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Exposure Draft, Financial Instruments, Disclosures about Liquidity Risk and Interest Rate Risk

Technical Director, Board Members, and Staff:

Dell appreciates the opportunity to comment on the Exposure Draft: Disclosures about Liquidity Risk and Interest Rate Risk. We understand the Board’s focus on liquidity and interest rate risk, particularly in light of the current macroeconomic environment. However, we believe that the disclosure requirements outlined in this Exposure Draft are counterproductive to the Board’s important work on disclosure effectiveness.

The number of pages in Dell’s annual report has increased 127% in the past twelve years. In an effort to improve the effectiveness of disclosures, the Board recently issued an invitation to comment on their Disclosure Framework Discussion Paper. We applaud the Board’s efforts in this area, as we believe that important information can get lost in the financial statements due to the volume of required disclosures. We believe the Board should focus on developing a holistic framework before pursuing additional disclosure projects.

Overall, we believe the disclosures proposed in this Exposure Draft are too prescriptive, and therefore, contradict the principles of the Disclosure Framework Discussion Paper. If these disclosures were to be implemented, we believe they should be principles-based and management should be given the appropriate flexibility to present this information in a relevant way. We also believe the disclosure requirements outlined in this Exposure Draft will be unduly burdensome for some companies with operating segments that meet the definition of a “financial institution.” ASC 280, Segment Reporting, does not require companies to allocate liabilities managed on a consolidated basis to their respective operating segments. Companies that have financing segments may fund these subsidiaries through their corporate treasury function, rather than on a standalone basis. Accordingly, these companies may not have a fully-allocated balance sheet for their financing segments. In order to present a meaningful Liquidity Gap Maturity Table, Repricing Gap Analysis, and Interest Rate Sensitivity Analysis, these companies would need to create a formal process to allocate financial assets and liabilities managed solely at the corporate level to their financing subsidiaries. It would be difficult and costly for companies to develop a consistent, clear, systematic, and auditable allocation methodology for these assets and liabilities. In addition, these allocations would not be representative of how the company manages its business, and as such, this information would not be useful. Furthermore, the allocation methodologies utilized by companies would vary widely, and accordingly, the comparability of financial statements would be negatively impacted.
We believe the disclosures that pertain to non-financial institutions overlap with current SEC regulations, and accordingly duplicate the efforts of financial statement preparers with little incremental benefit for users. This undermines the efforts of the Disclosure Framework project and creates an unnecessary burden for financial statement preparers; particularly as recent SEC focus on this area has vastly improved current liquidity disclosures. If these requirements were to be implemented, we believe that the more appropriate place for this information is in the Management Discussion and Analysis ("MD&A") section required in SEC filings, rather than in the financial statement footnotes. We believe disclosures in the financial statement footnotes should help users understand information that is presented in the historical financial statements, rather than provide detailed management analysis or forward-looking information. The tables required by this Exposure Draft require a great deal of management analysis to be meaningful for financial statement users, and as such, are more suitably presented in the MD&A section. Finally, we believe providing these disclosures on an interim basis would be particularly difficult for financial statement preparers as well as auditors, especially given the accelerated due date for interim reporting mandated by the SEC.

Dell is a global information technology company that offers its customers a broad range of solutions and services. We design, develop, manufacture, market, sell, and support a wide range of products, solutions, and services. In addition, we offer various financing options and services for our customers through Dell Financial Services ("DFS"), our captive financing subsidiary. The primary purpose of DFS is to provide financing to our customers for the purchase of Dell products and services. While DFS does not meet the definition of an operating segment for Dell, and therefore would not be required to present the proposed disclosures that pertain to "financial institutions," we believe the Board’s definition of a financial institution could potentially scope in companies like Dell, for which these disclosures are not meaningful. As such, we will first address the Board’s definition of a "financial institution" as prescribed in this Exposure Draft as well as the disclosure requirements that pertain to these institutions. We will then address the proposed disclosure requirements that pertain to entities defined as "non-financial institutions".

I. Definition of a "Financial Institution"

The Exposure Draft defines a "financial institution" as "entities or reportable segments for which the primary business activity is to do either of the following, (a) earn, as a primary source of income, the difference between interest income generated by earning assets and interest paid on borrowed funds, or (b) provide insurance." We question whether a reportable segment is an appropriate determination of whether or not a company has an "entity" that is a financial institution.

ASC 280, Segment Reporting, takes a management approach to discrete financial reporting, defining an operating segment as a "component of a public entity whose operating results are regularly reviewed by that entity’s Chief Operating Decision Maker ("CODM") to make decisions about resources to be allocated to the segment and assess its performance." The perspective of the CODM varies widely across public entities. For example, many companies have reportable segments that are geographically-focused or customer-centric, while others operate in a single reportable segment. As such, using the management approach outlined in ASC 280, Segment Reporting, will result in a lack of comparability across financial statements as it relates to the proposed disclosures.
Due to the issues outlined above, we believe the Board should remove the reportable segment criteria from the definition of a “financial institution” for purposes of this Exposure Draft. Instead, we believe the Board should define a “financial institution” as “an entity for which a primary business activity is to either earn interest income or provide insurance.”

II. Liquidity Gap Maturity Table

We acknowledge the objective of the proposed disclosure, as it applies to entities whose primary business function is to generate income from financial assets. However, we believe that this disclosure is too prescriptive and does not allow management the appropriate flexibility to make this information meaningful to their users. For example, we note that this disclosure does not capture the anticipated sale of financing assets, such as financing receivables. We believe that failing to include this routine business practice presents an inaccurate view of an entity’s liquidity risks, as future cash collections on financial assets would not be the only source of liquidity available to an entity. Depending on the nature of the company, there may be other types of forward-looking information that should be contemplated as well. Accordingly, we believe these disclosures should be less prescriptive, more principle-based disclosures that are presented in MD&A, rather than the financial statement footnotes, if they are to be required at all.

III. Repricing Gap Analysis

For entities whose primary business function is to earn income from financial assets over financial liabilities, we acknowledge the objective of this disclosure, as the interest rate of financial assets would be effectively “matched” with the interest rate of financial liabilities.

However, for entities that are scoped in due to their financial services segments, we have specific concerns regarding the allocation of corporate debt. Under the proposed guidance, companies could selectively allocate certain tranches of long-term debt to their financing business while ignoring higher-rate debt tranches, as each individual tranche of debt may not have been assigned a specific purpose when it was issued. Companies such as ours typically issue debt for general corporate purposes and then deploy the funds as needed. As such, these companies would need to assign the different tranches of debt they hold using a somewhat subjective allocation methodology, resulting in disclosures that may present a misleading depiction of interest rate risk for their financing subsidiary. Furthermore, the prescriptive disclosure requirements outlined in this Exposure Draft do not accurately contemplate the interest rate risk of revolving credit products, as the interest rate on these products contractually resets based on changes in the prime rate.

Finally, determining the duration of financial assets and liabilities disclosed in the Repricing Gap Analysis involves using statistical models that would require significant process and information technology improvements. This information would be difficult to prepare and audit, given the complicated nature of calculating duration. Furthermore, as various statistical models provide a slightly different view of duration, this disclosure would not be comparable across financial statements.

IV. Interest Rate Sensitivity Analysis

It is unclear whether the Board’s intent is to analyze interest rate risk for assets held at fair value or to analyze the impact of changes in interest rates on future cash flows. If the Board’s intent is
to analyze interest rate risk for assets held at fair value, we acknowledge the purpose of this
disclosure, as changes in interest rates directly impact the income statement. However, if the
Board's intent is to analyze how changes in interest rates impact future cash flows, companies
should be given the flexibility to disclose information that is more relevant to financial statement
users and reflects how the company manages interest rate risk.

For this disclosure, we have the same concerns regarding the allocation of corporate debt
mentioned above. If the intent of this disclosure is to analyze the impact of changes in interest
rates on cash flows, companies could subjectively allocate fixed-term debt to their financing
segment, thus presenting a misleading perspective of interest rate risk as it applies to their
financing subsidiary.

We believe that the prescriptive shock percentages presented in the proposed disclosure are not
reflective of economic reality, given the current macroeconomic environment. In the spirit of the
Disclosure Framework Discussion Paper, management should be given the flexibility to tailor
this disclosure to better reflect the nature of their business. Although this may limit the
comparability of this disclosure across financial statements, we believe that the added relevance
outweighs this loss in comparability, particularly as the allocations previously mentioned
significantly impair the comparability of this disclosure.

V. Cash Flow Obligations Table

We believe it is meaningful for companies to provide a cash flow obligations table. However, this
requirement is already being satisfied through compliance with Item 303 of SEC Regulation S-K.
We do not see the added benefit of moving this disclosure to the audited financial statement
footnotes. In order to adhere to the spirit of the Disclosure Framework Discussion Paper, we
recommend that the Board work with the SEC to create a unified set of liquidity disclosures. In
particular, as diversity exists in practice for what constitutes a purchase obligation, we
recommend that the Board work with the SEC to provide clarity and consistency across financial
statements.

Currently, we disclose the contractual maturities of our major classes of financial liabilities, such
as debt, on an interim basis. Therefore, if the Board was to implement this disclosure, we
recommend that it only be required on an annual basis, with material changes required to be
disclosed on an interim basis.

VI. Available Liquid Funds Table

We believe the available liquid funds table is, in concept, a good disclosure. However, we believe
this disclosure is being satisfied through the requirements of Item 303, SEC Regulation S-K and
related interpretations. Moving this disclosure to the financial statement footnotes adds little
benefit other than the additional cost of requiring an auditor to examine beyond what they
already do for the MD&A section of the Form 10-Q and 10-K. The SEC has been encouraging
companies to broaden their disclosures surrounding sources and uses of funds through their
comment letter process, and we believe companies' disclosures in this area have improved
significantly. Accordingly, we do not believe that the additional requirements outlined in the
Exposure Draft are necessary.
We have specific concerns with the cost of auditing unencumbered cash as well as the qualitative discussions on repatriation activity, particularly as it pertains to interim filings. Corporate tax structures are highly complex and auditing the available cash balances that are unencumbered would be very costly. Foreign cash balances and qualitative discussions regarding balances available to be repatriated are required to be disclosed under Item 303, SEC Regulation S-K. In addition, ASC 740, Income Taxes, requires companies to disclose the amount of unrecognized deferred tax liabilities for temporary differences related to investments in foreign subsidiaries as well as the amount of pre-tax income earned in foreign subsidiaries. Furthermore, companies are required to disclose the cumulative amount of unremitting foreign earnings as well as the estimated tax if such amounts were repatriated. To the extent they are significant, the impact of tax planning strategies is also required to be disclosed. We believe the current disclosure requirements for the financial statement footnotes and MD&A is sufficient information for users to determine sources of cash and the related liquidity risks for companies such as ours.

In conclusion, we believe the objective of this disclosure is being satisfied through the current SEC filing requirements. As such, we do not believe that any additional disclosures are warranted.

VII. Requirement for Interim disclosures

We believe the requirements of ASC 270, Interim Disclosures, has sufficient provisions for companies to disclose factors that may affect their liquidity positions during interim periods. Specifically, ASC 270 requires companies to provide 1) information about fair value of financial instruments, 2) information about debt and equity securities, 3) information about other-than-temporary impairments, 4) information about the credit quality of financing receivables, and 5) discussion on significant changes in a company’s financial condition. Item 303 of Regulation S-K also requires similar disclosure of significant changes in the interim period. We believe financial statement users can assess the financial condition of a company during the interim period through these disclosures and that following the requirements of ASC 270, Interim Disclosures, and Item 303 of Regulation S-K, will allow for important information to be highlighted to users rather than being lost in a sea of prescriptive interim disclosures. Additionally, we believe the interim disclosures proposed by this Exposure Draft would cause undue burden to financial statement preparers and auditors, especially given the accelerated due dates for interim reporting mandated by the SEC.

VIII. Effective date

We believe the final standard issued by the Board should complement the Disclosure Framework project, and accordingly, we believe that the Board should complete its work in this area before addressing disclosures that pertain to liquidity and interest rate risks. If this Exposure Draft was to become effective, we believe companies should be given adequate time to implement and test the technology information system enhancements that these disclosures would necessitate. In addition, companies with financing segments should be given adequate time to develop clear and consistent processes to allocate financial assets and liabilities managed at the corporate level to their financing segment.

In conclusion, while the goal of this Exposure Draft is admirable, we believe that the Board should finalize a Disclosure Framework before addressing disclosures that relate to liquidity and
interest rate risks. We believe that using the criteria of ASC 280, Segment Reporting, will result in financial statements that are not comparable across entities, as there are multiple types of reporting segments. In addition, ASC 280, Segment Reporting, does not require a fully-allocated balance sheet for each reporting segment. Accordingly, the disclosures prescribed in this Exposure Draft will be very costly for some companies to implement, as they will have to create a methodology to allocate financial assets and liabilities that are solely managed at the corporate level to their financing segments. We believe that the manner of these allocations would be too subjective to meet the intended purposes of the proposed requirements. Furthermore, these disclosures would not reflect the way the company manages liquidity and interest rate risk for the entity. As such, we do not believe that the definition of a “financial institution” should include companies such as ours, whose financing subsidiary does not represent a primary source of income for the consolidated entity. We believe that the proposed disclosures that pertain to “non-financial institutions” overlap with current SEC guidance. In order to improve the effectiveness of financial statement disclosures, we believe that the Board should work with the SEC to create a single set of unified liquidity disclosure requirements. Finally, we believe that the MD&A section is the more appropriate place for these disclosures, as information regarding liquidity and interest rate risk is more meaningful when accompanied by robust management analysis.

We greatly appreciate the opportunity to comment on this Exposure Draft. We believe that open communication with the Board is paramount to improving accounting standards and disclosure requirements. Should you have any questions, please contact me at (512)728-4545.

Sincerely,

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