

September 25, 2012

Ms. Susan M. Cospers
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

File Reference No. 2012-200

Dear Ms. Cospers:

McGladrey LLP is pleased to have the opportunity to comment on the Proposed Accounting Standards Update, *Financial Instruments (Topic 825), Disclosures about Liquidity Risk and Interest Rate Risk* (the “proposed ASU”). While we can appreciate how such disclosures would be of value to sophisticated institutional investors, we have significant concerns with the proposed disclosure requirements that can be summarized as follows:

- Appropriateness of including information of this nature in the audited financial statements, namely the Liquidity Gap Maturity Analysis, Expected Cash Flow Obligations and Interest Rate Sensitivity. This type of information is redundant of disclosures currently required in Securities & Exchange Commission (SEC) filings and appears to be more appropriately included in Management’s Discussion and Analysis of Financial Condition and Results of Operations (MD&A).
- How meaningful the information will be as proposed.
- Whether the usefulness of such information will justify the significant costs to comply, particularly for nonpublic and smaller public reporting entities.

These concerns are expanded on in our responses to certain of the “Questions for Respondents” that follow. Our suggestions to alleviate the concerns also follow.

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?*

We have concerns with how operationally feasible it is for the majority of financial institutions (as defined) to compile meaningful information about expected maturities, particularly looking out more than a year or two. While we believe that large financial institutions consider expected maturities in a comprehensive manner as part of liquidity management and therefore generally have the systems, personnel and other resources in place to develop the information as proposed, the vast majority of financial institutions would need to incur significant costs in order to develop meaningful and compliant information. We question whether the perceived benefit of such information would be justified by the significant cost, particularly in

light of the fact that somewhat duplicative information is required in SEC filings for larger reporting entities and by the regulators of financial institutions through quarterly reports that are made available to the public. Even with the best systems and resources, the usefulness of such a static disclosure, particularly one that extends out several years, is limited by the various factors that can influence actual maturity dates such as the stock market, housing market, local and national economies, interest rates and actions taken by the institution to respond to changing conditions. These factors would also make the determination of expected maturities subjective and difficult to audit, adding significant audit costs to the compliance costs. We believe the proposed Liquidity Gap Table would likely only be of interest to most users of financial statements if the reporting entity is experiencing or likely to experience liquidity issues in the near term. For this reason and as is more fully elaborated on in our response to Question 20, we do not believe it would be appropriate to subject all financial institutions to these onerous requirements.

Regarding how to alleviate the operational concerns, we have the following suggestions:

- Since this proposed disclosure involves forward looking information and a high degree of management subjectivity, we believe that it is better suited for MD&A rather than in the audited financial statements. Therefore, rather than instituting extensive new footnote disclosure requirements, we would recommend that the FASB work with the SEC to revise the existing similar SEC filing requirements to meet users' of financial statements needs.
- With regards to smaller public reporting entities and nonpublic entities, we believe that before moving forward with new proposed disclosure requirements, more extensive outreach that focuses solely on smaller entities within the various industries that will meet the proposed definition of a financial institution would be beneficial. While it is noted in the Basis for Conclusions of the Proposed ASU that consideration was given to users and preparers of both public and nonpublic institutions, it is not evident that the consideration was commensurate with the proportion of the overall population made up of smaller entities. For example, based on the Quarterly Banking Profile for the Second Quarter 2012 published by the Federal Deposit Insurance Corporation (FDIC), of the 7,246 institutions that reported to the FDIC for that quarter, 2,342 or 32% of the institutions had a total asset size of less than \$100 million and 6,586 or 91% of the institutions had a total asset size of less than \$1 billion. The vast majority of credit unions have assets of less than \$100 million. We believe that the financial statement user base for smaller public reporting entities and nonpublic entities is significantly different than larger public reporting entities. While the user base for larger public entities' financial statements tends to primarily be sophisticated institutional investors who may likely have an interest in such information, the user base for smaller entities that will meet the proposed definition of financial institution tends to be comprised of constituents such as the following:
 - Shareholders who acquired their investment through a current or former relationship with the entity such as employee or director
 - Credit union members and owners of mutual organizations
 - Lenders
 - Regulators who already establish ongoing reporting requirements to obtain the information they deem relevant for assessing liquidity risk
 - Subsidiaries of larger organizations that issue separate company financial statements

In addition to our belief that there are stark differences in the user base for smaller entities, we also believe that the costs to comply with the proposed requirements would be much more onerous on the strained resources of smaller entities. As such, concentrated outreach with

smaller entities and their financial statement users should focus on the costs versus benefits of adding any new requirements, whether existing disclosures and other publicly available information (such as in reports filed with regulators) satisfy user's needs in a different manner or if existing disclosure requirements can be modified to do so in a cost-effective manner.

- Limit the scope of the proposed requirement as is elaborated on in our response to question 20.
- If the decision is made to move forward with expanded new footnote disclosure requirements, consideration could be given to reducing the subjectivity of the information and complexity of disclosure. Examples to reduce complexity could include reducing the number of time buckets by eliminating quarterly intervals and/or putting any instruments with expected maturities of more than two years out in the same bucket. Reducing subjectivity could be accomplished for example by (1) Requiring contractual maturities (rather than expected) with historical information on prepayments and runoffs for the last twelve months for those classes of financial assets that have actual maturities that differ significantly from contractual, and (2) Requiring liabilities to be reflected in the time interval that represents the earliest period that a reporting entity may be contractually required to pay them (similar to IFRS 7).

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?*

While it is difficult to generalize for the various types of entities that would be subject to this disclosure requirement, we believe that this requirement would be more operationally feasible than the Liquidity Gap Table proposed for financial institutions, given that the table will require only expected obligations, for which a reporting entity would have more control over the timing of payment. Similar to our concerns expressed in response to Question 1, we are of the belief that this type of information would be better suited to MD&A given its forward looking nature. Given that the purpose of the disclosure is in part to provide information about an entity's liquidity in a consistent manner across entities, an approach similar to IFRS 7 may be more beneficial (disclosing financial liabilities in the time interval that represents the earliest period that a reporting entity may be contractually required to pay a liability). In our view, this may be more meaningful as it is objective and would better highlight potential liquidity concerns by presenting the obligations in the earliest period they may be contractually required to be paid.

We noted also that there is a lack of clarity with regards to how derivative instruments should be presented. The proposed guidance pertaining to the liquidity gap table states "*For example, the fair value of a five-year interest rate swap should not be allocated across the five years that cash flows are expected to be paid or received. However, the **fair value** of the swap should be shown in the time interval that corresponds with the financial instrument's contractual maturity*". The general requirement for the cash flow obligation table is that expected obligations will be reported on an undiscounted basis yet the example in the implementation guidance does not include any adjustments to expected cash flows on derivatives to get the amounts presented to equal the carrying amount. Thus, this implies that the intent for the cash flow obligation table may be that derivatives should be presented on a discounted basis. We recommend that this be clarified. We believe that fair value is a better measure of cash outflow upon settlement of a derivative instrument than undiscounted cash flows. Additionally, financial reporting systems may not currently capture undiscounted cash flow amounts.

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.*

We agree that information about expected maturities is generally more meaningful than information about contractual maturities **if** this information can be estimated with a high degree of certainty. As noted in our response to Question 1, we have concerns with the usefulness of such a static disclosure and the subjectivity of expected maturities, particularly when projecting beyond a year or two. We also have concerns with how meaningful the disclosures would be based on how expected maturities are described in the proposed guidance (expected settlement resulting from contractual terms). While the guidance indicates that a reporting entity would consider call dates, put dates and prepayment expectations, all events that would accelerate payment, it is not evident if and how a reporting entity would give consideration to such factors as renewals and extensions that would cause certain instruments' maturities to extend beyond the initial contractual terms. Examples of such instruments include (1) commercial loans for which the contractual term is year to year, however the loans are generally renewed annually subject to credit review, (2) leases with renewal options that can extend the expected maturity beyond the original contractual term, (3) time deposits, which are frequently rolled over such that actual maturities extend significantly beyond the original contractual maturity date, and (4) demand and savings deposits that have no contractual maturity date. With regards to assets that are held for sale at the reporting date and are expected to be liquidated within a short period of time, we do not believe it makes sense to present such instruments based on expected maturity. We also believe that presenting instruments that are carried at fair value through net income in the total column could hamper the meaningfulness of the information as it would likely result in obligations not being matched up with the assets that may be used to satisfy them. In summary, we believe that the guidance would need to be re-evaluated in light of issues such as these to promote a realistic view of a financial institution's liquidity position.

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?*

Given that financial statement users during outreach expressed a desire for consistent and standardized reporting across entities, we believe it would be beneficial to provide some guidance as to what constitutes high quality liquid assets. In the absence of guidance, we believe there may be vastly different interpretations amongst reporting entities. We do not otherwise foresee any significant operational concerns or constraints to comply with this proposed requirement.

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?*

We do not foresee any significant operational concerns or constraints in complying with this proposed requirement.

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?*

We have concerns as to whether the costs reporting entities would incur to comply with this requirement and have it be subject to audit procedures would justify the benefits. We suggest additional outreach concentrated on the nonpublic entities and smaller public reporting entities that make up the vast majority of financial institutions would be beneficial before proceeding with the requirement as proposed. We question how useful this information would be to the users of the financial statements of smaller financial institutions.

To alleviate these concerns, in addition to the scope limitations outlined in our response to Question 20, consideration could be given to reducing the complexity of the proposed disclosure by reducing the number of time intervals and eliminating the requirement to present duration.

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?*

We have the following concerns: (1) whether the costs to generate this information in the format required as well as subject it to audit justify the benefits, particularly for smaller entities who may have few, if any investors who even review the financial statements, (2) whether such forward looking information belongs in the audited financial statements, and, (3) the redundancy between the proposed requirement and existing SEC disclosure requirements.

Our suggestions for alleviating these concerns are as follows:

- Rather than institute a new disclosure requirement, coordinate with the SEC to revise the existing similar SEC requirement to better meet the needs of investors.
- Limit the scope as is elaborated on in our response to Question 20.
- Simplify the proposed disclosure by eliminating the requirement to show the impacts under flattening and steepening shifts in the yield curve.

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.*

Due to the nature of the typical shareholder base of nonpublic and smaller public reporting entities, and the difficulty that smaller entities would have in absorbing the internal and external costs to comply with the proposed requirements, we recommend that such entities (such as institutions with assets of less than \$1 billion) be excluded from all or certain of the proposed requirements pending more extensive outreach specific to this group. Minimally, we suggest that a scope exception similar to that contained in ASC 825-10-50-3 be provided for entities with less than \$100 million in assets, without the strict limitation on derivative instruments. We also believe that employee benefit plans should be excluded from the scope of this proposed ASU due to their unique reporting requirements.

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If the FASB moves forward with requiring the proposed Liquidity Gap Maturity Analysis, it may be preferable to limit applicability in some manner based on the liquidity risk an institution is exposed to rather than requiring the disclosure by all institutions. We believe that this type of information may be of little interest to the users of financial statements for the vast majority of institutions that are not experiencing liquidity issues.

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.*

We believe that stakeholders would require approximately two years to prepare for and fully implement the proposed amendments due to the system changes that are likely necessary as well as the need to institute adequate processes and controls to ensure the integrity of the information. As previously mentioned, we believe additional outreach would be beneficial to determine to what extent nonpublic entities should be scoped out of the requirements. If they are not scoped out, we would suggest that their effective date be delayed by at least a year after public entities are required to implement.

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.*

We believe that all of the proposed new disclosure requirements overlap to varying degrees with the SEC's current disclosure requirements. If investors would prefer to have the information presented as proposed in the ASU and to have the information provided in a consistent manner to promote comparability amongst reporting entities, we believe it would be most beneficial to work with the SEC in revising the SEC disclosure requirements to meet the needs of investors. Any incremental benefit does not appear to justify the cost. Additionally, having similar information in both SEC disclosure requirements and the footnotes seems to add unnecessary clutter to the financial reports.

We appreciate this opportunity to provide feedback on the proposed guidance and would be pleased to respond to any questions the FASB or its staff may have concerning our comments. Please direct any questions to Rick Day (563-888-4017) or Faye Miller (410-246-9194).

Sincerely,



McGladrey LLP