

FASB Disclosures Liquidity Interest Rate Risk

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Respondent information

Type of entity or individual:

Preparer

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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?

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?

Maintaining this cash flow obligations table in the level of detail required in the proposed amendments would require significantly more effort to implement. A great deal of time and coordination will be required to report this information every quarter using the time intervals described in the amendments. This is especially true for large companies with operations spread throughout the world, such as O-I which had \$7.4 billion of revenues in 2011 with 81 plants located in 21 countries. Gathering future cash flow obligation information from every location in the company every quarter will be very time-consuming and will distract from operating the business. Companies will also have to establish new controls around this process to ensure compliance, and auditors will need to create new audit plans and procedures in order to audit this information. The requirement to include this table quarterly also seems to contradict the rule that allows for no disclosure in interim filings if there are no significant changes from the latest 10-K.

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.

Expected maturity can be very subjective and can also change on a regular basis due to many different factors. This could lead to difficulty for auditors when auditing this information. Using expected maturity could also create confusion for users when compared to the contractual obligations table required by the SEC in the MD&A, which is based on contractual maturity. Contractual maturity is the only real data available. Companies can control prepayments and other early settlements, but their liquidity is ultimately tied to the contractual maturities of its instruments. Thus, any cash flow obligations table requirements should use contractual maturities as the basis. If early settlement of any items is known, that fact could be added as additional narrative disclosure.

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?

Tabular disclosure of available liquid funds seems unnecessary and duplicative. Information regarding restrictions on cash and borrowing availability are already disclosed in other locations, such as the MD&A Capital Resources and Liquidity section. In addition, the SEC already requires disclosure of regulatory, tax, legal, repatriation and other conditions on transferability of funds. To include this disclosure in a footnote would only add duplication and unnecessary cost.

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?

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?
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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?
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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.
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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?
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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?
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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?
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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?
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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?
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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.

The amendments in this proposed Update should not apply to nonfinancial institutions. Information about liquidity for nonfinancial institutions is already included in interim and annual filings with the SEC. To require additional disclosures seems to be duplicative, with the costs far outweighing any potential benefits.

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.

The requirement to disclose a cash flow obligations table in the level of detail proposed, and the resulting implication of having that information audited, will require a large amount of time for preparers and auditors. As discussed elsewhere, this requirement is duplicative and unnecessary and should not be implemented; however, if it is implemented, preparers and auditors would need at least a year to plan and prepare adequately.

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.

For nonfinancial institutions, the proposed amendments include very little new information that cannot already be found in interim and annual filings with the SEC. The cash flow obligations table and the available liquid funds table definitely overlap with SEC requirements. Requiring new disclosures of information that is already included elsewhere in the same document is just wasting money and effort, while adding no benefit to users.

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