September 24, 2012

Technical Director  
File Reference No. 2012-200  
Financial Accounting Standards Board  
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Norwalk, CT 06856-5116

PricewaterhouseCoopers LLP appreciates the opportunity to comment on the FASB’s Proposed Accounting Standards Update, Disclosures about Liquidity Risk and Interest Rate Risk - Financial Instruments (Topic 825) (the ”Proposal”).

We welcome the Board’s decision to enhance financial instrument disclosures. We understand that users of financial statements believe current disclosures should be improved to provide more decision useful information. We agree that improved disclosures about liquidity and interest rate risks could provide a deeper understanding of an entity’s risk profile. While we encourage the Board to continue its outreach to analysts and preparers as it further develops the proposed disclosures, we offer a number of recommendations for the Board’s consideration.

We believe that a principles-based approach to developing the form and content of the disclosures would provide more flexibility and result in more decision useful information than the standardized, prescriptive approach set out in the Proposal. A prescriptive approach will force companies to create disclosures that may not be appropriate or useful for their users. We would encourage an approach similar to IFRS 7 where key risks and quantitative and qualitative disclosures are provided without prescriptive tables. This would eliminate the need for scope definitions and exceptions, and simplify the requirements. We believe this approach would better accommodate the unique facts and circumstances of individual preparers and provide users with more insights into how a company manages these risks.

We understand that financial statement users want information about risks that companies are exposed to, both on a historical basis and on a forward-looking basis. A number of the proposed disclosures would require preparers to develop additional forward-looking information. We believe forward-looking information is best suited for management’s discussion and analysis (“MD&A”). Importantly, companies receive certain “safe harbor” legal protections for MD&A disclosures that are not available for footnote disclosures. This allows companies to provide decision useful information without certain legal risks. We believe this distinction is critical. Thus, a requirement to include such information in the footnotes will, appropriately, limit what preparers will be willing to disclose.

Today, under Items 303 and 305 of Regulation S-K, companies are already required to discuss liquidity risks and contractual obligations. We understand the Board’s objective is for companies to provide additional, complementary disclosures. However, we are not supportive of creating disclosures that
would be redundant to those provided under current MD&A requirements. We recommend the Board work with the SEC to create a single set of liquidity and cash flow obligation disclosures.

The financial crisis highlighted that liquidity may not be accurately measured by a point-in-time snapshot of specific items. We believe an important component of liquidity disclosures is a discussion of how immediate cash needs could change due to varying market conditions. This might include situations such as a downgrade or change in market prices and their effects on collateral requirements, coupled with quantitative sensitivities. Consideration might also be given to cash needs and availability broken down by regulatory, legal, or other constraints.

The proposed disclosure requirements are more limited for instruments that are measured at fair value with changes in fair value recorded in earnings. Fair value measurements certainly provide some information about liquidity and interest rate risks, as these risks are critical elements in the determination of fair value. This is the case even if changes in the fair value of the instrument are recorded in OCI. However, we believe that fair value does not provide all of the information about liquidity and interest rate risk that the proposed disclosures are intended to convey. Accordingly, we recommend that a principles based disclosure requirement be provided without regard to how financial instruments are measured and reported in the financial statements.

Attached to this letter is Appendix A, which contains our responses to the Questions for Respondents included in the Proposal and further expands on our comments above. If you have any questions, please contact Paul Kepple at (973) 236-5293, Donald Doran at (973) 236-5280, or Christopher Gerdau at (973) 236-5010.

Sincerely,

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Appendix A - Responses to Questions for Respondents in the FASB Proposal

Questions for Preparers and Auditors—Liquidity Risk

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 understand that the table can be developed by a financial institution, but that adequate time will be needed to develop systems and controls to prepare them. We agree that enhanced disclosures about a financial institution’s liquidity risks could provide a deeper understanding of its risk profile and thus more decision useful information. And, we recognize that in theory standardized disclosures, such as the prescribed table, would improve comparability. We believe, however, that financial statement users would be better served if the Board established principles for preparing the disclosures and provided more flexibility regarding format.

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?

We understand that public companies develop similar information in order to comply with MD&A disclosure requirements, although on a contractual basis. Many public companies may not currently develop a single best estimate of expected maturities, instead relying on analyzing multiple scenarios. In addition, private companies may not have systems and controls in place today to obtain this information.

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.

In general, we agree that expected cash flow disclosures are more meaningful than disclosures based on contractual maturities. However, we are concerned that a "one-size-fits-all" approach governed by standardized, prescriptive disclosure requirements would not take into consideration how liquidity risk
is viewed and managed across different industries or by individual companies. For example, most insurance companies and their financial statement users are not interested in liquidity by quarter due to the long-term nature and relative illiquidity of the liabilities, as well as the regulatory requirement to hold liquid assets. However, a disclosure highlighting restrictions on the ability to liquidate and transfer certain assets and the potential impact on meeting cash flow needs in other parts of the consolidated company would be useful.

The Proposal would require a diversified entity to provide the cash flow obligations table for its non-financial institution reportable segments as one group and the financial institution disclosures for its reportable financial institution segments as another group. We acknowledge that a consolidated table would generally be less valuable in understanding certain regulatory and other restrictions on the ability to transfer funds. However, this should not preclude a diversified entity from also presenting a consolidated table if it believes it would be meaningful to financial statement users.

The Proposal implies that for the liquidity gap maturity table, a financial institution would include the total carrying value of its derivatives in a single bucket determined by the stated termination date of the derivative contract. No similar guidance is provided for the treatment of derivatives in the cash flow obligations table. We believe liquidity disclosures should consider and reflect the timing of expected cash flows from derivatives.

**Question 4:** The proposed amendments would require a quantitative disclosure of an entity’s available liquid funds, as discussed in paragraphs 825-10-50-238 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 agree that disclosures about a company’s potential available funds would be a meaningful disclosure and believe the information should be readily available. However, similar to the comments in our cover letter, we recommend the disclosures focus on how available funds could change as markets change, and describe any regulatory or other restrictions on the ability to utilize or transfer those funds. As discovered during the financial crisis, what is currently liquid may not be in the future. In addition, the proposed disclosure requirements seem to focus on high credit quality as an indicator of liquidity. As the market observed with certain assets, such as auction rate securities, high credit quality and liquidity do not necessarily go hand-in-hand. Auction rate securities remain illiquid despite few credit losses over the last several years. Likewise, there may be few issues with the liquidity of a carefully managed high-yield portfolio.

**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 agree that disclosing certain information about the issuance of time and brokered deposits could provide insights into a depository institution's funding strategy and believe the information should be readily available.

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?

Not applicable, as we are not a preparer. However, please consider our responses in this letter as they relate to an entity's exposure to liquidity risk.

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?

We agree that enhanced disclosures about a financial institution's interest rate risks could provide a deeper understanding of an entity's risk profile and believe the information should be readily available for an entity with sensitivity to interest rate risk but perhaps not in the form prescribed in the table. As we mentioned in our cover letter, a more principled approach to the disclosure requirement would allow all companies with interest rate risk to present useful information.

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 agree that a sensitivity analysis of interest rate risk disclosures would provide useful information to a financial statement user and believe that preparers should be able to provide the required disclosures. Further, we have heard from analysts that the interest rate sensitivity disclosures would be a good improvement. However, as we noted in our cover letter, because of the lack of legal protections for footnote disclosures, we believe that requiring this information to be included in the footnotes will, appropriately, limit what preparers will be willing to disclose.
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?

Not applicable, as we are not a preparer. However, please consider our responses in this letter as they relate to an entity's exposure to interest rate risk.

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.

We acknowledge the FASB staff paper that outlines an approach for deciding whether and when to modify U.S. GAAP for private companies. We believe that the scope of this Proposal should be considered in accordance with the staff paper.

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.

We acknowledge the desire to address the needs of financial statement users in a timely manner. We believe that the time it takes to comply with the Proposal will depend on the degree of flexibility a company is allowed. We expect that standardized, prescriptive disclosures that do not currently reflect the way a company views and manages these risks will require significant time for companies to develop. This would include the detailed prescribed tables as well as the narrative disclosures that would be needed to provide context for a financial statement user. Given the expected timing of issuing a final standard, it seems unlikely that preparers will be able to adopt this Proposal and develop systems and controls in time to present the disclosures in their 2012 financial statements.
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.

Yes. Please refer to our cover letter. We encourage the Board to work with the SEC to create a single set of liquidity and cash flow obligation disclosures.