Madam, Gentlemen,

This letter of comment is submitted on behalf of the International Association of Consultants, Valuators and Analysts (IACVA), a member of the International Valuation Standards Council (IVSC) and the World Association of Valuation Organizations (WAVO). We are a knowledge transfer and credentialing organization with Charters, issued or pending, covering 54 countries serving about 12,000 members who are mainly involved in business valuation and fraud deterrence.

As a worldwide organization, we are extremely concerned with the development of the accounting standards related to valuation especially in Canada (an IFRS country), where we are incorporated, as well as in the United States, which has at the moment, a majority of our members.

We appreciate the opportunity to comment on the FASB Exposure Draft for an Accounting Standards Update (ASU) “Financial Instruments (Topic 825)”. Our responses to the questions in this document are as follows:

**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 do not foresee any significant operational concerns in providing a liquidity gap table for financial institutions as most of them currently track the expected maturities of all their assets and liabilities (deposits).
**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?

The development of a Cash Flow Obligation table as shown on page 27 of the proposed ASU is, in our view, a source of useful information that should be able to be developed by most organizations. Such data is often included in budgets or business plans.

**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 believe that the term “expected maturity” would normally indicate when the entity anticipates receiving the cash flows from whatever source, sales, partial or total repayment etc. If the phrase is limited to contractual payments, then contracted maturity is preferable. With respect to liquidity, the term expected liquidity is recommended but only in the expanded form of the definition rather than the restricted one the Board has adopted.

**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?

We expect considerable operational constraints on complying with this request as there will be significant differences of opinion as to what (other than T-bills) qualifies as “high quality” liquid assets; a definition or expanded guidance would be very helpful.

**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 see the point of this disclosure. A simple listing at each reporting period of the percentage of brokered deposits that came through brokers should suffice.

**Question 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?

Our members tend to be users rather than preparers of financial statements although they act as valuation specialist and advice to management on such matters. However,
we are always concerned with the liquidity risks in the assets and securities we value. In our view, all firms have liquidity risks relating to all their assets, especially items such as inventories that form part of working capital. Therefore, we recommend that the disclosures of 825-10-50-235 et al, should be applied to all current assets.

Questions for Users—Liquidity Risk

Question 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?

We believe that liquidity gap tables, discussed in paragraphs 825-10-50-23E to 50-23K, are helpful except we object to 23I. We believe it will reduce the flow of actionable information. Our members are likely to use the liquidity gap table in assessing the stability of the relevant financial institutions and in assessing what, if any, adjustments need to be made to the reported book values of their equity instruments.

Question 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?

A Cash Flow Obligation Table, discussed in 825-10-50-23H to 23R, provides important decision-useful information as it helps determine if, and when, additional financing might be needed.

Question 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?

The disclosure of information about an entity’s available liquid funds from every source is useful in assessing if, and when, additional financing might be needed.

Question 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?

We believe that quarterly figures for the next three fiscal years and annual amounts thereafter, with no aggregation, is the most desirable form of such disclosure.
**Question 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.

See answer to Question 10

**Question 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?

As mentioned in the answer to Question 5, we do not believe this disclosure about brokered deposits is essential information. What is important to all lenders and investors is what portions of each class of deposits are brokered and what interest rate premium has had to be paid on them.

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?

A repricing gap table summarizes information that management often uses internally for decision-making. For such disclosure, we suggest the requirements of 23G and 23H be conformed to the information set out in our answer to Question 10.

**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 do not foresee any operation constrains in determining the effect of changes in interest rates on reported net income. Calculating the effect on shareholder equity would be more complex due to the effect on other items such as financial instruments carried at amortized cost and exercise of stock options.

**Question 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?

As a user, we feel the proposed amendments provide helpful information in establishing an entity’s exposure to interest rate risks. A full understanding of the numeric impact on all assets and liabilities, which may be nonlinear, is likely to require additional entity-specific disclosures by management, who may consider then commercially confidential.
Questions for Users—Interest Rate Risk

**Question 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?

See answer to Question 13.

**Question 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?

See answer to Question 10.

**Question 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.

We believe that the current bank practice of providing a sensitivity analysis of the economic value of equity is more useful than the suggested one relating to reported shareholders’ equity due to (a) the impact of financial instruments carried at amortized costs, (b) items forming part of other comprehensive income and (c) exercise of stock options. See our answer to Question 14.

**Question 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?

Any entity subject to any interest rate risk (other than when that amount is immaterial) should be required to make the appropriate disclosure.

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.

All entries subject to GAAP should be covered. Disclosures for small and medium entity reporting or some other basis, are beyond the scope of the ASU.
**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 non-public 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 proposed amendments should be effective in any financial year commencing after 1 July 2013 with early adoption encouraged.

**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 see no needless overlap.

Should a Board or staff member wish to discuss this matter further, you may contact me during normal business hours (Eastern Time) at 416-865-9766.

Respectfully submitted on behalf of IACVA
Per

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Chair