

FASB Disclosures Liquidity Interest Rate Risk

Date of Entry: 9/23/2012

Respondent information

Type of entity or individual:

Preparer

Contact information:

Organization: Gundersen Lutheran Health System

Name: Gordon T Edwards

Email address: gtedward@gundluth.org

Phone number: 608.775.1951

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?

Yes, this incorporates prospective anticipation of interest rate risk or maturities. The table includes interest expense, which might be based on future LIBOR, SIFMA, or other variable terms; similar issues are related to contribution of pension plans. Furthermore, this includes future payments that might be covered by future operations. I would suggest that table rather highlight the situation in which long-term liability might become current within the financial statements. I think this would be more beneficial than having organizations predict swaps, variable interest rates, and renewals on debt terms.

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?

Too narrow of a definition. For a not for profit health system, I've got many liquid investments such as equities, mutual funds, and others whereby liquidity is available within a matter of days that could meet any obligation that becomes unexpectedly due. Only using, government securities, cash, deposits, and public sector debt is too narrow and not a complete picture of liquid investments.

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?

The proposed guidance would not be helpful. First, organizations and auditors must assess whether an entity is a going concern. Assuming the entity is a going concern (more than one year of operations), then liquidity becomes an issue what long-term obligations could become due within a year and what resources could be available to meet those obligations. A qualitative discussion of these conditions that make swaps, debt, pension, self-insured reserves, etc to become due within a year, unexpectedly, would be more useful to the reader. Furthermore, more clarification of the liquidation provision of all investments (settlement within a week, month, quarter, or year+) could be useful. Right now, the proposed guidance includes obligations to be paid from future operations (e.g. interest expense), and only part of the investments. A big disconnect.

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?

The table includes future operating expense, which starts to mix balance sheet liquidity with future operations. See earlier comments on disconnect between this table the investemnts.

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?

No, this is too restrictive on types of investments. There many other investments with liquid availability within a seven days. I would rather have investments classified between those available within a week, month, quarter, and year - to give those a sense of the settlement aspects of the investments.

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?

Focus on what could be due within a year, the future table doesn't seem useful.

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?

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?

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.

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.
