2012-200 Comment Letter No. 67A



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Re: Financial Instruments (Topic 825) – Disclosures about Liquidity Risk and Interest Rate Risk – <u>Interest Rate Issues</u>

On behalf of the Senior Accounting Group of the Institute of International Finance (IIF), we welcome the opportunity to comment on the Exposure Draft "Financial Instruments (Topic 825) – Disclosures about Liquidity Risk and Interest Rate Risk" issued by the Financial Accounting Standards Board on June 27, 2012. This letter focuses only on Interest Rate issues; liquidity issues are addressed in a separate letter, dated September 21, 2012. Nevertheless many of our concerns are similar in both cases.

We acknowledge that users of financial statements have legitimate interest in market risk issues set out in the Exposure Draft (ED) and that the ED notes at several points that users seek as much consistency, comparability as possible.

However we would like to emphasize the difficulties of disclosure that mixes accounting classes, carrying amounts and risk disclosures. Systems and adjustments for all such purposes are different; risk management views often do not align with accounting views.

Building a new approach rather than using and enhancing current approaches such as MD&A, Pillar III could result in disclosed data that would be irrelevant because of digression from management views, and might confuse users. From an implementation point of view, the proposal would certainly require building new information systems and a complex reconciliation process to the existing disclosure. IFRS7 has different requirements such as allowing the use of Value at Risk as an alternative. Moreover none of the existing requirements will fit complex institutions, as they often have different tools to manage the interest rate risk; furthermore, the Basel Committee's current fundamental review of the trading book will greatly affect the way banks look at these issues, depending on how the trading book/banking book boundary and methodological issues are resolved.

Given the number of significant discussions under way and the complexity of such disclosures, it will be especially important to aim at international consistency around market risk disclosure such as MD&A, Basel III requirements, FSB provisions, IFRS7, etc. In order to avoid US banks having to satisfy a specific requirement that will not be comparable to those applicable to others institutions, the IIF recommends that the FASB defer finalizing

the liquidity and interest rate proposal in the ED until the disclosure-related projects that are currently being undertaken by the FASB itself and other bodies are completed, to benefit from their extensive public discussion.

We suggest that the Board take as much time as necessary to take into account all the work in progress, and align its final standards with other developments on market risk and on disclosure frameworks:

- FSB final recommendations
- Basel III conclusions on trading and banking boundary
- FASB's own work on the Disclosure Framework and forthcoming consultations thereon
- EFRAG's work on the Disclosure Framework

In other words, we recommend:

- That the FASB defer finalizing the Interest Rate risk proposal in the ED until the disclosure-related projects that are currently being undertaken by the FASB itself (i.e., the Disclosure Framework project) and other bodies are completed, to benefit from their extensive public discussion.
- That for any disclosures provided in the audited financial statements (i.e., in the footnotes), the FASB work with the Basel Committee and prudential regulators to ensure general consistency of definition of terms, tables, etc.

It will also be important to foster the "eye-of- management" approach to interest rate risk disclosures, subject to providing users with necessary explanations to allow them to understand the way the interest risk is managed, rather than a standardized approach that would be only built for disclosure purposes and would not correspond to the methodology used by management, either for risk-management or for regulatory purposes.

We stand ready to answer any questions on these matters and would welcome the opportunity to discuss them. If you have any questions, do not hesitate to contact the undersigned or Veronique Mathaud (<u>vmathaud@iif.com</u>; +1 202 682 7456).

Yours faithfully,

