

FASB Disclosures Liquidity Interest Rate Risk

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Respondent information

Type of entity or individual:

Industry Organization

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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?

This is basically a projected cash flow which should not be difficult for an entity to prepare unless they have non-marketable financial instruments. This is also requiring companies to disclose their operating budget from a cash flow perspective which is also helpful to the user of the financial statements. This information should be readily available since it is a tool used by management to guide the company.

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?

This is a projected cash flow statement which is helpful to the users of the financial statements to see if and when a company may fall short of its obligations. This information should be readily available since it is a tool used by management.

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.

Expected maturity is more meaningful than contractual maturity because it highlights the true operational risk to the entity. This is similar to disclosure of debt repayment and classification if a current debt obligation is refinanced for a longer term after the end of the entity's fiscal year. It is classified as long term. It is substance over form. This is more meaningful if proceeds from the sale of assets is expected after the contractual sale date of the assets.

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?

There should be no significant operational concerns or constraints with providing this information since it should flow from the balance sheet.

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?

This information should be readily available from the depository institution's books and records. It would also provide useful information to the users of the financial statements, providing figures for trend analysis.

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?

I believe as a preparer of financial statements I would have a better understanding of an entity's exposure to liquidity risk. I think in addition to these disclosures a projected cash flow statement should be provided to show sources and uses of operating, financing and capital funds.

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?

The liquidity gap table does provide useful information to the users of the financial statements because it would highlight shortfalls in funds which may increase liquidity risk of the entity.

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?

This information would be useful especially for a development stage company where the company is relying on the issuance of debt or equity to provide operating capital.

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?

This table would only be helpful if it provides insight into the company's balance sheet. If the information provided is simply a retelling of the balance sheet then it is redundant.

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 time intervals should be one year intervals so current statements may be compared to the tables. The time intervals should be the same for financial and non-financial institutions.

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.

If the users of a financial statement should know about a material event then it should be disclosed. This is up to management and the auditors of the financial statements. These disclosures may not be in table form but should be outlined in a note to the liquidity table or in a management discussion and analysis section.

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?

This information would be helpful. It would provide information for trend analysis.

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?

The operational constraint would be that no one can accurately predict where interest rates are going. It is possible to provide two tables, one projecting if interest rates rise, the other if interest rates fall. This may become difficult to project, costly to provide and may not provide useful information. What could be provided is a scenario on management's outlook. If management uses internal models to forecast operations then that is what should be the basis for discussion and disclosure. It may not be something that can be plugged into a table.

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?

The operational constraint would be that no one can accurately predict where interest rates are going. It is possible to provide two tables, one projecting if interest rates rise, the other if interest rates fall. This may become difficult to project, costly to provide and may not provide useful information. What could be provided is a scenario on management's outlook. If management uses internal models to forecast operations then that is what should be the basis for discussion and disclosure. It may not be something that can be plugged into a table.

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?

It would provide useful information if it marries the interest rate risk discussion with the impact on the financial statements. It should be a more likely than not scenario.

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, as a user, a repricing gap analysis provides a snapshot of shortfalls and excesses of funds. It provides insight to managements' thinking of how to finance shortfalls. It tells users about managements' processes of running the business.

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 time intervals should be operating cycles, one year. This allows users to compare historical results to projected results.

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.

A sensitivity analysis that would provide a liquidation value or mark to market for a company would be useful to the users of the financial statements. A sensitivity analysis on projected interest income would also be helpful to the users of a financial statement. Financial instruments measured by amortized cost should continue to be measured at amortized cost for interest income purposes because that is truly its cost to the entity, it should not be adjusted for current interest rate levels unless it is to be replaced with current financial instruments. If an entity buys a bond at a discount in order to achieve a higher yield and plans to hold that bond to maturity, then its net income should not be adjusted for changes in interest rates. If the market value of that bond increases or decreases based upon changes in interest rates then a table reflecting the impact on economic value can be provided.

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?

If a non-financial entity does not have significant interest rate risk then it is appropriate not to disclose the risk. If its debt is only line of credit or fixed loan obligations then a sensitivity analysis should not be required. If an entity's capital structure is more complex then full disclosure should be required.

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.

These proposals should apply to all entities. There are non-public, smaller reporting companies that have simple capital structures where these disclosures would not apply.

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.

The effective date of this proposal should allow entities at least twelve months to implement.

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.

There is some overlap with interest rate changes and net income disclosures for public entities. Cost to implement is not significant. Information provided by the proposals is useful to the users of financial statements. The true benefit is that management may rethink their positions on risks taken if full disclosure of the impact of those decisions is required.

Additional
comments.

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