

Please note that the comments expressed herein are solely my personal views

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- **File Reference No. 2012-200**
- **Financial Instruments (Topic 825)**
- **Disclosures about Liquidity Risk and Interest Rate Risk**

Dear Sir.

Thank you for giving us the opportunity to comment on your Proposed Accounting Standards Update: Financial Instruments (Topic 825); Disclosures about Liquidity Risk and Interest Rate Risk.

Proposal

During its outreach activities, the FASB received feedback from stakeholders that the risks that are inherent in a class of financial instruments and the way in which an entity manages those risks through its business operations should be instrumental in developing the reporting model for financial instruments. This proposed accounting standards update is intended to provide users of financial statements (users) with additional decision-useful information about an entity's liquidity risk and interest rate risk.

The required liquidity risk and interest rate risk disclosures include:

- for financial institutions, a Liquidity Gap Maturity Analysis table
- for non-financial institutions, an Expected Cash Flow Obligations Table
- for all entities, an Available Liquid Funds table
- for depository institutions, a table of Time Deposit Issuance
- for financial institutions, a Repricing Gap Analysis Table
- for financial institutions, an Interest Rate Sensitivity Table

These disclosures would provide standardised, consistent and meaningful information for users, and would certainly improve convergence of US GAAP with IFRS.

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Answers to other specific questions raised by the FASB

Questions for Users—Liquidity Risk

Question 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?

This is a useful starting point and would provide consistent and comparable information for users. However, I am not sure that the standardised format will be useful for all financial institutions. For example, liquidity risk for insurers differs from liquidity risk for banks as the corresponding mismatch in term transformation does not exist in the insurance sector. For insurers, disclosures should be relevant in terms of entities' internal risk management and business steering. In general I support the requirement to present the expected maturities of financial assets and financial liabilities in the tables.

Question 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?

The proposed cash flow obligations table will provide decision-useful information about the liquidity risk of an entity that is not a financial institution.

Question 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?

The proposed available liquid funds table will provide decision-useful information, when considered together with the proposed cash flow obligations table and other disclosures.

Question 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?

The proposed time intervals are reasonable. I would recommend that more granularity could be required for financial institutions, given the importance of asset-liability management and the greater magnitude of liquidity risk for these institutions.

Question 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.

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I would support that further disaggregation beyond what is proposed in the Update should be required to provide more decision-useful information to the extent that significant amounts are concentrated within a specific period. In such cases an entity should use its own judgment to determine the appropriate time intervals. Such additional information should be disclosed in the notes to the accounts in order not to alter the proposed standardised formats.

Question 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?

Yes, this table will provide more meaningful information to users. In particular it will allow an analysis of trend in the cost of this funding source.

Questions for Users—Interest Rate Risk

Question 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?

Yes, the proposed repricing gap analysis table will provide more meaningful information to users. It will allow an analysis of interest rate risk and the exposure of a financial institution's financial assets and financial liabilities to movements in interest rates, and indicate how well a financial institution is matching the duration of its assets and liabilities.

Question 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?

The proposed time intervals are reasonable. However, a financial institution should be required to use its own judgment where providing more granularity would provide more meaningful information to users. Such additional information should be disclosed in the notes to the accounts in order not to alter the proposed standardised formats.

Question 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

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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.

The proposed interest rate sensitivity table will provide incremental and meaningful information to users. The sensitivity of net income to interest rate changes is very useful. However, a sensitivity analysis of economic value would provide more meaningful information than a sensitivity analysis of shareholders' equity, as this would capture the full economic impact of potential interest rate movements on the economic valuation of the financial institution.

The proposed parallel changes in interest rates, including flattening and steepening of curve, are sufficient for the interest rate sensitivity analysis. These changes will cover the vast majority of the expected variance in interest rates in a deterministic analysis.

Question 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?

Yes, I agree that this is appropriate given the lower materiality of interest rate risk in non-financial institutions.

Yours faithfully

C.R.B.

Chris Barnard