September 24, 2012

Ms. Susan M. Cosper  
Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
Norwalk, CT 06856-5116

Re: Proposed Accounting Standards Update: Financial Instruments (Topic 825), Disclosures about Liquidity Risk and Interest Rate Risk

File Reference No. 2012-200

Dear Ms. Cosper:

The Independent Community Bankers of America (ICBA)\(^1\) appreciates the opportunity to provide comments on the Financial Accounting Standards Board’s (FASB) proposed accounting standards update Financial Instruments (Topic 825), Disclosures about Liquidity Risk and Interest Rate Risk. ICBA has many concerns about the proposal as it presents numerous financial reporting and disclosure challenges for all community banks. The proposal would create expensive disclosure burdens that would require a great deal of time and resources to prepare while providing little or no useful information for stakeholders. The tabular disclosures required to be presented in the notes to the audited financial statements would also expose the bank’s independent auditor to greatly increased expenses to validate the methods used to prepare disclosures as well as interpretation of the results that are produced. Additionally, the interest rate and liquidity disclosures proposed are of a nature that attempts to address the safety and soundness of the financial institution, a critical governing principal that is already thoroughly covered

\(^1\) The Independent Community Bankers of America®, the nation’s voice for more than 7,000 community banks of all sizes and charter types, is dedicated exclusively to representing the interests of the community banking industry and its membership through effective advocacy, best-in-class education and high-quality products and services.

With nearly 5,000 members, representing more than 23,000 locations nationwide and employing more than 280,000 Americans, ICBA members hold more than $1.2 trillion in assets, $1 trillion in deposits, and $700 billion in loans to consumers, small businesses and the agricultural community. For more information, visit ICBA’s website at www.icba.org.
by the prudential regulator of the financial institution. ICBA urges FASB to either not move forward with the proposal as it is currently presented or to provide an exception for all financial institutions with assets of no more than ten billion dollars ($10,000,000,000).

**Background**

The proposed accounting standards update requires the presentation of new footnote disclosures in the audited financial statements about liquidity risk and interest rate risk for all entities and certain disclosures applicable only to financial institutions. All financial institutions are subject to specifically identified reporting requirements regardless of size. Public entities would be required to provide the interest rate and liquidity disclosures on a quarterly basis. Nonpublic entities would be required to provide the interest rate and liquidity disclosures on an annual basis. The proposed update does not include an effective date for the disclosures.

**Liquidity Risk Disclosures**

*Liquidity Gap Maturity Analysis.* The proposal requires financial institutions to show a tabular presentation of the maturities of all financial instruments with the carrying amounts separated into time intervals based on their expected maturities. Financial assets and liabilities would be disaggregated based on their nature, characteristics, and risks. To calculate expected maturities, entities would consider each instrument’s prepayment expectations and any applicable contractual calls and/or puts embedded in the instrument. Estimates on the future transfer or sale of each financial instrument would not be considered. Annual disclosures required for all financial institutions would include the carrying amounts of financial instruments spread over the next four quarters, the time period commencing from the beginning of the next quarter to the end of the second year after the reporting date, the time period beginning after the end of the second year after the reporting date and ending at the end of the fifth year after the reporting date, and the remaining time period.

Quarterly disclosures, which are required only for financial institutions that are public entities, would include the carrying amounts of financial instruments spread over the next four quarters, the time period commencing from the beginning of the next quarter and ending at the end of the fiscal year, the time period beginning after the end of the fiscal year and ending at the end of the second full fiscal year after the reporting date, the time period beginning after the end of the second full fiscal year after the reporting date and ending at the end of the fifth full fiscal year after the reporting date, and the remaining time period. In addition to these quarterly and annual disclosures, additional disclosures about significant changes to timing and amounts from prior disclosures would need to be discussed including the reason for the change and any actions taken to mitigate exposure from the change. Also, significant differences between contractual maturities and expected maturities for financial instruments would require explanation.

*Issuance of Time Deposits.* The proposal requires financial institutions to show a tabular presentation of the issuance of time deposits over the prior four quarters. The disclosure
would be separated by those deposits that are insured, uninsured, and brokered. Weighted-average contractual lives and yields would also be presented.

**Available Liquid Funds.** The proposal requires financial institutions to show a tabular disclosure of an entity’s available liquid funds including unencumbered cash, high-quality assets and the ability to borrow. Disclosures would be itemized based on the type of asset or available borrowing line. Any regulatory or other limitations of the transfer of funds among entities should be discussed.

**Interest Rate Risk Disclosures**

**Repricing Gap Analysis.** The proposal requires the creation of a pricing gap table separated by class of financial instrument. Financial instruments would be disaggregated by nature, characteristics, and risks. The tabular disclosure would include the carrying amounts of the financial instruments separated into time intervals based on repricing date, the weighted-average contractual yield for each time interval for each class of financial instrument, the total carrying amount and total weighted-average contractual yield for each class of financial instrument, and the duration for each class of financial instrument.

**Interest Rate Sensitivity.** The proposal requires the presentation of an interest rate sensitivity analysis that shows the impact of hypothetical, instantaneous interest rate shifts as of the measurement date on both after-tax net income for the twelve month period after the reporting date and shareholders’ equity. The presentation would include parallel, flattening, and steepening shifts of the yield curve for +100 basis points, +200 basis points, -100 basis points, and -200 basis points, respectively. When projecting forward, expected changes in the composition of the balance sheet and other forward-looking assumptions would not be included.

**ICBA’s Comments**

ICBA has many concerns with the proposed accounting standards update including the content, reasoning, costs, and reporting burden associated with producing the required audited footnote schedules. Although the use of metrics for liquidity risk and interest rate risk are interwoven into the framework of risk management for community banks and all banks, providing this information conflicts with the purpose of the financial statements and FASB’s role in maintaining the existence of high-quality financial information for financial statement users. In addition, requiring the reporting of these tabular disclosures can actually cause a great deal of harm to the community banking sector by imposing a static presentation of interest rate risk metrics that become meaningless in certain interest rate environments.

Requiring the presentation of the requested tabular disclosures for community banks does not properly serve stakeholders. Community bank stakeholders generally consist of shareholders, depositors, borrowers, and other interested parties in the community. These parties understand that a community bank is subject to a great deal of prudential regulation including the preparation of publicly available quarterly call reports and thorough, on-site safety and soundness examinations. Requiring further footnote
disclosures of liquidity and interest rate risk metrics does not provide a stakeholder with any new information that would lead to a more informed decision on the present financial condition of the bank. Regardless of the type and content of metrics presented in the audited financial statements, community bank stakeholders will continue to rely on the work of community bank regulatory agencies to ensure that sound liquidity and interest rate risk management practices are employed and maintained. Additionally, any tabular disclosures will need many paragraphs of explanation and narrative to properly inform the reader on how to interpret the information presented. This expansion of the footnote disclosures will add meaningless clutter and mask the importance of the more relevant historical financial information presented.

The tabular disclosures proposed in the accounting standards update introduce many complex reporting requirements with enhanced levels of detail that will require very precise application guidance that is absent from the proposal. In addition, the proposal gives no further hint on how some of the required calculations are to be performed and which methods should be used. Without intense application guidance from FASB, the preparers will employ a diverse set of tools and methods that will result in a wide range of outcomes, even for community banks with similar balance sheet structures. For example, the repricing gap analysis calls for the presentation of the duration for each class of financial instrument with no further definition of duration. Depending on the bank’s interpretation of the most prudent course of action, different duration calculations can be employed giving different results. Various tables presented seek to either aggregate or disaggregate classes of financial instruments to achieve isolation of different asset-liability management exposures. However, guidance on the precise levels required are absent from the proposal, which could lead similar financial institutions to present vastly different categorizations for financial instruments.

Requiring the presentation of the requested tabular disclosures for community banks will introduce a new financial reporting burden through increased preparation, review, and audit fees. For example, the liquidity gap maturity analysis will require community banks to assign prepayment speeds to all financial instruments including commercial real estate loans. These prepayment speeds will require extensive objective evidence that support management’s estimates while giving an independent auditor comfort that those estimates can be reasonably replicated. We must remember that community banks, as relationship lenders, do not originate standardized loan products for their customers. Rather, they tailor the particular loan to the specific needs of the customer to coincide with a particular business model, cash flow cycle, collateral type, and payment history. These and other contributing factors set community bank loans apart from their larger bank counterparts and allow community banks to truly serve the needs of the communities where they lend. However, internal prepayment estimates may not be easily validated by an independent auditor even among peer banks in the same economic region. It is doubtful that auditors will ever reach a comfort level with management estimates without the addition of qualified personnel who can validate prepayment models while locating objective outside evidence to support calculated values. This will lead to greatly increased costs for small, local audit firms and their respective community bank audit clients.
ICBA believes that the proposed accounting standards update is in direct conflict with FASB’s public policy role as the financial accounting standards setter in the United States. That role focuses on the need for all non-government entities to provide relevant and unbiased financial information on an entity’s historical financial performance and condition. In our opinion, FASB fills that role quite well. Liquidity and interest rate risk management, as critical elements in determining the safety and soundness of a community bank, are governed by the prudential banking regulator and not the FASB. Requiring these tabular disclosures would create much confusion for community bank stakeholders who in many cases would be unable to understand and appreciate the tables thus greatly diminishing any merit they would provide to the presentation of the financial statements.

Disclosure of the tables as required in the proposed accounting standards update not only is duplicative of the efforts of the prudential regulator but also risks creating an incorrect depiction of the bank’s actual liquidity and interest rate risk exposure based on the information that would be presented. The liquidity and interest rate sensitivity analysis included in the proposal requires the use of many subjective elements that can artificially present a position that does not accurately depict the risks inherent in the bank. For example, the proposed interest rate sensitivity analysis calls for hypothetical interest rate shocks at predetermined levels. In certain economic environments where interest rates are not expected to fluctuate by a meaningful amount, the hypothetical shocks proposed may be adequate to depict a community bank’s exposure to changes in the yield curve. However, in other interest rate environments where interest rates would be expected to change by a meaningful amount and that amount if unmitigated could have a large impact on asset-liability management practices, the hypothetical shocks proposed may be of little or no help to a stakeholder who is attempting to assess the bank’s exposure to changing interest rates. This is precisely why bank examiners work with their respective banks to conduct a dynamic interest rate sensitivity analysis when and where needed.

Therefore, we are requesting that the FASB either not move forward with finalizing the proposed accounting standards update as it is written or formally exempt all financial institutions with total assets of ten billion dollars ($10,000,000,000) or less.

ICBA appreciates the opportunity to comment on this proposal. If you have any questions or would like additional information, please do not hesitate to contact me at (202) 659-8111 or james.kendrick@icba.org.

Sincerely,

/s/

James Kendrick
Vice President, Accounting & Capital Policy