INTERMOUNTAIN COMMUNITY BANCORP

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Technical Director
File Reference No. 2012-200
Financial Accounting Standards Board
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File Reference: No. 2012-200 Proposed Accounting Standards Update: Financial Instruments (Topic 825) Disclosures about Liquidity Risk and Interest Rate Risk

Dear Financial Accounting Standards Board:

We appreciate the opportunity to comment on the proposed update regarding disclosures about liquidity risk and interest rate risk. We understand the need to ensure that users have information about the liquidity and interest rate risk exposure of financial institutions. However, the disclosures required under the proposed guidance do little to expand knowledge over existing disclosures and add significant additional burden, particularly for community banks.

Regarding the value of the additional disclosure requirements, we have a few comments, as follows:

- The proposed liquidity gap report fails to effectively address the intricacies of the behavioral characteristics of the underlying financial instruments and how those instruments are managed. In particular, embedded optionality in loans, investment securities and to a certain extent, even CDs are not adequately depicted, nor are the unique behavioral characteristics of non-maturity deposits. As such, it will provide both an incomplete and inaccurate view of liquidity, and may give users a false sense of security about potential liquidity.
- The focus on contractual maturities provides limited useful information, because it again fails to capture the intricacies of underlying financial instruments, embedded optionality, and the potential control the company has on managing these instruments. In addition, this information is already disclosed for many institutions as part of the MD&A section of the Form 10k.
- Information regarding liquid assets and available funding lines are already disclosed in other footnotes and sections of the MD&A.
- The proposed time deposit table does not provide additional useful information over what is already disclosed. The focus for investors should be on the total liability portfolio, the total interest cost of funds, and the broad components comprising these two items. Singling out CDs provides incomplete information and a false sense that the interest cost is adequately and accurately depicted.

- The repricing gap report ignores both the underlying intricacies (particularly embedded options) and potential management activities involved in monitoring and managing interest rate risk. Many elements of the report are also reported in other areas of the footnotes and MD&A. This report was commonly used and reported by banks prior to 1990, but over the past 20 years, the industry has progressed to more effective modeling and reporting of interest-rate sensitivity.
- The proposed requirements for footnote disclosure of net income sensitivity testing are highly problematic. The assumptions and modeling involved in evaluating rate sensitivity are not precise and will contain variability, even if the tests are "standardized" as proposed. This modeling is highly complex and is by no means precise. Including it as a footnote disclosure may give a false sense of precision to users that simply does not reflect the reality of the modeling. Furthermore, this type of footnote disclosure fails to address management's philosophy or strategy for managing interest rate risk. Interest rate sensitivity is important for management to address, but should be handled in the context of the MD&A, given both its forward-looking nature and the importance of coupling it with a discussion about management philosophy and strategy.
- In addition, the proposed requirement to disclose a 12-month forward looking net income number is a huge challenge, because it works directly against company concern over forward-looking statements and the imprecision of this kind of guidance. Not only does would this disclosure provide information to competitors that institutions may not want to share, but it also adds a false sense of precision to the numbers that users can't and shouldn't rely on, given the uncertainties involved.
- Finally, the proposed guidance regarding shareholder equity at risk shares many of the same challenges as the net income sensitivity reporting. Again, the estimates will be imprecise and inconsistent, even in a "standardized" format. As with net income sensitivity, this is better left to the MD&A, where it can be integrated with management comments regarding economic events, company philosophy and strategy.

Most of the comments above reflect our concern that the proposed additional disclosures are: (a) not meaningful; (b) repetitive; and/or (c) based on assumptions and modeling that is too imprecise to be comparable, reasonably auditable, or communicated with the sense of certainty that footnote disclosure imparts.

In addition, the added burden these requirements place on the banking industry, and particularly smaller community banks like ours, is significant. Community banks already expend substantial resources in monitoring and managing liquidity and interest rate positions. The proposed disclosures will increase the volume of work, and subject a substantial new body of work to audit. This will require additional resources, both internal and external, to document and manage.

These proposed disclosures also come at a time when community banks are already responding to a myriad of new regulations, reporting requirements and other changes. The cost of implementing all these changes falls disproportionately on small companies and creates tremendous challenges in even identifying appropriate resources to provide the documentation required.

At some point too, the amount of disclosure provided begins to exceed the interest level and capacity of users to be able to absorb it. Our quarterly SEC filings have tripled in size over the past few years, with most of the increase related directly to new FASB and SEC requirements. We have a large base of local customers and shareholders and have heard from many users that the document has now become so overwhelming that they are not interested in reading it, nor do they understand much of the information that is presented.

Because of these concerns, we would recommend the following:

- Remove the required gap tables, as they add little value to understanding liquidity and interest rate positioning.
- Remove the time deposit table, as it adds little additional value to evaluating the Company's liability position and cost, and is largely duplicative of other disclosures.
- Remove the liquid asset and funding availability requirements, because they are duplicative of other disclosures.
- Remove the required footnote disclosure involving liquidity and interest rate sensitivity, and instead work with the SEC to refine disclosure requirements involving these areas in the MD&A. In particular, allow and require banks to disclose what they believe is the most meaningful information for users to reasonably understand its liquidity and interest rate risk positions, and importantly, also its practices in managing these positions.

We thank the Financial Accounting Standards Board in advance for reviewing and considering our comments, and would be happy to discuss our views in more detail.

Respectfully,

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