to be disclosed by subsidiary, reporting segment or another level. For example, the illustration in the proposed Update shows various columns including the parent company, subsidiaries and a broker dealer, but the proposed guidance in 825-10-50-23S through 50-23V doesn't address that type of detail, which raises several questions about the objectives of the proposed disclosure.

The proposed Update would require an entity to describe any regulatory, tax, legal, repatriation or other conditions that could limit the transferability of funds among its subsidiaries. This discussion would have to quantify the amounts subject to those conditions. We believe companies could be challenged to summarize this information in a meaningful way, based on the number, nature and location of operations of subsidiaries included in the consolidated financial statements.

Question 5:

For depository institutions, the proposed Update would require a time deposit table that includes the issuances and acquisitions of brokered deposits during the previous four fiscal quarters. Do you foresee any significant operational concerns or constraints in complying with this requirement? If yes, what operational concerns or constraints do you foresee and what would you suggest to alleviate them?

Response:

We believe the Board should clarify the following concepts related to the disclosure of time deposits:

- The term "depository institution" is not defined within US GAAP. As a result, the Board should clarify which entities would be subject to this disclosure requirement.
- Should deposit rollovers be considered new or existing issuances for purposes of the proposed disclosures?
- Should the term "yield" in 825-10-50-23L(b) and the term "rate" in Example 7 of the implementation guidance refer to the contractual coupon? Most banks likely track only contractual rates. If the Board is seeking different information, it should perform additional outreach to understand whether there are any operational issues in obtaining that information.

Although we don't foresee any significant operational concerns or constraints in depository institutions' ability to comply with the proposed time deposit disclosures, we do question the Board's focus in this area. The Basis for Conclusions indicates this table would help users understand "how a bank is positioning itself for the future with short-term or long-term funding." The Board should

explain why it decided not to broaden this disclosure to other types of financial institutions and other primary or significant sources of funding such as other deposit products, repurchase agreements, guaranteed investment contracts, asset-backed securitizations (e.g., guaranteed mortgage securitizations and commercial paper conduits) and insurance premiums. We are unsure how a disclosure limited to time deposits will help users understand a financial institution's short or long-term funding strategy.

Questions for Preparers and Auditors-Interest Rate Risk

Question 13:

The interest rate risk disclosures in this proposed Update would require a repricing gap table. Do you foresee any significant operational concerns or constraints in complying with this requirement? If yes, what operational concerns or constraints do you foresee and what would you suggest to alleviate them?

Response:

We believe the Board needs to do more outreach with preparers before finalizing the proposed repricing gap table. We expect that outreach will indicate that many financial institutions do not currently prepare the information prescribed in the table, which we believe raises questions about the benefit of this table.

We expect that companies will be significantly challenged to determine the duration for all financial instruments presented in the balance sheet. We expect that companies would be required to incur significant costs to obtain, review and audit this information. Although the proposed Update provides latitude in the specific type of duration (e.g., Macaulay, modified, effective, average) disclosed, we expect that many organizations will be required to use outside specialists to prepare these disclosures. We also believe auditors will need additional training to audit them.

The implementation guidance (825-10-55-5G) suggests that certain methods of calculating duration may be more appropriate for different types of financial instruments. It is unclear whether the Board intended for an entity to use one method for all of its financial instruments or different methods based on the characteristics of each individual instrument. We are not clear how duration should be calculated for total interest-earning assets and interest-bearing liabilities.

Question 14:

The interest rate risk disclosures in this proposed Update would include a sensitivity analysis of net income and shareholders' equity. Do you foresee any significant operational concerns or constraints in determining the effect of changes in interest rates on net income and shareholders' equity? If yes, what operational concerns or constraints do you foresee and what would you suggest to alleviate them?

Response:

The proposed Update would require financial institutions to assess the effects of several specified hypothetical, instantaneous shifts in interest rate curves on their net income and shareholders' equity. We question the usefulness and understandability of the resulting information if it doesn't reflect how

an entity measures and manages interest rate risk. In particular, we question the usefulness of the prescribed tables when measuring the sensitivity of trading portfolios that are managed based on changes in fair value.

Overall, we believe preparing the sensitivity analysis would be challenging for companies. While most financial institutions already perform some level of stress testing, the processes they use are likely outside the scope of their internal controls over financial reporting. The models and processes used by many financial institutions are labor intensive and require the extraction of detailed data from various systems. We expect that companies would be challenged to prepare this information in a cost effective manner, subjecting these processes to their systems of internal controls.

We also have the following concerns about the proposed disclosures:

- Scope: The Board should clarify the scope of assets and liabilities (including any off-balance sheet commitments and obligations) to be included in the analysis. Some believe the scope is limited to financial instruments, including leases and insurance contracts as indicated in paragraph 825-10-50-23E of the proposed Update while others believe that the disclosures should also include off-balance sheet commitments, as described in paragraph 825-10-50-23F of the proposed Update. It's also not clear whether nonfinancial assets and liabilities (e.g., deferred acquisition costs) should also be included if their value is directly related to the change in fair value of the entity's financial instruments.
- Interrelated factors: The proposed Update is unclear about whether an entity should consider other factors that are interrelated to interest rate movements, such as prepayment and default rates, when assessing the effect on net income and shareholders' equity. We believe such interrelated items should be considered and that an analysis that doesn't appropriately consider these relationships would be less meaningful. For example, while an increase in interest rates would adversely affect the value of a fixed-rate mortgage-backed security, the change in rates would also have a positive effect on the instrument's expected prepayment rates (i.e., the average life of the MBS would be expected to be extended), which would mitigate the adverse change in value due to rising interest rates.
- ▶ **Equity instruments:** It's unclear how an entity should calculate the change in value of equity instruments under the various prescribed scenarios. The Board should clarify whether it intended to include equity instruments within the scope of the proposed Update. If so, additional guidance is needed to make the requirements operable and auditable.
- Static disclosure: The proposed Update prohibits an entity from incorporating any forward-looking expectations regarding non-interest revenues, non-interest expenses, tax rates, projections about growth rates, asset mix changes or other internal business strategies in preparing the interest rate sensitivity analysis. While we appreciate the Board's attempt to remove the subjectivity from these disclosures, we believe the restriction of all these factors could be misleading because it does not include any consideration of how an entity would actively respond to and manage the exposure, which is one of the objectives of these disclosures. We also believe that these disclosures would require significant judgment and would be difficult (if not impossible) to audit, which is another reason why we believe these types of disclosures belong in MD&A.

We believe the Board should consider the feedback it received when it previously proposed disclosures of certain sensitivity analyses. In the redeliberations leading to the issuance of ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, the Board acknowledged comments that the significant costs associated with preparing a sensitivity analysis would outweigh the benefits to users, particularly due to the aggregated nature of the disclosures. The proposed disclosures are even further aggregated, which leads us to question how the Board justified the cost/benefit analysis in this circumstance.

Questions for All Respondents

Question 20:

The amendments in this proposed Update would apply to all entities. Are there any entities, such as nonpublic entities, that should not be within the scope of this proposed Update? If yes, please identify the entities and explain why.

Response:

As discussed earlier, we believe nonpublic entities should be exempted from the proposed Update. We don't believe the incremental benefits outweigh the costs of compliance. Most users of private entity financial statements have more access to management and can obtain any additional information they need to understand an entity's liquidity risk or interest rate risk.

We also believe not-for-profit (NFP) entities should be exempted from the proposed Update. We believe many NFP entities would incur significantly more costs than the potential benefits users would obtain from these disclosures. We believe the needs of financial statement users for these entities would best be addressed by the FASB's separate project on financial statements of NFP entities. We also encourage the Board to obtain input from the Not-for-Profit Advisory Committee on whether the proposed disclosures should be required.

Question 21:

Although the proposed amendments do not have an effective date, the Board intends to address the needs of users of financial statements for more information about liquidity risk and interest rate risk. Therefore, the Board will strive to make these proposed amendments effective on a timely basis. How much time do you think stakeholders would require to prepare for and implement the amendments in this proposed Update? Should nonpublic entities be provided with a delayed effective date? If so, how long of a delay should be permitted and why? Are there specific amendments that would require more time to implement than others? If so, please identify which ones and explain why.

Response:

The proposed disclosures are extensive and would likely require a relatively significant amount of time for companies to make the necessary changes to its information systems and internal controls. We strongly encourage the Board to carefully consider the feedback from preparers before finalizing an effective date.

Question 22:

Do you believe that any of the amendments in this proposed Update provide information that overlaps with the SEC's current disclosure requirements for public companies without providing incremental information? If yes, please identify which proposed amendments you believe overlap and discuss whether you believe that the costs in implementing the potentially overlapping amendments outweigh their benefits? Please explain why.

Response:

As described earlier, we believe that many of the proposed Update's disclosures are redundant given current SEC reporting requirements. Item 303 of Regulation S-K already requires public companies to provide investors with a comprehensive explanation of their liquidity and capital resources and related funding risks in MD&A (and also provides for forward-looking statements to be afforded safe harbor protections). Item 305 of Regulation S-K already requires significant quantitative and qualitative disclosures about market risks, including interest rate risk. In addition, registrants that are banks are required to provide disclosures in accordance with Article 9 of Regulation S-X and Securities Act Guide 3.

For example, we compared the proposed Update's cash flow obligations table to the SEC's contractual obligations table and have the following observations and recommendations:

	FASB's proposed expected cash flow obligations table	SEC's contractual obligations table	Observations and recommendations
Frequency of disclosure	Quarterly, if public Annually, if nonpublic	Annually, updated quarterly if there are significant changes from what was presented at the last annual disclosure	 If changes in the information from quarter to quarter are not significant, we question whether the quarterly disclosures would be useful. We recommend that the FASB align the frequency of the proposed disclosures with those of the SEC.
Time Intervals	Each of next four quarters Year 2 Years 3, 4 and 5 After 5 years	Less than one year Years 2 and 3 Years 4 and 5 After 5 years	 Nonpublic entities should not be required to disclose information for the next four quarters. The difference in time intervals in the annual and quarterly disclosures could create confusion. We believe any amendments to the time intervals presented to address user requests for additional information should be coordinated with the SEC.

Observations and FASB's proposed expected SEC's contractual cash flow obligations table recommendations obligations table Expected maturity of Contractual maturity of **Items** contractual cash flows related known obligations. • See discussion below. disclosed to financial liabilities and offaggregated by type of balance-sheet obligations obligation • Requiring disclosure at a more disaggregated level than the May be at a more balance sheet line item could Level of Should be consistent with disaggregated level than result in extensive aggregation that used in the balance sheet in the balance sheet reconciliations to line items in the balance sheet.

We believe the most significant difference between the two disclosures is the FASB's proposed use of expected maturity rather than the SEC's use of contractual maturity. While we believe expected maturity is a more decision-useful disclosure, users could be confused by two very similar disclosures that provide different information.

While the Board believes these proposed disclosures provide meaningful information, we believe the relative costs would outweigh the benefits to effectively duplicate the disclosure in the audited financial statements, particularly given that most users have not indicated that they want this information audited. The proposed Update requires the presentation of the same general topics in slightly different ways and we could envision investors even asking for more information to reconcile the two tables.

Duplicative disclosure requirements in US GAAP

We believe that certain of the proposed Update's disclosures are redundant given current disclosure requirements and the Board should challenge whether some of these disclosures can be eliminated. For example, Topic 470, *Debt*, requires disclosure of maturities for all long-term borrowings for the next five years. This disclosure seems redundant given the proposed cash flow obligations table and the liquidity gap table. There are also similar duplicative disclosures in Topics 320 (Investments–Debt and Equity Securities) and 840 (Leases), among others.

Other matters

We believe the Board should also consider the following in its redeliberations.

Classes of financial instruments: We believe the Board should reconsider the proposed guidance in 825-10-50-23E. The proposed Update seems to suggest that a class of financial instrument will be typically at a more disaggregated level than what is presented in the balance sheet. We believe this level of disaggregation could be overwhelming to users.

Definition of a financial institution: We believe the term financial institution and its application to reportable segments and nonpublic entities should be clarified and have the following observations:

- We question why the Board decided to include all insurance companies in its definition of a financial institution. For example, we don't understand how the proposed repricing gap analysis would provide meaningful information about a property and casualty insurance company whose primary obligations (policyholder liabilities) are not subject to interest rate risk and whose primary business activity is not to earn a spread between the interest generated by earning assets and interest paid on borrowed funds.
- We recommend that when describing the types of entities that would be scoped out of the proposed Update that the term "substantially all" be clarified. In other areas of US GAAP, the term is generally interpreted to mean 90% or more. It's not clear whether the Board intended a similar interpretation for applying the proposed Update.
- Paragraph 825-10-50-23B of the proposed Update states that "these disclosures shall apply to the reportable segments of an entity (see Section 280-10-50). Reportable segments that are financial institutions may be combined with other reportable segments that are financial institutions for the purposes of providing these disclosures. Combining reportable segments that are not financial institutions also is permitted for the purposes of providing these disclosures."
 - It's unclear whether a public company that is determined to be a financial institution (e.g., a bank holding company) can or should provide the applicable disclosures by combining its reportable segments even if some of the segments don't meet the definition of a financial institution. We believe a more consolidated disclosure would be acceptable provided that doing so (1) would not obfuscate the information in the tables and (2) would be consistent with how management monitors and manages its liquidity and interest rate risks.
- The proposal does not specify how a nonpublic entity with multiple businesses and consolidated subsidiaries should determine whether the financial institution disclosures apply. It would appear that a nonpublic entity could choose to present the required disclosures based on whether the majority of its business is financial or nonfinancial. The Board should consider providing additional application guidance to make this determination.