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September 25, 2012

Financial Accounting Standards Board
401 Merritt 7
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BY EMAIL: director@fasb.org

RE: File Ref. No. 2012-200
Financial Instruments (Topic 825)
Disclosures about Liquidity Risk & Interest Rate Risk

Members of the Board:

On behalf of Sandler O'Neill + Partners, L.P., I am commenting on the Board's Proposed Accounting Standards Update, *Disclosures about Liquidity Risk and Interest Rate Risk* (Topic 825), issued June 27, 2012 for comment by September 25, 2012. Our purpose is to provide the Board conceptual commentary rather than detailed critique.

Sandler O'Neill is a market-leading, full-service investment-banking firm focused on the financial services sector.[1] We address the Board as a firm of financial professionals who work closely with a wide variety of financial companies nationwide and, increasingly, around the globe. Our clients include some one thousand such companies, including banks and thrifts, insurers, and their holding companies, as well as investors in them.

Overview of Proposal

The scope of the proposed update includes all reporting entities, which it bifurcates into financial institutions and nonfinancial entities, and further bifurcates the former into banks and insurers.[2] This letter comments only on disclosures proposed for banks and insurers.

Proposed liquidity disclosures include a table of available liquid funds applicable to all entities, tables for liquidity gap maturity analysis adapted for banks and insurers, and for banks only a table of time deposit issuance. Proposed interest rate risk disclosures include tables for repricing gap analysis adapted for banks and insurers, as well as a single interest rate sensitivity table for both banks and insurers based on specified yield curve scenarios.

[1] For further information on Sandler O'Neill + Partners, L.P., see http://www.sandleroneill.com/. Author contact information is jlongino@sandleroneill.com; 212-466-7936.
[2] Excluded from the definition of *financial institution* are entities that measure substantially all of their assets at fair value with changes in fair value recognized in net income, which would exclude broker-dealers, investment banks, investment companies, and most investment funds. Entities with reportable segments meeting the definition of *financial institution* would be required to provide disclosures for those segments.

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Discussion

We believe that no specific format should be prescribed for disclosing liquidity and interest rate risk because what the Board is trying to get at is not the disclosure of financial data but the risk implications of financial data.

The latter – risk disclosure – is best addressed by management's discussion and analysis of how it defines, measures, and manages risk, and the goal of such disclosure should be the differentiation of management rather than the comparability of data. Put another way, how management defines, measures, and manages risk is at least as important (and perhaps more important) to assessing the risk of an entity as the output of the models used.

Regarding liquidity risk, state-of-the-art measurement and management relies upon projected cash flows rather than the data on expected maturities and repricing captured in the proposed tables. For example, cash flow projections take into account a key component of liquidity that is missing from these tables: cash flows generated by recurring receipts from performing assets and recurring payments under funding arrangements, as distinguished from their maturities or repricings.

Regarding interest rate risk, state-of-the-art measurement and management relies on projecting the sensitivity of earnings and equity to changes in market interest rates.[3] The proposed interest rate sensitivity table gets at some of this in its disclosure of the effect on shareholders' equity of instantaneous rate shocks, but inappropriately applies these shocks to assess the sensitivity of net income.[4] The sensitivity of earnings to changes in market rates is more appropriately (because more realistically) captured by gradual rather than instantaneous changes in market interest rates.

Conclusion

As the recent financial crisis has reminded us, risk management is as much art as science, and therefore is best addressed in management's discussion and analysis.

More specifically, because the models and assumptions that drive the measurement and management of liquidity and interest rate risk are complex as well as confidential, management needs latitude to provide such disclosure as it can without compromising sensitive proprietary information.

[3] The sensitivity of earnings is the more appropriate measure of interest rate risk for going concerns, for which the sensitivity of equity functions as a backstop against overlooking deeply embedded, material interest rate risk.
[4] We note that net interest income is a more focused measure of interest rate risk than net income because it excludes extraneous items such as taxes.

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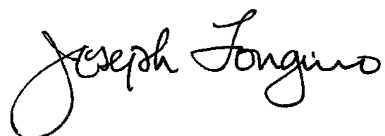
For these reasons, we believe that risk disclosure should be left to management's qualitative discussion and related quantitative disclosure regarding how it actually defines, measures, and manages liquidity and interest rate risk. The proposed standardized disclosures would be an unhelpful distraction for investors and an unnecessary expense for preparers.

Sincerely,



Joseph Longino
Principal

cc: The Honorable Hans Hoogervorst, Chairman
International Accounting Standards Board