

September 25, 2012

Susan M. Cosper, Technical Director Financial Accounting Standards Board 401 Merritt 7 PO Box 5116 Norwalk, CT 06856-5116

Via Email to <u>director@fasb.org</u>

Re: File Reference No. 2012-200

Audit - Tax - Advisory

Grant Thornton LLP 175 W Jackson Boulevard, 20th Floor Chicago, IL 60604-2687

T 312.856.0200 F 312 565 4719 www.GrantThornton.com

Dear Ms. Cosper:

Grant Thornton LLP appreciates the opportunity to comment on the proposed Accounting Standards Update (proposed Update), *Financial Instruments (Topic 825): Disclosures about Liquidity Risk and Interest Rate Risk.* We appreciate the Board's efforts to provide financial statement users with additional decision-useful information about an entity's liquidity risk and interest rate risk. While we agree that understanding an entity's liquidity and interest rate risk is important to a financial statement user, we do not agree that most of the proposed disclosures should be part of the audited financial statements. In particular, we are concerned about the auditability of forward-looking information, which can be highly subjective, would require significant management judgment, and would not appear to be covered by the existing SEC "safe harbor." The "safe harbor" currently applies to similar information disclosed in Management's Discussion and Analysis (MD&A), but does not extend to the audited financial statements.

Consistent with current limitations described in an entity's MD&A disclosures related to market risk, as required by Items 303 and 305 of SEC Regulation S-K, an entity likely would provide a specific discussion in the audited financial statements about the limitations of its liquidity risk and interest rate risk disclosures, which may raise the question of whether the auditor would need to consider the implication of such limitations on the audit opinion. Further, significant time would be required to train auditors, as evaluating such disclosures is not a skill set of the typical auditor. In fact, auditing such disclosures would likely require personnel with a specific skill set.

We are further concerned that this proposed Update appears to be inconsistent with the objective of financial reporting, by requiring management to include a discussion about certain risks in the financial statements. Along these lines, we note that liquidity risk and interest rate risk are just two of the broader overall risks to which an entity may be exposed. For example, entities may also be subject to foreign exchange risk, regulatory risk, operational risk, and/or legal risks. As a result, we believe that the Board should consider whether the additional disclosures about liquidity and interest rate risk are appropriate for the audited financial statements and should clearly define where the line is as to which risks should be part of the



audited financial statements versus MD&As. We also note that disclosures about liquidity and interest rate risk are significantly different than those required in the Board's previous project to provide additional information about credit risk related to loans, in that the credit risk disclosures relate to a specific estimate in the financial statements and do not provide forward-looking-information.

We also believe that the proposed Update would not result in providing financial statement users with meaningful information due to the proposed limitations in the proposed Update. To emphasize this point, we have often heard from preparers that the disclosures in the proposed Update are inconsistent with how an entity manages its liquidity and interest rate risk. For example, the guidance in ASC 825-10-50-23J, 825-10-50-23Q, and 825-10-50-23X appears to indicate that a preparer should only discuss what it has done to manage those risks, but not what it plans to do in the future. Managing these risks is an ongoing process. As a result, we have often heard that preparers would likely need to tell their boards to ignore the audited disclosures and to focus instead on the internal information provided as part of a board meeting package, as such "audited" disclosures were prepared with limitations that result in an inaccurate portrayal of the entity's risks and how it manages such risks. As a result of these limitations, we believe the proposed Update does not allow a preparer to appropriately portray in the financial statements the interest rate and liquidity risks that the entity is exposed to and how it manages those risks. This concern is elaborated in our responses to the Board's specific questions in the proposed Update below.

Should the Board continue to believe that disclosures about liquidity risk and interest rate risk should be part of the audited financial statements, we have significant concerns about the proposed Update in its current form. We have included specific comments about the proposed requirements, and an alternative approach as it relates to disclosures about liquidity risk and interest rate risk, for the Board's consideration. We also note that certain of our responses to the specific questions provide views on how the current proposed disclosures could be enhanced to provide more meaningful information. However, it is important to emphasize that making such disclosures more meaningful would likely result in additional auditability concerns.

General comments

Definition of a financial institution

The proposed Update would define a "financial institution" as entities or reportable segments for which the primary business activity is to do either of the following:

- a. Earn, as a primary source of income, the difference between interest income generated by earning assets and interest paid on borrowed funds
- b. Provide insurance



We have the following concerns about the proposed definition:

- It lacks a clear principle as to which entities the Board is trying to "target."
- How would "reportable segment" be defined for a nonpublic company or a not-for-profit entity? Specifically, we note that the guidance in ASC 280, *Segment Reporting* does not apply to such entities.
- It is unclear why the Board has chosen to exclude certain entities that we believe are interest
 rate sensitive. For example, a mortgage bank would not meet the proposed definition of a
 financial institution, yet is sensitive to changes in interest rates. In addition, certain other
 entities may have significant amounts of financial assets and financial liabilities that are
 sensitive to interest rates.
- We are also unclear why "providing insurance" would be a requirement to provide disclosures similar to a financial institution. Specifically, we note that in the Basis for Conclusions, the Board appears to be targeting insurance companies; however, the proposed definition is unclear as to which specific entities the Board is concerned about. For example, why does the Board feel an insurance broker would need to provide such disclosure? And, if providing insurance is not an entity's core business, would the simple fact that it provides insurance require it to provide disclosures of a financial institution?

It would appear that the entities the Board intended to target are entities that have a significant amount of financial assets and financial liabilities in which movements in interest rates significantly impact the entities' earnings and/or capital; however, there is the potential for some of those entities to be scoped out of the requirements. If so, we believe the Board should articulate such a principle in defining the applicability of the different disclosures.

Additionally, the Board should consider how this definition of financial institution compares to other uses of the same term in the Codification. For example, ASC 942-10-15-3 indicates that "For purposes of this Topic, financial institution (or institution) denotes a bank, credit union, finance company, mortgage company, or savings institution." Multiple definitions of the same term are confusing.

Interaction with other projects on the Board's agenda

We believe that the Board should consider the interaction of this proposed Update with other projects on its agenda. For example, one of the stated objectives of the Not-for-Profit Financial Reporting: Financial Statements project is to "improve information provided in financial statements and notes about liquidity, financial performance, and cash flows." As a result, we believe that not-for-profits should be scoped out of this proposed Update. Additionally, consideration should be given to the interaction with the Going Concern project. The proposed Update fails to discuss the interaction of this proposed Update with other projects on the Board's agenda.

Differentiations based on measurement attribute

The disclosures in the proposed Update would be affected by the measurement attribute of an entity's assets and liabilities. In particular, there are certain differentiations for assets and liabilities which are measured at fair value, with changes in fair value recognized in net income.



We believe these differentiations are contradictory to feedback from financial statement users cited in the proposed Update. Specifically, the proposed Update states:

Stakeholders' feedback indicated that the risks that are inherent in a class of financial instruments and the way in which an entity manages those risks through its business operations should be instrumental in developing the reporting model for financial instruments. However, it has become clear that no measurement attribute would convey to users of financial statements complete information about a financial instrument's inherent risks and the broader risks to which an entity is exposed. That is, attempting to represent all of the risks in an instrument with a single amount or measurement attribute is not possible. For example, the fair value of a particular financial instrument would reflect current market information about the risks inherent in that instrument but may not convey information about how that financial instrument contributes to the entity's broader risk profile.

In other words, we believe that this proposed Update is getting at risks that are not captured by fair value, so we are unclear why the Board has differentiated certain disclosures because the measurement attribute is fair value, with changes in fair value recognized in net income. Below are two specific examples:

- ASC 825-10-50-23A indicates that "An entity that measures substantially all of its assets at fair value with changes in fair value recognized in net income shall provide the disclosures required for entities that are not financial institutions." This could result in certain financial institutions being excluded from the required interest rate risk disclosures and would result in such institutions providing the disclosure package of a nonfinancial institution, which is likely less meaningful to financial statement users. It is unclear why the different measurement attribute would impact the applicability of the risks that an entity must disclose. Further, we note that many financial institutions disclose interest income and interest expense on a contractual basis, even if the measurement attribute is fair value through net income. If such entities are permitted to apply disclosures for nonfinancial institutions, comparability would be lost for financial institutions. Additionally, this could result in a financial institution disclosing information only about cash flow obligations and not the approach prescribed for financial institutions.
- ASC 825-10-50-23F specifies that for a liquidity gap maturity analysis, a financial instrument
 measured at fair value with all changes in fair value recognized in net income (excluding
 derivatives), and equity securities measured at fair value with all changes in fair value
 included in other comprehensive income, would not be segregated into different time
 intervals and shall only be presented in the total carrying amount column. It is unclear why
 such measurement attribute effectively excludes an entity from providing information about
 liquidity gap maturity risk.

Proposed alternative approach on liquidity risk

We believe that the disclosures required in audited financial statements about liquidity risk should be based on contractual maturities and contractual obligations, rather than on expected maturities. Disclosures regarding information about expected maturities and expected cash flow



obligations are better suited for inclusion in MD&As. Under this approach, such forward-looking information would continue to be left to the MD&A. The incremental benefit to users would be that the contractual maturity and contractual obligation information would be subject to audit.

Proposed alternative approach on interest rate risk

As noted elsewhere in our comment letter, we have significant concerns about the current form of the interest rate risk disclosures and believe that interest rate risk disclosures that require forward-looking information should not be included in the audited financial statements. Should the Board wish to proceed with including information about interest rate risk in the audited financial statements, we believe that it should consider an alternative approach that provides financial statement users with information necessary to understand the company's interest rate-sensitive assets and liabilities.

Under our proposed approach, an entity would disclose key data (such as principal balance, weighted average coupon, and weighted average remaining maturity) about interest rate—sensitive assets and liabilities on a disaggregated basis that considers items such as:

- The nature, characteristics, and risks of the financial instrument
- Fixed vs. variable interest rates
- Information on the index used (i.e., prime rate vs. 30-day LIBOR)
- Spread from index
- When the interest rate resets

Providing such information on a consistent basis would enhance comparability among institutions and provide sophisticated financial statement users with enhanced audited disclosures about interest rate risk to make their own assessment about the risks and the impact of such risks on earnings and equity. Similarly, it would provide meaningful information to a less sophisticated financial statement user who likely would not understand the limitations and reported results about the models used to evaluate interest rate risk.

We believe that there is a precedent in this approach. Specifically, the former Office of Thrift Supervision (OTS) required thrifts to provide a Consolidated Maturity and Rate schedule as part of their regulatory filings in order to "provide information about the interest rate, repricing, and maturity characteristics of all financial instruments held." Such data was used by the OTS to "measure an institution's exposure to interest rate risk by estimating how a change in interest rates affects the market value of its assets, liabilities, and off-balance-sheet contracts."

We believe this approach has the following advantages over the approach included in the proposed Update:

• It is consistent with what we have observed financial statement users want about fair value. They do not necessarily want fair value; rather, they appear to want information about the significant inputs and characteristics of the items being measured. Further, this is consistent



with the approach the FASB has taken in ASU 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, which provides enhanced disclosures about credit quality, but not information that requires management to predict the future.

- By the time the financial statements are issued, the disclosures in the proposed Update
 likely would no longer be meaningful due to the time delay in issuing financial statements.
 However, an alternative approach of providing financial statement users with standardized
 relevant data would allow such users to make their own assessment about risks and the
 impact of such risks on earnings and equity. Further, it would achieve the comparability
 objective that some financial statement users have requested.
- It addresses concerns noted elsewhere in our comment letter about including forward-looking information in audited financial statements and the auditability of the interest rate risk disclosures included in the proposed Update. Our proposed approach would provide information necessary to understand interest rate risk, without the requirement that management make forward-looking statements.
- It can be combined with the current fair value disclosures about inputs and assumptions.

Responses to the Board's specific questions in the proposed Update

We chose to respond to certain of the questions for preparers and users, in addition to the questions for all respondents and for preparers and auditors, where we believe our responses would provide useful input to the Board. We have omitted those questions for preparers and users that we did not respond to.

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?

The proposed Update would define "expected maturity" as the expected settlement of an instrument resulting from contractual terms (for example, call dates, put dates, maturity dates, and prepayment expectations), rather than the entity's expected timing of the sale or transfer of the instrument. We are unclear why an entity's expected timing of the sale or transfer of the instrument would be excluded from the analysis, as the Board's rationale is not discussed in the proposed Update. We believe that sales and transfers of financial instruments are important aspects of an entity's overall liquidity gap management.

We are also concerned that the definition of *expected maturity* would lead to misleading information for users of the financial statements. Specifically, we note that disclosures based on "expected maturities resulting from contractual terms" would ignore the fact that loans are often renewed, for example, and not settled at maturity. For example, a 5/1 adjustable rate mortgage may be based on a 30-year amortization. Alternatively, a commercial bank may offer loans with one-year terms to borrowers to keep such borrowers on a "tight leash," yet the expected settlement would likely be beyond the contractual term. In order to provide users of the financial statements with meaningful information, we believe the preparer should disclose



expected maturity based on the ultimate expected settlement of the financial instrument, which may be before or after the contractual maturity.

We also note that a financial institution's liquidity may be significantly impacted by nonfinancial liabilities, such as an institution that has significant branches that are leased. A nonfinancial institution would be required to disclose lease payment obligations as part of the "expected cash flow obligation" table, but we are unclear whether a financial institution would be required to make such disclosure. ASC 825-10-50-23E indicates that the disclosures for a financial institution would include "leases," but it is unclear if the context is lease receivables or leases accounted for under ASC 840, *Leases*. Depending on the financial institution, understanding nonfinancial obligations would provide important information about an entity's cash flow obligations.

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?

The proposed Update would require an entity that is not a financial institution to provide a cash flow obligations table that includes an entity's expected financial cash flow obligations as of the end of the reporting period. We are unclear as to the threshold or scope of this disclosure requirement. For example, is "expected" consistent with the thresholds set forth in ASC 450, *Contingencies*? That is, would an entity only disclose expected financial cash flow obligations about litigation if it believes such amount is probable? Are such settlements something the Board believes should be included in the expected cash flow obligations table?

Additionally, we believe the Board should provide guidance as to how contingent payments should be considered in the table. For example, a debtor's repayment of its loan may require contingent payments if certain benchmarks or thresholds are met.

We also note that a nonfinancial institution would be required to disclose the "undiscounted amounts" of its derivative financial liabilities. We believe that disclosing derivatives at fair value would be a more meaningful measurement basis.

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.



We agree that the term *expected maturity* is more meaningful than the term *contractual maturity* in the context of the proposed liquidity risk disclosures. However, as noted above, we do not believe that *expected maturity* has been defined in a way to provide financial statement users with meaningful information about liquidity risk.

Refer to our response in Question 1.

Question 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?

The proposed Update would require all entities to disclose their available liquid funds, which would include unencumbered cash and *high-quality liquid assets*, as well as the entities' borrowing availability. It's unclear why the Board has decided to limit this disclosure to only liquid funds that are "high-quality" and how this limitation impacts an understanding of the entity's liquidity. For example, an entity may have a liquid investment that is rated below investment grade, but it is unclear how this fact impacts liquidity. Further, it is unclear how the term "high-quality" should be interpreted for GAAP purposes. We recommend that the disclosure be simplified to include available liquid funds that are free from restrictions and readily convertible to cash, supplemented with the recommended narrative discussion about the effect of regulatory, tax, legal, repatriation, and other conditions that could limit the transferability of funds among entities.

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 do not foresee any significant operational concerns or constraints in complying with this requirement to disclose the issuances of time deposits and acquisitions of brokered deposits. However, it is unclear how only disclosing issuances of time deposits and acquisitions of brokered deposits during the previous four fiscal quarters would be meaningful to financial statement users and achieve the purpose of this disclosure, as outlined in paragraphs B19 and B20 in the Basis for Conclusions of the proposed Update. Rather, we believe that a financial statement user would receive more benefit from understanding the weighted average coupon and weighted average *remaining* maturity of all time deposits and brokered time deposits. An institution typically issues time deposits with a maturity of up to five years, and we believe a disclosure that provides a user with an overall understanding of the time deposit mix would provide more relevant information. Information about only the previous four quarters does not tell the entire story.



We also believe that additional clarification is needed as to whether the Board is requesting disclosures for all brokered deposits or just brokered certificates of deposit. Additionally, the Board should clarify how rollovers and renewals should be considered in the table. For example, would a 30-day certificate of deposit be shown multiple times in each quarter and in each quarter if the depositor continuously renews his or her certificate of deposit?

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?

We do not believe that the proposed amendments would provide sufficient information for users to develop an understanding of an entity's liquidity risk. (Refer to previous comments about *expected maturity*.) Further, we believe that liquidity risk cannot be viewed in isolation. Often, the various risks users are concerned about are interrelated, which makes it difficult to provide a completely accurate picture of specific risks. For example, changes in the credit risk of a loan or security would significantly impact liquidity risk. Similarly, measurement uncertainty related to assets and liabilities is an important consideration in assessing liquidity risk. In addition, it is impossible for management to predict, and for auditors to audit, all potential variables in management's evaluation of liquidity risk. In other words, there are inherent limitations in providing this information that must be disclosed and audited. Thus, such disclosures would provide better information to users of financial statements if they were included with all risk disclosures in the MD&A and not in the audited financial statements. Further, MD&A disclosures in a filing with the SEC are currently covered by a "safe harbor" rule that does not extend to disclosures in the audited financial statements.

We also note that understanding an entity's liquidity gap requires an understanding of the measurement uncertainty related to the different types and categories of assets and liabilities, including related disclosures about the sources or causes of the measurement uncertainty. Accordingly, to make the liquidity gap analysis meaningful, we believe that the information in the liquidity gap tables be disaggregated in such a way as to facilitate comparisons to the disaggregation of fair value disclosures where information about measurement uncertainty is provided.

Question 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?

We believe that there are too many time intervals that would be required to be disclosed and note that after two to three years, disclosing expected maturities becomes more difficult to

-

¹ Refer to Question 73 of the Questions and Answers About the New "Market Risk" Disclosure Rules http://www.sec.gpv/divisions/corpfin/guidance/derivfaq.htm#safe



forecast. We believe that the time intervals should be more limited and consideration should be given to supplementing such information with a table of contractual maturities.

In addition, we believe that the applicability of ASC 825-10-50-23I as it relates to liquidity risk disclosures for nonpublic entities should be clarified as to whether it applies to ASC 825-10-50-23H and/or ASC 825-10-50-23G. We believe that a nonpublic entity should not be required to provide interim information.

Question 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.

We believe that the proposed Update should set minimum requirements and leave it up to the preparer to determine whether additional disaggregation or narrative disclosure is necessary beyond the time intervals in the proposed Update.

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 believe that the interest rate risk disclosures in the proposed Update would require significant forward-looking information and management assumptions that are difficult to audit. Further, it is unclear whether changes in interest rates should be considered in isolation or in conjunction with other interrelated risks (for example, changes in prepayment speeds and credit risk). Additionally, we note that a variation in a particular assumption or input could significantly impact another assumption or input that goes into calculating the impact to both net income and shareholders' equity. Accordingly, we believe that it is important for management to also disclose the inputs used in measuring the impact to net income and shareholder's equity, the range of inputs and assumptions, the range of the impact based on such inputs, and the limitations of such analysis.

We also believe that the proposed Update lacks the clarity needed for one unfamiliar with an interest rate—sensitivity analysis to appropriately comply with the proposed disclosure requirements. For example, not all preparers or auditors understand what a "parallel shift of the yield curve," "flattening shifts of the yield curve," or "steepening shift of the yield curve" means or the differences between such concepts.

We also note that the proposed Update indicates that a financial institution should not incorporate any forward-looking expectations regarding noninterest revenues, noninterest expenses, tax rates, projections about growth rates, asset mix changes, or other internal business strategies in preparing the interest rate—sensitivity analysis. However, such inputs are likely considered in management's internal analysis. In discussing the proposed Update with



preparers, we heard a common theme that management would likely need to tell its Board of Directors to ignore the information about interest rate risks in the audited financial statements, since they likely were prepared based on inputs and assumptions that differ from those used by the entity internally to manage risk, and that the information provided to the Board of Directors about interest rate risk would provide a more accurate portrayal of the entity's interest rate risk. As a result, the entity would be required to prepare two different analyses on interest rate risk, one to manage the risk and the other required in the audited financial statements.

In addition, the Board should consider the interaction with the sensitivity disclosures in ASC 860-20-50-4, *Transfers and Servicing*

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?

See response to Question 13.

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 believe that nonpublic entities should be excluded from the scope of this proposed Update. As noted in the Summary of the proposed Update, "the Board decided to propose the disclosures in this proposed Update primarily because of the strong demand by users for audited, standardized, and consistent disclosures that are complementary to those found today in MD&A of public entities. For nonpublic entities, these disclosures would provide incremental new information about these important risks."

While we agree these disclosures would provide incremental new information about these important risks to users of nonpublic financial statements, we question whether the users of nonpublic financial statements would benefit from having such disclosures audited, standardized, and consistent among entities. We believe that the Board should more specifically consider the needs of financial statement users of different types of entities. We note that the users of private entity financial statements are generally more limited than those of a public reporting entity and have different needs. For example, users of the financial statements of a nonpublic financial institution may be limited to the bank's regulator and a few shareholders. In such a situation, the bank's regulator often reviews such information as part of its regulatory examination and can obtain information as needed in order to analyze an institution's interest rate and liquidity risk. Further, the primary shareholders are likely represented on the Board of Directors, and such information is typically reviewed as part of board meetings. Therefore, in a closely held nonpublic financial institution, the benefits of having such disclosures about interest rate and liquidity risks in the audited financial statements are likely of little value to the



financial statement users. Further, we observe that such institutions may have other means for validating and getting comfortable with such information, such as subjecting such information to internal audit or model validation. Similarly, in a nonbank situation, the primary user is typically a lender who often has the ability to access the necessary information about liquidity risk on a real-time basis, directly from the entity.

We also ask the Board to reconsider whether all public entities should be subject to these disclosures. Specifically, we note that smaller reporting entities are excluded from the current market risk disclosures required by Item 305 of Regulation S-K.

Alternatively, as it relates to financial institutions, the Board should consider the various thresholds currently applied by financial institution regulators, such as the \$10 billion threshold for stress testing or the \$500 million and \$1 billion thresholds for FDICIA reporting.

We also reiterate our previous belief that not-for-profits should be scoped out of this proposed Update, as such disclosures are expected to be considered as part of the Not-for-Profit Financial Reporting: Financial Statements project.

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.

While we agree with financial statement users' need for this information, we believe that there are significant practical and operational concerns raised in our letter that warrant the Board's attention. If there is an urgent need for such information, we believe that the SEC could require such information, while the FASB works to improve the disclosure requirements related to interest rate and liquidity risk.

From an auditor's standpoint, we believe significant time would need to be invested to train auditors in how to audit the required disclosures. We note that the proposed disclosures do not relate to a typical auditor's skill set. We also note that many financial institutions (which regularly evaluate their interest rate risk) often rely on third parties or third-party models to evaluate such risk. If the proposed disclosures are included in the audited financial statements, management will need a more complete understanding of the assumptions, models, and inputs currently employed by the third-party service provider, a level of evaluation management may not currently apply in practice since such information is generally evaluated only for internal purposes.



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.

As noted above, we do not believe that the proposed disclosures belong in the audited financial statements due to their forward-looking nature. Alternatively, consideration should be given as to whether disclosures by contractual maturities should be moved from the MD&A to the audited financial statements and whether disclosures by expected maturities should replace the current MD&A disclosures about liquidity.

Other points of requested clarification

- ASC 825-10-50-23F also discusses off-balance-sheet commitments. We believe that this
 information should be a separate paragraph and such requirement should be clear as to
 whether each different type of off-balance-sheet commitment should be disclosed or
 whether such disclosure should be made in aggregate, as currently provided in the example
 disclosure in ASC 825-10-50-5A.
- ASC 825-10-50-23E would require a financial institution to determine the level of
 disaggregation based on the nature, characteristics, or risks of the financial instruments. In
 contrast, ASC 825-10-23E proposes that a nonfinancial institution may consider the nature,
 characteristics, and risks when grouping cash flow obligations. It is unclear whether this was
 an intended distinction, given that the objective of both disclosures is to convey the risk an
 entity will encounter in fulfilling obligations associated with financial liabilities settled by
 delivering cash or another financial asset.

We would be pleased to discuss our comments with you. If you have any questions, please contact Mark K. Scoles, Partner, Accounting Principles Consulting Group (Mark.Scoles@us.gt.com or 312.602.8780) or Jamie Mayer, Managing Director, Accounting Principles Consulting Group (Jamie.Mayer@us.gt.com or 312.602.8766).

Sincerely,

/s/ Grant Thornton LLP