FASB Disclosures Liquidity Interest Rate Risk

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Respondent information

Type of entity or individual:

Preparer

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Questions and responses

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?

We are not a financial institution so are not providing comments on sections of the proposal related to financial institutions.

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?

We do not believe it is appropriate to require information about "expected maturities" in the financial statements of entities that are not financial institutions. Disclosure of expected maturities could lead to disclosure of potential transactions that are not yet desirable or appropriate to disclose. This could also be problematic with respect to SEC rules on prepping the market with respect to certain transactions.

To require information on expected maturities would also require entities to speculate on potential future transactions that are not supported by contractual arrangements. This would lead to great disparity between entities and would not achieve the "high level of comparability" referenced as a main point in paragraph BC 6 of the proposal. Furthermore, the required disclosure of expected maturities would be extremely difficult to audit and would likely lead to significant increases in audit costs.

Perhaps requiring disclosure of expected maturities for financial institutions would be appropriate, but we cannot comment on that since we are not a financial institution.

We would not be opposed to requiring a table of cash flow obligations that reflects contractual maturities. This could encompass any contractual modifications of maturities, such as puts and calls, so that the presentation would reflect the earliest possible contractual maturity.

Many of the items specified to be disclosed in the proposed table are already disclosed under GAAP. If the requirement for a table is retained in a final standard update, the existing requirements should be integrated with the new requirements, so similar information is not presented more than once. For example, the existing requirements for disclosure of maturities of long-term debt and lease commitments should be integrated so the information is presented in the obligations table and would be removed from the existing disclosure requirements.

The proposed table would require the disclosure of anticipated interest payments. Any final standard should include clarification of what is intended to be presented in this caption and how it should be calculated. The calculation would appear fairly straight-forward for fixed-rate long-term debt as being the stated rate multiplied by the amounts outstanding during the required periods, based on scheduled maturities. However, it would be more complicated when considering short-term revolving credit type facilities. The balances and rates under these types of facilities often change on a daily basis. Requiring that balances and rates be forecasted in the future would be highly subjective and would prove to be inaccurate. As mentioned above, this information would not be comparable between entities and would be difficult to audit. We do not believe disclosures regarding these types of facilities would provide useful information to users of financial statements. Existing disclosures of the nature, terms, and amounts of such facilities enable users to reach their own conclusions about cash flow requirements resulting from them. If the final standard encompasses these types of facilities, the required disclosure should be limited to presenting the amount outstanding at the date of the latest balance sheet as an obligation of the period in which the facility expires and the interest requirements on such balance sheet amount through the expiration date at the rate in effect at the balance sheet date, adjusted for any contractual changes in the rate.

If a table is ultimately required, we believe that additional guidance should be provided on what items should and should not be included. For example, should normal operating expenditures such as payroll, inventory procurements, capital expenditures, income taxes (including the amounts reflected as liabilities on the latest balance sheet) be included in the table even if there are not contractual commitments?

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.

As discussed in 2. above, we do not believe expected maturities is more meaningful than contractual maturities, at least for entities that are not financial institutions. We encourage the Board to limit any required disclosures to contractual maturity information.

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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?

Conceptually we do not object to this proposal, although we believe substantially all of the information is already presented within our financial statements, as well as those of most entities that are not financial institutions. If the requirement for the available liquid funds table is retained in a final standard, we believe additional guidance should be provided regarding the nature of items to be included. For example, if what might otherwise be considered non-liquid funds, were used primarily to manage obligations that are required to be disclosed in a table of cash flow obligations, it would seem those assets should be included to accurately present the entire situation.

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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?

We are not a depository institution so are not providing comments on this item.

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6. As a preparer, do you feel that the proposed amendments would provide sufficient information for users of your financial statements to develop an understanding of your entity's exposure to liquidity risk? If not, what other information would better achieve this objective?

We believe that existing disclosures provide sufficient information for users of our financial statements to understand our liquidity risk exposure and think this is probably the case for most entities that are not financial institutions. Since we are not a financial institution, we cannot comment with respect to financial institutions.

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7. Does the liquidity gap table described in paragraphs 825-10-50-23E through 50-23K provide decision-useful information about the liquidity risk of a financial institution? If yes, how would you use that information in analyzing a financial institution? If not, what information would be more useful?

NA

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8. Does the cash flow obligations table described in paragraphs 825-10-50-23M through 50-23R provide decision-useful information about the liquidity risk of an entity that is not a financial institution? If yes, how would the information provided be used in your analysis of an entity that is not a financial institution? If not, what information would be more useful?

NA

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9. Paragraphs 825-10-50-23S through 50-23V would require an entity to disclose its available liquid funds. Would this table provide decision-useful information in your analysis? If not, what information would be more useful?

NA

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10. Are the proposed time intervals in the tables appropriate to provide decision-useful information about an entity's liquidity risk? If not, what time intervals would you suggest? Do you believe that there are any reasons that these required time intervals should be different for financial institutions and entities that are not financial institutions?

NA

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11. With respect to the time intervals, should further disaggregation beyond what is proposed in this Update be required to provide more decision-useful information to the extent that significant amounts are concentrated within a specific period (for example, if a significant amount of liabilities are due in Year 10 of the "past 5 years" time interval)? Please explain.

NA

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12. For depository institutions, the proposed Update would include a time deposit table that includes the issuances and acquisitions of brokered deposits during the previous four fiscal quarters. Would this table provide decision-useful information in your analysis of depository institutions? If not, what information would be more useful?

NA

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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?

NA, since we are not a financial institution.

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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?

NA

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15. As a preparer, do you feel that the proposed amendments would provide sufficient information for users of your financial statements to understand your entity's exposure to interest rate risk? If not, what other information would better achieve this objective?

NA

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16. Would the repricing gap analysis in paragraphs 825-10-50-23Y through 50-23AC provide decision-useful information in your analysis of financial institutions? If yes, how would this disclosure be helpful in your analysis? If not, what information would be more useful?

NA

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17. Are the proposed time intervals in the repricing gap table in paragraphs 825-10-50-23AB through 50-23AC appropriate to provide decision-useful information about the interest rate risk to which a financial institution is exposed? If not, which time intervals would you suggest?

NA

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18. The interest rate risk disclosures in this proposed Update would include a sensitivity analysis portraying the effects that specified changes in interest rates would have on net income and shareholders' equity. Currently, many banks and insurance companies provide a sensitivity analysis of the economic value of equity instead of shareholders' equity. A sensitivity analysis of economic value would include the changes in economic value of financial instruments measured at amortized cost, such as loans and deposits. A sensitivity analysis of shareholders' equity would only include those changes that affect shareholders' equity. Therefore, the changes in the economic value of financial instruments measured at amortized cost would not be reflected in the sensitivity analysis although changes in interest income would be reflected. Do you think that a sensitivity analysis of shareholders' equity would provide more decision-useful information than would a sensitivity analysis of economic value? Please discuss the reasons why or why not.

NA

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19. Do you think that it is appropriate that an entity that is not a financial institution would not be required to provide disclosures about interest rate risk? If not, why not and how would the information provided be used in your analysis of an entity that is not a financial institution?

NA

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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.

It appears to us that the impetus behind the proposed ASU is concern regarding financial institutions and that these concerns have been projected to all entities. We do not believe the additional requirements for non-financial institutions provide sufficient additional information to users to warrant the additional effort and cost. This is especially true regarding expected maturity information and we strongly encourage the Board to not require information beyond contractual maturities since it would speculative and lack comparability between entities.

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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.

If the Board retains the requirement to disclose expected maturity information, which we strongly oppose as stated elsewhere, there will be significant effort required to develop systems, processes, and controls to accumulate and document such information. Significant coordination will also be required with outside auditors to develop and implement audit processes. We believe at least one year, and perhaps two years, would be required to adequately implement those efforts.

If the disclosure requirements are ultimately limited to contractual obligations and additional guidance is provided regarding the nature of items to be disclosed, the required time frame would be shorter. In that circumstance, six months to one year should be adequate.

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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.

Much of the information proposed to be presented in the cash flow obligations table overlaps information required by the SEC to be presented in the contractual obligations table under MD&A. To have two separate tables summarizing obligations and to present expected maturity information in the financial statements and contractual maturity information in MD&A related to the same obligations will be confusing to readers. It seems that information on expected maturities would be more appropriate in MD&A than in the financial statements.

It appears additional outreach to and coordination with the SEC would be beneficial.

Additional comments. Please provide any additional comments on the proposed Update or any comments on this electronic feedback process below.

As stated above, it appears this proposal is mainly intended for financial institutions. We do not believe applying the proposed requirements to non-financial institutions provides sufficient incremental benefit to users of those financial statements to justify the effort and cost to prepare them.

We are especially concerned about the proposal to require disclosure of expected maturity information and do not believe expected maturity information is appropriate to be disclosed within financial statement footnotes. Disclosure of expected maturity information will require speculation by entities and will lead to entities making different assumptions causing lack of comparability. This information will be extremely difficult to audit, which will result in significant increases in audit costs.

825-10-50-23N would require disclosure of information for non-financial institutions for the same periods as required for financial institutions. This would include separate disclosures for each of the next four fiscal quarters. Perhaps such disclosure is warranted for financial institutions, but we do not believe it is justified or necessary for non-financial institutions. We encourage the Board to limit any disclosures for non-financial institutions to annual periods.

Similarly, 825-10-50-2A and 825-10-50-23O would require non-financial institutions to make disclosures in each interim period and for the same periods as financial institutions. We believe such disclosures are not justified or necessary for non-financial institutions. We encourage the Board to only require disclosures in interim financial statements of non-financial institutions if there have been substantial changes from the disclosures made in the last annual financial statements.
