

September 25, 2012

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

We appreciate the opportunity to comment on the proposed Accounting Standards Update entitled *Financial Instruments (Topic 825): Disclosures about Liquidity Risk and Interest Rate Risk* ("the exposure draft"). BB&T Corporation and its subsidiaries ("BB&T") offer full-service commercial and retail banking as well as additional financial services such as insurance, investments, retail brokerage, corporate finance, treasury services, international banking, leasing and trust.

BB&T supports the Board in its effort to re-evaluate the sufficiency of disclosures related to entity-level exposures to liquidity and interest rate risk. We recognize that the challenges associated with promulgating disclosure requirements related to such risks are significant based on the varying risk profiles of reporting entities (i.e., financial institutions versus non-financial institutions, private versus public-reporting entities, nature of a reporting entity's regulatory environment, etc.) as well as the competing priorities of the FASB's stakeholders (i.e., balancing financial statement users' desire for additional information with the associated costs incurred by reporting entities).

Where possible we have attempted to provide feedback that may be applied on a broad basis. However, in certain circumstances our views have been shaped by the nature of our regulatory environment (i.e., public-company reporting requirements, regulatory requirements, etc.) that may not apply to other reporting entities. While we understand that the Board is attempting to promulgate disclosure requirements that may be applied by all reporting entities, we believe that it is important to consider how new disclosure requirements may align with current Securities and Exchange Commission ("SEC") disclosure requirements, regulatory reporting requirements, etc.

Technical Director

We believe that interest rate and liquidity risk disclosures can be significantly improved with simple but meaningful additions to the required disclosures. We also believe that such improvements are more likely to occur when disclosure requirements provide management with the flexibility to disclose information that provides financial statement users with insight into current risk management practices, as opposed to requiring the use of a standardized approach. While the use of a more flexible approach could potentially lead to some degree of variation in the nature of risk disclosures amongst reporting entities as a result of differing approaches to managing risk, we believe that the disclosure of the key drivers and assumptions inherent in the risk modeling and management being disclosed would provide financial statement users with the reasonable ability to compare risk-related disclosures between reporting entities.

The processes used to measure and manage interest rate and liquidity risk involve complex models with a significant number of assumptions that are based on certain forward-looking forecasts and expert judgment. As a result, a delicate balance exists between the information that can and should be disclosed in audited financial statements, and that which is more appropriately disclosed in Management's Discussion and Analysis (for public reporting entities) or some other means of communication for non-public reporting entities. From the perspective of a public reporting entity in the United States, we believe that concerns related to audit-ability would be most appropriately addressed through a joint project of the SEC and the Board. Such a project would allow the FASB and SEC to jointly determine interest rate and liquidity risk disclosure information that would be more appropriately located in Management's Discussion and Analysis, and the portions of such disclosure that could potentially be reflected in the footnotes to the financial statements.

We have provided more specific recommendations related to how risk disclosures may be improved as follows:

The Board's approach related to interest rate sensitivity disclosures should be based on existing quantitative and qualitative risk disclosures, with consideration given to simple but meaningful disclosure of key drivers and assumptions that are built into these models.

We believe that improved interest rate sensitivity disclosures are necessary in order to provide financial statement users with a better understanding of how reporting entities manage this significant risk. As an alternative to the Board's proposed approach related to interest rate sensitivity, we believe that it would be prudent to work collaboratively with the SEC to review current disclosure requirements related to quantitative and qualitative disclosures about market risk, and consider whether simple but meaningful improvements could be implemented as a means of providing incremental decision-useful information.

Many public reporting entities (including BB&T) disclose the results of interest sensitivity simulations, economic value of equity analyses, and other similar quantitative evaluations as a means of complying with the SEC's disclosure requirements. We

believe that financial statement users would derive more benefit from these analyses if reporting entities were required to provide more insight into the <u>key drivers and assumptions</u> that are built into these models.

BB&T adopted such an approach in connection with the preparation of its Form 10-Q for the quarterly period ended June 30, 2012. Please refer to Exhibit A: *Excerpt from BB&T Form 10-Q for the quarterly period ended June 30, 2012*, to obtain a better understanding of the nature of this additional disclosure. We believe the following feedback, reflected in an August 13, 2012 research report by Keith Horowitz¹, supports our conclusion that this type of disclosure would be well received by financial statement users:

BB&T leads the way with very good and easy to replicate disclosure – In its 2Q12 10-Q BB&T provided expanded disclosure on its key deposit pricing assumptions...

Bottom line: BB&T's enhanced disclosure should give investors comfort that its balance sheet is well-positioned for higher rates. We also applaud BB&T management for providing incremental information beyond what is simply required, in order to help investors better understand its balance sheet, and should give investors increased confidence in this strong management team...

If banks begin to show this kind of disclosure, we believe it can be an effective constraint on the banks from taking too much interest rate risk. Also, this kind of disclosure will make it easier for investors to see where the outliers are, and make it easier to compare interest rate risk among the banks.

Similarly, the following feedback was reflected in an August 20, 2012 blog post in the Financial Times by Lisa Pollack:²

While interest rates are likely to stay low for some time yet, they can't be that way forever. When rates finally go up, banks could be in a position to profit – provided their balance sheets are ready.

An investor could attempt to research which banks will be best placed for such a shift. For retail banks in particular, since their business models are not as diverse as investment banks, a handy disclosure to look for in financial statements would be net interest income sensitivity.

And while the quality of that disclosure is highly variable, one bank seems to have nailed it in their latest 10-Q: BB&T.

¹ Horowitz, Keith, "Alert: 2Q12 10-Q Includes an Excellent New Disclosure That Investors and Regulators Should Want To See From Every Bank," Citi Research, August 13, 2012.

² Pollack, Lisa, "Now, that is one mighty fine interest rate sensitivity disclosure," ft.com/alphaville, Financial Times, August 20, 2012, Web, September 6, 2012.

As provided above, a simple addition to the disclosure of interest rate risk by BB&T was well received by the market and seems to have provided financial statement users with meaningful insight into our interest rate risk. We believe this supports our conclusion related to interest rate sensitivity disclosures (i.e., that the Board's approach related to interest rate sensitivity disclosures should be based on existing SEC requirements related to the disclosure of quantitative and qualitative risk disclosures, with simple but expanded disclosure requirements related to the key drivers and assumptions that are built into a reporting entity's interest rate sensitivity modeling).

The Board should re-evaluate the focus of its disclosure requirements related to liquidity risk.

While we see a potential benefit associated with the available liquid funds disclosure, and can understand why the Board might seek to require additional disclosures related to time deposit activity, we believe the Board needs to re-evaluate the focus of its disclosure requirements related to liquidity risk. We acknowledge that balance sheet management represents one element of an effective liquidity risk management program. However, we believe that it is important to highlight that financial institutions typically have the ability to access funding from a variety of difference sources (i.e., the capital markets, the FHLB system, repurchase agreements, access to the overnight and term Federal Funds markets, access to the Federal Reserve discount window, etc.), which mitigates the risk associated with funding mismatches.

We believe a more appropriate discussion of liquidity risk provides insight into a reporting entity's solvency and capital buffers relative to risk. Strong capital and the overall risk management of the enterprise are critical factors that impact a reporting entity's ongoing access to liquidity sources, which for a commercial bank include but are not limited to, stable customer deposits and national market funding. A financial institution's liquidity risk must also give consideration to organizational structure (i.e., most banking institutions have an operating company and a holding company). This type of a structure further complicates liquidity modeling (i.e., liquidity must be separately evaluated at both the operating company and holding company levels).

Liquidity management is much more an art than a science. Accordingly, financial institutions use a variety of metrics to measure liquidity:

Operating-company metrics

- Near-term liquidity needs (sources and uses of funds) at the bank under normal and stressed conditions.
- Expected deposit behavior (inflows and outflows) under normal and stressed conditions.
- Wholesale funding maturities.
- Expected access to additional wholesale funding under normal and stressed conditions.

Technical Director

Holding-company metrics

- Parent company cash flow projections for contractual obligations.
- Parent company cash flow projections including discretionary payments.
- Expected access to additional wholesale funding under normal and stressed conditions.

This data is used to develop a liquidity profile that becomes the basis for management decisions. We believe financial statement users would benefit from the disclosure of certain liquidity metrics including the BASEL Liquidity Coverage Ratio ("LCR) (once it is implemented), the reporting entity's liquid asset buffer, the amount of unpledged assets at the operating company, and the number of months of holding company cash on hand to meet contractual obligations. We encourage the Board to reconsider the focus of its liquidity risk disclosures as described above as a means of providing financial statement users with insight into key management metrics, which we believe provides investors with decision useful information.

The Board should perform additional outreach with financial statement preparers to further consider concerns related to audit-ability.

We understand that the Board performed extensive outreach in developing the disclosure requirements outlined in the exposure draft, and that the message that was received in connection with this outreach was that financial statement users desired "audited, standardized, and consistent disclosures that are complementary to those found today in MD&A of public entities." While we understand why financial statement users might desire interest rate and liquidity risk disclosures that are easily compared with other reporting entities, we believe that the usefulness of these risk-related disclosures is negatively impacted when the required disclosures (1) require presentation of data that is not aligned with current risk management processes and (2) reflect significant limitations on the use of forward-looking information as a means of increasing the level of comparability between reporting entities.

To the extent that the FASB chooses to move forward with its proposed disclosures, we believe that reporting entities would effectively be required to adopt one of two possible approaches; (1) adopt a more simplified approach to measure interest rate and liquidity risk in order to ensure audit-ability and internal control reporting compliance, or (2) maintain two sets of interest rate and liquidity risk models, with one used for risk management purposes and another more simplified approach used for disclosure purposes. We do not believe that financial statement users would derive a significant benefit from disclosure of simplified risk management models, nor do we believe that financial statement users derive value from information that is solely prepared for disclosure purposes (i.e., not used to manage actual interest rate or liquidity risk).

Aside from the concerns outlined above, we believe that it is also important to highlight that information systems may not have been developed in a manner that facilitates the performance of audit procedures on certain data (e.g., yield and duration calculations at the class level, disaggregated by repricing date). In light of these concerns related to audit-ability, we recommend the Board perform additional outreach with financial statement preparers to give further consideration to these potential issues.

The liquidity gap analysis disclosure requirement should be eliminated.

The exposure draft states the following related to financial statement users' interest in asset-liability management:

Users of financial statements expressed strong interest in more information about an entity's liquidity position. For financial institutions, users stated that an asset-liability maturity analysis would be useful to understand more about an entity's asset-liability management.

We have concluded that the proposed liquidity gap analysis would not achieve the Board's objective of providing investors with decision-useful information. This conclusion is largely based on the fact that static liquidity analyses similar to the disclosure being proposed by the Board are no longer commonly used by financial institutions in their routine asset-liability management processes, since the usefulness of the output of such an analysis (i.e., potential liquidity gaps) is significantly diminished by weaknesses in the approach (i.e., inherent limitations of a static analysis, use of balance sheet amounts as opposed to expected cash flows, etc.) While the proposed liquidity gap analysis appears responsive to financial statement users' requests (i.e., standardized disclosure of liquidity-related data), the inherent weaknesses in the data presented in the disclosure have a significant detrimental impact on its usefulness.

We also have some significant concerns related to the comparability of the proposed liquidity gap disclosure amongst reporting entities. Assets and liabilities held by financial institutions have strong behavioral characteristics that can drastically impact liquidity modeling. Examples of these characteristics include:

- Retail mortgage loans have a very long contractual maturity, but in a
 declining interest rate environment tend to prepay quickly as clients
 refinance.
- Demand deposits are very stable and predictable sources of funding for a bank. All banks conduct studies to determine the behavioral life of these "indeterminate" deposits. The results of these studies are used when developing the liquidity profile and ultimately the liquidity risk management of the bank.

Technical Director

We believe the significance of the embedded assumptions inherent in expected maturity estimates represents a significant obstacle to achieving comparable liquidity gap disclosures. For example, if two banks both have a residential real estate portfolio but one has a weighted average coupon that is 100 basis points higher, they will show much higher expected prepayments due to refinance risk then the bank with a lower weighted average coupon (to the extent that the difference in weighted average coupon is not attributable to increased credit risk). We believe that it is reasonable to conclude that reporting entities would reach different conclusions related to the expected maturity of classes of financial assets and liabilities, thereby significantly diminishing the comparability of the liquidity gap analysis. If the data reflected in the liquidity gap analysis is not comparable amongst reporting entities, we do not believe that the benefits associated with the disclosure justify the significant costs that would be incurred by reporting entities in compiling this data.

We recommend the Board eliminate the proposed liquidity gap analysis from the final accounting standard update. We believe weaknesses in the approach significantly diminish the usefulness of the data presented, and also have concluded that comparability of the data in this disclosure between reporting entities would be negatively impacted by the significance of the estimates and assumptions required in determining expected maturity.

The repricing gap analysis disclosure requirement should be eliminated.

Consistent with our views related to the proposed liquidity gap analysis, we believe that it is important for the Board to understand that repricing gap analyses are not typically used by financial institutions to assess interest rate risk. Whereas the proposed repricing gap analysis would provide a static view of a reporting entity's exposure to interest rate risk, most reporting entities have adopted more dynamic interest rate modeling that gives appropriate consideration to optionality of financial instruments (e.g., prepayment options), the impact of hedging arrangements, and the expected impact of interest rate changes on certain other asset classes.

Since management has determined that static repricing gap analyses are not meaningful in evaluating an entity's interest rate risk, we cannot understand how a financial statement user would find such information to be decision-useful. As previously noted in this letter, we believe that financial statement users would derive a much more significant benefit from the disclosure of key drivers and assumptions used in performing interest sensitivity modeling. To the extent that such improvements in disclosure are incorporated into the final accounting standards update, we believe that it would be appropriate to eliminate the requirement to disclose a repricing gap analysis.

The limitation on the use of forward-looking information in the proposed interest sensitivity disclosures may cause the disclosure to be misleading.

We also have significant concerns related to the Board's proposed interest sensitivity disclosures. In particular, we believe that the limitation on the use of forward-looking

expectations in estimating the effects of hypothetical changes in interest rates renders the output of the disclosure misleading. Changes in interest rates have a direct impact on prepayment speeds and deposit runoff, and these changes have the potential to significantly impact the reporting entity's operating results. While we understand that user feedback indicates a desire for standardized, comparable disclosures, and we understand that the limitations on the use of forward looking information were incorporated into the disclosure requirement to promote such comparability, we believe that such limitations would significantly distort the results of the analysis, and therefore believe that the Board should reconsider its approach related to interest rate sensitivity.

We identified certain additional operational considerations that the Board should consider during its re-deliberations.

Disaggregation of disclosure information by class of financial asset or liability

The Board has proposed that the liquidity gap and repricing gap analyses provide tabular disclosure of classes of financial assets and liabilities segregated by their expected maturities and repricing dates, respectively. Notwithstanding the concerns previously outlined in this letter related to these disclosures, we do not believe that the presentation of financial assets and liabilities by class provide financial statement users with incremental decision-useful information (e.g., what benefit does a financial statement user derive from having expected maturities of loans disaggregated by class if the focus of the disclosure is centered around liquidity or interest rate risk?) To the extent that the Board moves forward with its proposal related to the liquidity gap and repricing gap disclosures, we recommend a more detailed evaluation of the cost-benefit analysis of such disaggregation be undertaken.

Disaggregation of disclosure information by time interval

To the extent that the Board moves forward with its proposals related to the liquidity gap and repricing gap analyses, we believe that the Board should reevaluate whether such information must be disaggregated over up to eight different time intervals. Based on the nature of the proposed disclosures (i.e., the inherent difficulty in estimating expected maturities in the liquidity gap analysis and the fluidity of repricing dates due to prepayment activity in the repricing gap analysis), we do not believe that the required time intervals provide financial statement users with decision-useful information. We believe that more reasonable time intervals would include "within one year," "one to two years," and "greater than two years."

Yield/duration disclosures in the repricing gap analysis

The Board's proposed repricing gap analysis currently requires disclosure of the repricing data of classes of financial assets and liabilities, disaggregated over up to eight different time intervals. In addition, the Board has proposed that yield and duration data be provided at the same level of detail (i.e., at the class level disaggregated over the same time intervals). We have significant concerns related to this disclosure requirement, as

we do not believe that information systems have not been designed to capture yield or duration data at this level of disaggregation. As a result, we recommend the Board reconsider whether the benefits of disaggregated yield and duration information justify the associated costs that will be incurred by reporting entities.

Available liquid funds disclosure

We believe that the Board's proposal related to available liquid funds has the potential to provide financial statement users with decision-useful information. In connection with the anticipated adoption of the Basel III framework in the United States, financial institutions will be required to disclose a yet-to-be-finalized measure of liquidity called the Liquidity Coverage Ratio ("LCR"). We recommend the FASB align its definition of available liquid funds to allow a reporting entity to disclose its "liquid assets" along with the definition the reporting entity uses to determine the number.

Issuance of Time Deposits

While we understand why the Board included a disclosure requirement related to the issuance of time deposits, we believe that the form of this disclosure requires additional analysis. This analysis should give consideration to the presentation of time deposits that automatically renew or rollover during the period (i.e., should these issuances be counted more than once during an accounting period?). In addition, further clarification should be provided related to the disaggregation of time deposits between insured and uninsured (i.e., how would time deposits that are partially insured be presented in the required footnote disclosure?).

Interest sensitivity disclosures

We believe the Board should reconsider the level at which interest rate sensitivity disclosures are calculated (i.e., report interest rate sensitivity at the net interest income level as opposed to net income level). We believe that such a change would significantly reduce the complexity of the calculation by eliminating the need to evaluate indirect net income effects that are driven by a change in interest rates (e.g., impact on asset management fees, services charges on deposits, bank-owned life insurance, pension expense, etc.), but still provide financial statement users with relevant information related to the potential impact on net interest income arising from a change in prevailing interest rates.

We also believe that the Board should reconsider whether instantaneous changes to the yield curve provide financial statement users with meaningful information. We believe that more gradual changes to interest rates (i.e., use of a ramp) provide a more realistic depiction of potential changes in rates. As a result, we recommend the Board reconsider whether parallel shifts of the yield curve represent interest rate scenarios that provide financial statement users with decision-useful information.

2012-200 Comment Letter No. 86 September 25, 2012 Page 10

Technical Director

We would be pleased to discuss our comments with the Board members or the FASB staff at your convenience.

Very truly yours,

/s/ Daryl N. Bible

Daryl N. Bible Senior Executive Vice President and Chief Financial Officer

Exhibit A Excerpt from BB&T Form 10-Q For the quarterly period ended June 30, 2012

Management must also consider how the balance sheet and interest rate risk position could be impacted by changes in balance sheet mix. Liquidity in the banking industry has been very strong during the current economic downturn. Much of this liquidity increase has been due to a significant increase in noninterest-bearing demand deposits. Consistent with the industry, Branch Bank has seen a significant increase in this funding source. The behavior of these deposits is one of the most important assumptions used in determining the interest rate risk position of BB&T. A loss of these deposits in the future would reduce the asset sensitivity of BB&T's balance sheet as the company increases interest-bearing funds to offset the loss of this advantaged funding source.

BB&T applies an average beta of approximately 80% to its managed rate deposits for determining its interest rate sensitivity. Managed rate deposits are high beta, premium money market and interest checking accounts, which attract significant client funds when needed to support balance sheet growth. BB&T regularly conducts sensitivity on other key variables to determine the impact they could have on the interest rate risk position. This discipline informs management judgment and allows BB&T to evaluate the likely impact on its balance sheet management strategies due to a more extreme variation in a key assumption than expected.

The following table shows the effect that the loss of demand deposits and an associated increase in managed rate deposits would have on BB&T's interest-rate sensitivity position. For purposes of this analysis, BB&T modeled the beta at 100%.

Table 15
Deposit Mix Sensitivity Analysis

		Results Assuming a Decrease in Noninterest Bearing Demand	
		Deposits	
Increase in	Base Scenario	\$1	\$5
Rates	at June 30, 2012 (1)	Billion	Billion
2.00 %	3.42 %	3.17 %	2.20 %
1.00	1.97	1.82	1.21