September 24, 2012

Via email to director@fasb.org

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

Re: File Reference No. 2012-200
Proposed Accounting Standards Update – Financial Instruments
(Topic 825): Disclosures about Liquidity Risk and Interest Rate Risk

Ladies and Gentlemen:

The following comments are submitted on behalf of the Independent Bankers Association of Texas (“IBAT”). IBAT is a trade association representing approximately 450 independent community banks domiciled in Texas. We appreciate the opportunity to comment on the Financial Accounting Standards Board Update, Financial Instruments (Topic 825): Disclosures about Liquidity Risk and Interest Rate Risk.

Independent bankers across the state of Texas wish to express their concern and dismay that the proposed disclosures are redundant for various stakeholders; will only confuse all but a few shareholders; and will impose yet another cost on already struggling community banks.

The first point we would like to make is that the information being proposed is already available to bank management, auditors, and most importantly examiners with the various prudential regulators. In fact, far more complex information is available to those parties on a monthly, quarterly, and annual basis. Because of the scope and complexity of the information involved it is highly doubtful it would provide meaningful information to the majority of community bank investors. It may be helpful to large institutional investors with an analytics staff to review such information, but those investors already have the knowledge and the staff to glean much of this information from a bank’s quarterly statement of condition. For the average community bank investor this information will be meaningless.

Secondly, the information being proposed, while complex to the average investor, does not adequately portray the liquidity risk and rate sensitivity risk of a financial institution, especially using only a static 12 month period. Most bank examiners and auditors expect a bank to use complex modeling to measure liquidity risk and rate sensitivity risk in a one, three, and five year period based upon the complexity of their balance sheet. That acknowledges that a one-size-fits-all approach to liquidity risk and rate sensitivity risk is not practical and the application of a single set of fixed assumptions can be misleading. This abbreviated information, without
extensive assumptions and context, provides an overly simplistic representation of liquidity risk and rate sensitivity risk that can’t be relied upon.

The proposal also lacks meaningful definitions to make any sort of comparison possible. For example, there is significant differences even amongst experts on what exactly is a “high quality, liquid asset.” Even small changes in the asset and liability mix can have a significant impact on liquidity risk and rate sensitivity risk. No doubt the asset / liability mix for a rural bank is going to be significantly different than a bank located in a major metropolitan area. Without significant guidance on that and many other terms and conditions affecting this information, again it will be useless for comparison. In other words, it will be meaningful only for that particular financial institution and only for the static year-end balance sheet.

Finally, the question is not whether this information is available, but does the cost to the bank of preparing these disclosures justify the benefit the average community bank investor may receive? A current IBAT employee spent seven years as the Chief Financial Officer of a $140 million community bank and does not recall a single time a bank shareholder ever asked about either liquidity risk or interest rate risk. While we have no doubt that FASB “…staff interacted with more than 40 users of financial statements, including sell-side analysts, equity investors, and credit analysts,” we doubt those 40 users represented individual community bank investors to any significant degree.

For independent community banks this will add a considerable burden to the preparation of annual financial statements including the cost to produce those statements and accompanying audit costs. Unlike the large financial institutions that have a cadre of in-house staff to produce such information, community banks largely rely upon outsourced expertise. Please reconsider this proposal or provide an exemption for community banks under $1 billion in total assets. At the very least, if those financial institutions will not be exempted, they should have a period of not less than 18 months to comply with the proposed Update to adequately coordinate requirements with vendors and auditors.

Thank you for this opportunity to comment.

Respectfully,

Christopher L. Williston, CAE
President and CEO