VIA Electronic Mail (director@fasb.org)

September 24, 2012

Technical Director
Financial Accounting Standards Board
401 Merritt 7, P. O. Box 5116
Norwalk, CT 06856-5116

File Reference: No. 2012-200

Dear Board Members and FASB Staff:

The Mortgage Bankers Association¹ (MBA) appreciates the opportunity to comment on the Proposed Accounting Standards Update, Disclosures about Liquidity Risk and Interest Rate Risk (Proposed Update). The stated objective of the Proposed Update is to provide users of financial statements with decision-useful information about a reporting entity’s liquidity risk and interest rate risk. The MBA’s comments are written primarily from the perspective of financial statement preparers.

General Comments

1. Inconsistent With How Reporting Entities Run Their Business

The disclosures in the Proposed Update are inconsistent with the way that most entities manage liquidity and interest rate risk. The proposed disclosures are based on assets and liabilities which exist only as of the balance sheet date; whereas, entities manage liquidity and interest rate risk using expectations of future originations and

¹ The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 280,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation’s residential and commercial real estate markets; to expand homeownership and extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of over 2,200 companies includes all elements of real estate finance: mortgage companies, mortgage brokers, commercial banks, thrifts, Wall Street conduits, life insurance companies and others in the mortgage lending field. For additional information, visit MBA’s Web site: www.mortgagebankers.org.
sales. MBA believes the proposed disclosures’ inconsistency with risk management practices will result in confusion for financial statement users who may incorrectly assume that the disclosures reflect an entity’s risk management practices. The proposed disclosures will also not be relatable or reconcilable to disclosures regarding liquidity and interest rate risk within Management’s Discussion and Analysis (MD&A). We believe that will further add to financial statement user’s confusion.

2. Forward-looking Nature of Proposed Disclosures

Financial statements and their associated footnotes are intended to present historical performance. The disclosures in the Proposed Update are forward-looking, and, therefore, in our opinion do not belong in the financial statement footnotes. The financial statements are not afforded safe harbor regarding forward-looking information, and it will be difficult for auditors to audit forward-looking information.

3. Cost/Benefit of Proposed Update

Liquidity and interest rate risk are already disclosed in the MD&A section of the quarterly and annual reports for publicly held companies. Furthermore, regulated entities, such as banks, are subject to, or will be subject to, a number of reporting requirements regarding liquidity and interest rate risk including in the present quarterly call reports and the proposed Basel III framework. Although each of these disclosure requirements is intended to report risk, each has its own unique detailed requirements. As a result, entities will need to produce the same type of disclosure many times and will bear the burden of calculating the information in a variety of ways. This will result in significant cost which will exceed the usefulness of the incremental information.

4. Inconsistent With IFRS

The disclosures in the Proposed Update were not developed with the International Accounting Standards Board (IASB) nor are they consistent with international financial reporting standards (IFRS). This will create further divergence not convergence of GAAP and IFRS.

MBA’s Recommendation

As noted in the general comments above, the proposed disclosures are inconsistent with the way entities run their business, contain forward-looking statements that would be difficult to audit and not subject to a forward-looking safe harbor, would not be cost beneficial, would be duplicative of other disclosures, and would create further divergence with IFRS. We respectfully request that the FASB withdraw the Proposed Update. If the FASB elects to proceed with developing liquidity and interest rate risk disclosures, we recommend the FASB work with the SEC and the IASB to enhance existing disclosure requirements and SEC reporting requirements.
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In an effort to provide more specific details regarding liquidity and interest rate risk disclosures, we have also addressed the financial statement preparer questions posed in the Proposed Update.

The MBA appreciates the opportunity to share these comments with the Board. Any questions about MBA’s comments should be directed to Jim Gross, Vice President of Financial Accounting and Staff Representative to MBA’s Financial Management Committee, at (202) 557-2860 or jgross@mortgagebankers.org.

Sincerely,

David H. Stevens  
President and Chief Executive Officer
Appendix A

Responses to FASB’s Specific Questions

Below please find MBA’s response to FASB’s specific questions for financial statement preparers.

**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?

**MBA’s Response:** MBA appreciates the supplemental instructions included at 825-10-55-5A regarding scheduling of certain assets and liabilities. We understand from the Proposed Update that the proposed disclosure tables must be reconcilable to the statement of financial position. We believe more guidance is required in the following areas in order for preparers to understand how to schedule maturities for certain types of instruments and to understand how to develop the tables so that they can be reconciled to the statement of financial position.

a) Additional guidance is needed regarding how a company should schedule maturities for investments in joint ventures or subsidiaries which are not carried at fair value. It is not clear to our members how one would schedule maturities for investments where the cash flows will most likely come from dividends (or future capital calls) and such cash flows may not be predictable.

b) MBA recommends clarification regarding off balance sheet commitments, including what type of commitments should be included in the table and how to schedule the associated maturities. For example:

- The exposure draft identifies lines of credit among the commitments that should be included. As the proposed standard characterizes these as off-balance sheet commitments, does this refer to commitments to lend, available financing capacity, or both?
- Because by their nature, lines of credit provide significant flexibility in the timing of their utilization, it is not clear how to schedule “expected settlements based on contractual terms”. MBA members believe it is most decision-useful to include in each maturity period the amount of the lines that are expected to be outstanding rather than include the entire line in the earliest maturity period that it could be drawn.
- It is not clear to our members if the FASB intended to scope in commitments to repurchase loans previously sold if such loans were found to violate the representations & warranties of the sale agreement. If these are to be included, MBA members believe that the maturity schedules should include only those cash outflows that are expected to be incurred, rather than the entire contractual obligation. The expected cash flows over the life of the
guarantee often represent a small fraction of the total guarantee, and using expected cash flows represents a more accurate portrayal of a company’s expected cash flow obligations. Further, MBA notes that the entire contractual obligation is already disclosed elsewhere in the notes to the financials. From an implementation perspective, although most financial institutions are accustomed to predicting lifetime losses associated with the guarantees, many smaller companies may find it difficult to accurately predict the timing of when these repurchases will occur and may find their predictions difficult to support for their auditors.

c) MBA notes that derivatives are managed and accounted for on a net basis. It is unclear whether derivatives should be presented net or gross in the proposed tables. Furthermore, it is unclear whether collateral balances should be applied to derivative balances.

d) The proposed instructions are unclear regarding whether the allowance for loan and lease loss should be presented in the tables. If the allowance balance is to be presented, we are uncertain how this balance would be classified by time period.

See also the general comments 2 and 3 above regarding: forward looking information and excessive costs to implement.

**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?

**MBA’s Response:** The cash flow obligation table requires the inclusion of off balance sheet commitments. See response to question 1 above requesting additional clarification regarding which off balance sheet commitments to include and how to schedule maturities.

**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.

**MBA’s Response:** MBA believes there are conflicting principles in the proposal to disclose by expected maturity. The principles are disclosing meaningful financial information and disclosures which are consistent among entities. Our members believe that if the primary goal is consistency between entities, the proposed table
should present contractual maturities because the determination of expected maturity could vary significantly among entities. MBA also notes IFRS requires the use of contractual maturity information. Other members recognize that some financial statement users may not consider contractual maturities to be meaningful. Many MBA members agree that expected maturity could be more decision useful than contractual maturity if appropriately defined. For example, mortgage bankers are in the business of originating and selling or holding loans for investment. Because the vast majority of residential loans will prepay prior to their contractual maturity, scheduling these loans’ maturities (or the bonds that they back) based solely on their contractual maturity (i.e. in year 15 or year 30) would be not only inappropriate, but misleading. The discussion below contains MBA’s suggestions for making the concept of expected maturity more meaningful for users of financial statements.

We encourage the FASB to reconsider the treatment of investments held for sale. MBA members believe such investments, particularly when the company has demonstrated both ability and intent to sell, should be scheduled at the expected settlement date rather than scheduled as if they were to be held to collect the contractual cash flows (i.e. treated as held-for-investment). We see no practical difference between shortening the reported maturity on a loan held-for-investment because 1) the borrower has the contractual ability to prepay and will likely exercise that ability, 2) the company has the contractual ability and intent to foreclose on a delinquent loan, and 3) the company has both the intent and ability to sell the loan and is not contractually prohibited from doing so. Companies manage their funding duration to align with expected actual cash flows from the investments, and treating these held-for-sale investments as if they were long-term creates liquidity gaps in the maturity table that would be misleading.

In addition, as mentioned in the general comment 1 above, mortgage bankers manage their liquidity risk by considering not only run-off of existing assets and liabilities, but also future sales and originations. The proposed update encourages entities to provide incremental information so that the information is decision useful. We believe mortgage bankers who are public filers will likely simply articulate in the financial statement footnotes the reasons why the table in the footnote is not representative of the company’s liquidity risk, and will reference the reader instead to the MD&A.

MBA’s members are also unclear as to why financial instruments that are carried at fair value with the changes in fair value reflected in net income should be excluded from a maturity column within the liquidity table. These assets and obligations are settled in cash, the same as investments that are carried pursuant to other bases of accounting. As an example, companies may hold loans at fair value with changes in fair value recorded through income and hedge the changes in fair value with derivatives, which changes in derivative values are also reflected in income. The assets may have been funded with deposits, or other debt carried at amortized cost. Under the proposed standard, the fair value loans would be included only in the total column in the liquidity table, whereas the value of the derivatives that are used to hedge the loans and the
funding for the loans would be scheduled in the appropriate maturity periods. This would create a serious distortion in the reporting entity’s liquidity profile.

Finally, some MBA members interpret the proposed standard to require scheduling maturities based on a weighted average duration of the individual instruments; each instrument would effectively be included in one maturity period which would be the period in which the instrument was expected to be fully paid off. Other members believe that “expected settlement based on contractual terms” would result in scheduling cash flows on individual instruments pursuant to the contract, but adjusted for execution of put options, call options, etc. This would result in inclusion of cash flows distributed over multiple periods (for example, if a loan were expected to prepay in year 5, a company would schedule the partial cash settlements required under the contract in each period up to year 5, and in year 5 include the remaining loan balance). If the objective is that a financial statement user can see in which periods, and in what magnitude, the company will be required to obtain additional funds or re-invest liquid funds, the second interpretation may provide more decision-useful information. Regardless of the FASB’s intent, the MBA respectively requests that the FASB clarify that intent in the interest of consistency.

**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?

**MBA’s Response:** MBA does not believe the Proposed Update clearly defines available liquid funds. The definition needs to be more robust in order achieve the consistency the FASB is seeking.

**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?

**MBA’s Response:** MBA sees no significant operational concerns. However, it is not clear from the Proposed Update whether rollovers and renewals of deposits should be included in the disclosure of issuances and acquisitions.

**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?
MBA’s Response: The MBA strongly believes that the proposed standard would not provide sufficient information for users of financial statements to understand a company’s exposure to liquidity risk. Specific concerns include:

- The liquidity analysis considers only existing assets & liabilities rather than including cash flows from future originations. (see general comments above).
- The analysis includes fair value instruments only in the total column, which may result in reporting significant liquidity gaps that are not real (see response to Question 3)
- The analysis treats held for sale assets as held for investment which results in reporting significant liquidity gaps that are not real (see response to Question 3)

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?

MBA’s Response: MBA sees no significant operational concerns.

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?

MBA’s Response: MBA notes that FASB did not specify a base curve for the sensitivity analysis which will detract from consistency among reporting entities. Should interest rate shocks be based on the forward curve or spot rates? Likewise, MBA recommends the sensitivity analysis should specify that the reported impact on net income and shareholder’s equity should be limited to the impact of changes in interest or fair value of the subject financial assets or liabilities and should not include indirect impacts such as fee revenues, operating expenses, defaults and servicing costs which would require much more complex modeling.

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?

MBA’s Response: The repricing analysis does not provide the reader with decision-useful information. For example, although many mortgage bankers hold mortgage loans whose rates adjust monthly, their funding may be fixed rate with maturities of shorter duration. As currently contemplated, the table creates the illusion of significant exposure to interest rates, whereas most likely the company has already hedged this rate risk through derivatives or natural hedges such as MSR. Note that derivatives would be scheduled at carry value, not notional amounts, and MSR are not financial
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assets. The proposed disclosures are based upon a point in time, worst case view that provides no insight as to realistic scenarios.

MBA believes the interest rate sensitivity analysis is more meaningful in that it models financial statement impact of expected behaviors that are correlated to changes in interest rate risk. In addition, as discussed in MBA's general comment 1, MBA does not believe the proposed disclosures capture the way the reporting entities manage the respective assets and liabilities. Public companies will likely include explanatory statements in their footnotes explaining the reasons why the tables in the footnote are not representative of the company's exposure to interest rates, and will reference the reader instead to the MD&A.

**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.

**MBA's Response:** The MBA believes that liquidity risk and exposure to interest rate fluctuations are important business considerations for both public and private companies in a wide variety of industries, and we understand why financial statement users desire decision-useful information regarding these risks. In addition, given the significant costs of preparing liquidity and interest rate sensitivity analyses, the MBA supports the FASB's reduced disclosure requirements for those businesses for which spread on financial instruments (spread) is not a significant component of their business. However, it is not clear to the MBA why businesses who would otherwise be considered financial institutions (i.e. for which "spread" is a significant component of their operations) but who carry most financial instruments at fair value would be subject only to the more limited disclosures. When a company is dependent on "spread", the economic reality of existing liquidity risk and prospective interest rate risk is no different for those who carry instruments at fair value through earnings than for those who carry those instruments using alternative accounting conventions.

**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 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.

**MBA's Response:** MBA notes that the Proposed Update does not leverage what reporting entities already have in place to prepare MD&A disclosures and call report information. Our members believe that they would have to build new programs and infrastructure to create the proposed disclosures. Building this infrastructure is further
complicated in that companies will strive to build sufficient flexibility into their data bases and their analytical programs that will allow them to comply with the growing number of “views” of liquidity and interest rate risk that they must report and reconcile. In addition, prudential bank regulators released the proposed U.S. version of Basel III in June 2012. This too will require new programs and infrastructure. If FASB is looking for reasonable timeframes for preparers to build cost effective infrastructures and programs, aligning with the Basel III implementation timeframe, appears to be appropriate, especially in light of other competing projects. Basel III generally allows for transitions over a four to five year period of time.

**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.

**MBA’s Response:** MBA believes that significant, robust data on interest rate sensitivity and liquidity already exist in MD&A and quarterly call reports. A more timely solution to investors needs as it relates to mortgage banking entities would be to educate investors on where to find the information in the quarterly and annual reports on Forms 10Q and 10K and in bank call reports. Re-creating a revised reporting regime within the notes to the financial statements does not provide incrementally useful information for users and is redundant, costly and impractical.