

FASB Disclosures Liquidity Interest Rate Risk

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Respondent information

Type of entity or individual:

Shareholder of accounting firm

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Questions and responses

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?

Yes. The maturity buckets specified in the proposed standard differ from the buckets currently used in the quarterly Call Reports banks are required to file with the FDIC, and often differ from the buckets used in internal management reports. The Call Report uses the following buckets: for investments and loans - <3 months, 3-12 months, 1-3 years, 3-5 years, 5-15 years, > 15 years. For time deposits - <3 months, 3-12 months, 1-3 years, > 3 years. For other debt - <1 year, 1-3 years, 3-5 years, >5 years. Preparing financial disclosures with maturity buckets that do not conform to those already used for regulatory reporting and internal management reporting simply creates additional work for preparers. For non-public community banks, where one or two people may be responsible for financial reporting, the additional workload will be particularly burdensome.

Additionally, the proposed standard does not address the duplicative nature of the disclosures - maturity tables are already required for investments, time deposits and debt. Again, time and cost to prepare information twice.

The proposed disclosures that require information for each of the next four quarters would be particularly time consuming, and the usefulness of the quarterly buckets to private company financial statement users seems very low since 1) non-public banks often only prepare annual financial statements and 2) the annual financial statements of non-public banks may not be issued until well into the second quarter.

Disclosures must also be audited, raising audit fees. For non-public banks that are small or may be very closely held, the additional cost may push them away from an audit and to a lower level of service that might not even require financial statements to be prepared.

Suggestions:

1) Require the disclosures only for public companies, or raise the asset size threshold for optional reporting to \$500 million from the \$100 million currently specified in the proposal(to

conform to the asset size at which the FDIC requires banks to have a financial statement audit).

2) For non-public banks, eliminate the requirement to present maturity data for each of the next four quarters, replacing it with maturity data for the next year.

3) Conform the maturity buckets to those used in other disclosures (e.g. investment maturities, debt maturities), or to buckets used in the Call Report.

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?

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.

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?

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?

Yes. As with #1 above, assembling quarterly information is time consuming and of seemingly low usefulness to non-public company financial statement users who get only an annual set of financial statements.

Suggestions: 1) Require the disclosures only for public companies, or raise the asset size threshold for optional reporting to \$500 million from the \$100 million currently specified in the proposal(to conform to the asset size at which the FDIC requires banks to have a financial statement audit).

2) For non-public banks, eliminate the requirement to present data for each of the previous four quarters, replacing it with data for the previous year.

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?

7. Does the liquidity gap table described in paragraphs 825-10-50-23E through 50-23K provide decision-useful information about the liquidity risk of a financial institution? If yes, how would you use that information in analyzing a financial institution? If not, what information would be more useful?

8. Does the cash flow obligations table described in paragraphs 825-10-50-23M through 50-23R provide decision-useful information about the liquidity risk of an entity that is not a financial institution? If yes, how would the information provided be used in your analysis of an entity that is not a financial institution? If not, what information would be more useful?

9. Paragraphs 825-10-50-23S through 50-23V would require an entity to disclose its available liquid funds. Would this table provide decision-useful information in your analysis? If not, what information would be more useful?

10. Are the proposed time intervals in the tables appropriate to provide decision-useful information about an entity's liquidity risk? If not, what time intervals would you suggest? Do you believe that there are any reasons that these required time intervals should be different for financial institutions and entities that are not financial institutions?

11. With respect to the time intervals, should further disaggregation beyond what is proposed in this Update be required to provide more decision-useful information to the extent that significant amounts are concentrated within a specific period (for example, if a significant amount of liabilities are due in Year 10 of the "past 5 years" time interval)? Please explain.

12. For depository institutions, the proposed Update would include a time deposit table that includes the issuances and acquisitions of brokered deposits during the previous four fiscal quarters. Would this table provide decision-useful information in your analysis of depository institutions? If not, what information would be more useful?

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?

Yes. The exact same concerns as cited for the maturity table: Time and cost to prepare data which may not currently be prepared or is duplicative, lack of maturity/repricing bucket conformity to other disclosures in the financial statements and the Call Report, low value of quarter-by-quarter information for non-public financial statement users who only get annual financial statements.

Suggestions: 1) Require disclosure only for public companies and banks with more than \$500 million in assets. 2) Conform maturity/repricing buckets to other financial statement disclosures and the Call Report. 3) Eliminate quarterly data for non-public companies and replace with data for the next year.

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?

Yes. The disclosure requirements go beyond the sophistication of many non-public, non-complex banks' interest rate risk monitoring systems. For instance, many banks do not run rate shocks based on a flattening or steeping yield curve (and are not required to do so by regulators), and may have systems incapable of doing so.

Of greater concern is that a sensitivity analysis belongs in MD&A, but not a set of audited financial statements. The analysis is based entirely on estimates and assumptions that can change significantly in the near term, and the proposed standard precludes considering the impact of other factors (such as asset/liability mix changes) that will clearly impact future results. The analysis is useful information, but to require an audit opinion on such a limited what-if scenario seems inappropriate considering that future results will most certainly differ from the results the analysis predicts.

Suggestions: 1) Require the sensitivity analysis only for public companies, and then as part of MD&A and not the audited statements themselves. 2) Non-parallel rate shocks should not be required for non-public banks.

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?

16. Would the repricing gap analysis in paragraphs 825-10-50-23Y through 50-23AC provide decision-useful information in your analysis of financial institutions? If yes, how would this disclosure be helpful in your analysis? If not, what information would be more useful?

17. Are the proposed time intervals in the repricing gap table in paragraphs 825-10-50-23AB through 50-23AC appropriate to provide decision-useful information about the interest rate risk to which a financial institution is exposed? If not, which time intervals would you suggest?

18. The interest rate risk disclosures in this proposed Update would include a sensitivity analysis portraying the effects that specified changes in interest rates would have on net income and shareholders' equity. Currently, many banks and insurance companies provide a sensitivity analysis of the economic value of equity instead of shareholders' equity. A sensitivity analysis of economic value would include the changes in economic value of financial instruments measured at amortized cost, such as loans and deposits. A sensitivity analysis of shareholders' equity would only include those changes that affect shareholders' equity. Therefore, the changes in the economic value of financial instruments measured at amortized cost would not be reflected in the sensitivity analysis although changes in interest income would be reflected. Do you think that a sensitivity analysis of shareholders' equity would provide more decision-useful information than would a sensitivity analysis of economic value? Please discuss the reasons why or why not.

19. Do you think that it is appropriate that an entity that is not a financial institution would not be required to provide disclosures about interest rate risk? If not, why not and how would the information provided be used in your analysis of an entity that is not a financial institution?

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.

Yes. Non-public banks with less than \$500 million in assets should be excluded as the cost of implementation and ongoing audit will be high for these banks already burdened with extensive reporting requirements considering their small size, non-complex nature and small shareholder base. The \$500 million threshold is to conform to the size at which the FDIC requires a bank to obtain a financial statement audit (rather than a lower level of service such as an agreed-upon-procedures Directors' Examination).

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.

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.

Additional comments. Please provide any additional comments on the proposed Update or any comments on this electronic feedback process below.
