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?

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?

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.

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?
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?

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?

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 disclosure should not be required for non-publicly held banks. When considering who are the users of a bank's financial statements, FASB should consider the fact that for many of the small banks exceeding $100 million in assets, the majority of the investors sit on the Board of Directors and are well versed in the subject matter of these disclosures. Bank's are required to manage liquidity risk and interest rate risk because those banks' regulators examine them to ensure financial institutions policies and performance do not pose a risk to the bank insurance fund. If a bank does not have adequate policies and procedures in place to manage these, that will have a negative impact on the bank's CAMEL rating which is shared with the Board of Directors. Much of this information is already reported on a quarterly basis in a bank's Call Report which is public information. Although the information is available, I don't believe the average small investor in a small bank (the regulators define a small bank as one having under $1 billion in total assets) understands liquidity and interest rate risk and would not benefit from additional disclosures that present complicated information.

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?

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 information is already disclosed in a bank's financial statements.

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?

I do not believe the average small investor would gain any insight from this information. Investors want to invest in small banks for capital gain at lower tax rates. Given the fact that bank executives manage the bank for the stakeholders, operating the bank in an unsafe/unsound manner would defeat the very nature of the stakeholder/agency relationship.
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.

I would think not as there is no way to be able to estimate interest rate environments over that long of a term. Banks are no longer the banks of days past where a bank would celebrate its 50th or 100th year. Bank organizers purchase a bank to grow it, make it profitable, purchase other banks, grow those, and then eventually sell to a larger institution if the market and price are right.

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 is already reported in a bank's Call Report and available to the public.

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?

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?

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?

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?

In my opinion, no, for the reasons cited in previous questions.

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 information in the Call Report provides a suitable amount of information.
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.

Banking regulators already impose stringent stress testing of a bank’s portfolio of interest earning assets and interest bearing liabilities at a 400-500 basis point shock analysis. Interest rates are at historically low levels and any further decreases in interest rates are nearly impossible.

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?

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.

Much of the new banking legislation that has come out (e.g. Dodd Brank; Basel III, etc) targets the extremely large banks as those exceeding $50 billion in assets. The information for nonpublic entities of which a majority are under $1 billion in assets should not be in this scope.

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.

Large publicly held financial institutions have the infrastructure in place to provide and understand this information. Small institutions would need time to engage third party firms to provide this information and those bank’s external auditors would have to develop the expertise to understand and test the inputs into those systems to be able to replicate and verify results.

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.

Publicly held financial institutions are already presenting much if not all of this information in the MD&A sections.
Please provide any additional comments on the proposed Update or any comments on this electronic feedback process below.