American Institute of CPAs
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October 08, 2012

Ms. Susan Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Re: File Reference No. 2012-200; Exposure Draft of a Proposed Accounting Standards Update, *Financial Instruments (Topic 825), Disclosures about Liquidity Risk and Interest Rate Risk*

Dear Ms. Cosper:

The Financial Reporting Executive Committee (FinREC) of the American Institute of Certified Public Accountants (AICPA) appreciates the opportunity to comment on the Exposure Draft of a Proposed Accounting Standards Update, *Financial Instruments (Topic 825), Disclosures about Liquidity Risk and Interest Rate Risk* (the ASU). FinREC shares the Financial Accounting Standards Board's (the "Board" or "FASB") objective that companies should provide financial statement users with decision-useful information about an entity's liquidity risk and interest rate risk. However, the proposed ASU will not achieve its intended objective.

As we have seen in recent prominent cases of corporate failures due to liquidity, a liquidity crisis is often unexpected and its impact is very sudden. While we understand the FASB's attempt to respond to this past crisis, even the proposed disclosures would not have provided users with an early warning sign of those companies' ultimate failures. One of the fatal flaws with the FASB's proposed disclosures is that they are static; that is, they provide a point in time picture of a company's financial assets and liabilities and how they would run off in future periods using unrealistic assumptions. The proposed "expected maturity" framework does not reflect actions the company would take to manage its liquidity and interest rate risks and uncertainties.

The proposed disclosures seem counterintuitive to the FASB's ongoing disclosure project aimed at improving the effectiveness of disclosures in notes to financial statements by clearly communicating the information that is most important to users of each entity's financial statements while reducing volume. FASB should simplify financial reporting rather than add on additional complex requirements that will not be useful to investors.

The proposed ASU will be costly to implement and will be burdensome for all entities. Most large public companies currently have systems that are generally capable of providing much of the required disclosure data. However, most of this data resides outside of companies' financial reporting systems. To utilize those systems for providing disclosures in the audited financial statements, independent reviews of the systems and assumptions used to generate the data and the internal controls surrounding them would be required. This undertaking could be extremely costly.

Similarly, many smaller financial institutions and private companies may not have in-house staff trained to create these detailed disclosures. In order to comply with the proposal, companies will have to incur costs to bring this information into their financial reporting systems or rely on third-party specialists to assist with providing this information. The added cost of providing this information combined with the increase in audit fees could be significant to these institutions.

There will also be additional audit fees. Audit firms will incur significant costs to create the expertise and train their staff in order to be competent to audit the proposed disclosures, passing this added cost on to their clients. This added audit cost will have the most notable impact on smaller audit firms and their smaller financial institution and private company clients. Thus, before moving forward with the proposed disclosures, the FASB should perform a cost/benefit study to determine whether the costs would outweigh the benefits to the users of financial statements.

The issuance of this proposed ASU on liquidity and interest rate risk disclosures would be better addressed in the FASB's going concern project, which is designed to enable users of the financial statements gain a better understanding of an entity's viability. The FASB's proposed going concern model also considers liquidity constraints (as well as other risks, such as business activity risks) in the context of the identification of events and conditions and provides for enhanced disclosures when liquidity constraints have a severe impact on the preparer's ability to realize its assets and discharge its liabilities in the normal course of business. The proposed disclosures in this ASU include a discussion of the significant changes related to the timing and amounts of cash flow obligations and available liquid funds, including the reasons for the changes from the last reporting period and actions taken by management, if any, during the current period to manage the exposure related to those changes, which could be useful in assessing an entity's viability. We urge FASB to table this project and shift its focus back to creating an overarching going concern framework that would include the types of disclosures outlined in this proposal.

Furthermore, for public companies, requiring disclosures in financial statements is not the appropriate place to report much of the requested information. Many of the proposed disclosures are forward looking and should be left in the MD&A where these types of disclosures are afforded a safe harbor. Public companies already disclose significant quantities of information about their liquidity and interest rate risks in the MD&A, along with qualitative discussions of these risks. Any issues that have been identified with current MD&A disclosures would be better addressed through an SEC project to enhance the MD&A, rather than moving forward along the FASB's current path. For private companies, the FASB's current initiative on private company accounting, which is expected to relieve the reporting burden for private companies, would be the appropriate forum for consideration of the appropriate disclosures about liquidity and interest rate risks of private companies.

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In summary, while FinREC understands that the Board's intention is to provide users of financial statements with more decision-useful information about entity-level exposures to liquidity risk and interest rate risk, the proposed ASU falls short of achieving its objective. We recommend that the FASB not move forward with the issuance of the ASU, but (1) shift its focus back to creating an overarching going concern framework that would incorporate the types of disclosures outlined in this proposal, (2) engage the SEC in making any necessary enhancements regarding liquidity and interest rate risk disclosures in MD&A and (3) engage the Private Company Council (PCC) to take on this project to determine whether private companies should fall in its scope. However, should FASB proceed along its current path, our more specific comments as well as suggested improvements to the proposed ASU are provided in the enclosed attachment.

We thank the Board for its consideration and would welcome the opportunity to further discuss this matter with Board members and their staff.

Sincerely,

Richard Paul
Chairman, FinREC

Linda Bergen
Chairperson, Financial Instruments

Appendix A:

Responses to FASB's Questions

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?*

Response:
Using expected maturities, as defined in the proposed ASU, would be more meaningful than using contractual terms since that would partly reflect how liquidity is managed (please also see our response to Question 3 below). We acknowledge that using expected maturities would be more meaningful, but it also would require significant management judgment. Using expected maturities raises the potential for inconsistencies of data reported, reduces comparability across institutions and also conflicts with the Board's desire to require standardized and consistent disclosures. Auditors will find it difficult to audit those expectations and, because of its forward-looking nature, this type of disclosure belongs in the MD&A.

Since maturity data is not currently captured in the financial reporting systems, financial institutions would have to modify their systems in order to be able provide the liquidity gap disclosures proposed by the ASU. Thus, sufficient time to modify the financial reporting systems would be needed before the ASU became effective.

Question 2: *For an entity that is not a financial institution, the proposed amendments would require a cash flow obligation 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?*

Response:
The guidance in the proposal is unclear whether derivatives need to be presented as undiscounted amounts or at fair value. In paragraph 825-10-55-5D (Example 6: Cash Flow Obligations), the reader is referred to paragraph 825-10-55-5A for further discussion on estimating expected maturities. However, it is unclear whether the time horizon allocation instructions found in 825-10-55-5A(e) apply to this cash flow obligations table as well. In the example table, derivatives do not have an adjustment to the carrying value which would lead one to believe that they were intended to be at fair value rather than undiscounted amounts

We believe that derivatives should be presented at fair value in the Cash Flow Obligations table and also in the Liquidity Gap Maturity Analysis table. Moreover, in the Liquidity Gap Maturity Analysis table, derivatives should be treated like other instruments carried at fair value with only the total fair value included in the total carrying amount column. Derivative contracts are instruments that are managed based on their current fair values rather than undiscounted cash flows. The fair value of a derivative instrument, such as an interest rate swap, represents the present value of cash inflows and cash outflows. Even when an interest rate swap is in a liability position in certain periods presented, an entity may expect cash inflows as opposed to cash outflows. If the entity terminated a derivative contract that was in a liability position, the fair value of the derivative would be a better representation of cash outflow upon settlement than a sum of all undiscounted cash flows.

Furthermore, even fair value may not be a perfect representation of cash outflows (if a derivative is in a liability position), since derivative transactions are often collateralized with cash collateral being posted based on the net exposure between the two counterparties on a daily basis. In many cases, upon maturity of a derivative transaction a separate cash payment equivalent to the carrying amount of a particular derivative is not needed since cash collateral already posted will be used to settle the transaction. For all these reasons, fair value would be more meaningful to the users of financial statements as a measure of derivative-related cash outflows than a presentation of undiscounted cash flows.

Since undiscounted amounts for derivatives are currently not required to be reported, financial reporting systems of many entities are not capable of capturing that information. Those entities would need to modify their systems in order to be able to provide such information.

Finally, what should be considered "purchase obligations" to be included in the table needs to be defined. Do purchase obligations include a company's off balance sheet obligations or accounts payables?[1] The current Contractual Obligations table included in the MD&A of public companies' annual reports frequently includes non-financial instruments.

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 repayment 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.*

[1] The AICPA's Center for Audit Quality released a study on this issue.

Response:

In order for the disclosures to be meaningful, it is necessary to use expected rather than contractual maturities in this type of liquidity gap maturity disclosure. There should not be a mixture of expected and contractual maturities as currently proposed. We acknowledge that reporting based on expected maturities introduces management's forward looking judgment into the audited financial statements. For a liquidity gap analysis to be truly useful, it needs to incorporate management's actual considerations and assumptions about the actions management would take to manage the entity's liquidity. Moreover, the proposed liquidity and interest rate gap tables merely present a run-off of the period end balance sheet and do not consider how cash proceeds of maturities sales, securitizations and transfers would be reinvested in the entity. As a result, the proposed liquidity and interest rate gap analyses will not provide financial statement users with decision-useful information.

Including the liquidity gap maturity disclosures in audited financial statements is particularly troublesome. Since this disclosure is in part based on management's expectations, we question the auditors' ability to audit those expectations. Because of its forward-looking nature, this type of disclosure belongs in the MD&A.[2]

Irrelevance of Liquidity Gap Maturity Analysis to Property and Casualty Insurance Companies

The proposed table per paragraph 825-10-50-23E would not provide meaningful information to users of financial statements of property and casualty insurance companies. For such companies, the timing of the payout of claims liabilities is not known, since there is no contractual or expected maturity date and many claims payments are subject to litigation and negotiation. Additionally, a significant portion of the expected claims included in claims liabilities have not even been reported to the insurer as of the balance sheet date (i.e., losses are incurred but not yet reported). In order to comply with the proposed guidance, property and casualty insurance companies would have to use historic payout patterns that provide information on an annual basis and arbitrarily split that information into quarterly periods. This also assumes that the historic payment patterns are sufficiently reliable to predict future payments, which is not the case for some types of claims liabilities. Lastly, if a property and casualty insurer were to experience a liquidity issue, it is most likely to result from an insurable event(s) occurring after the balance sheet date (e.g., severe catastrophe), which would not be reflected in the liquidity gap table. The losses from such events could be from policies that were in existence at the balance sheet date as well as policies written subsequent to the balance sheet date but prior to the issuance of the financial statements.

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[2] Other areas in the ASU where subjective forward-looking information is required to be disclosed that we think would be better suited to the MD&A include requirements in paragraphs 825-10-50-23J, 825-10-50-23Q and 825-10-50-23X.

Presentation of Derivatives in the Liquidity Gap Disclosure Table

Paragraph 825-10-23F of the proposed ASU requires derivative instruments, unlike other financial instruments that are measured at fair value with changes in fair value recorded in net income, to be segregated into different time intervals rather than presented in the total carrying amount column in the liquidity gap maturity table. With respect to the liquidity gap maturity analysis, we fail to understand why the gross cash flows of derivative instruments measured at fair value (a vast majority of derivatives are measured at fair value through earnings) would be required to be allocated across different time intervals when other financial instruments measured at fair value would not. Firms do not manage derivative instruments based on their expected maturities but rather based on their current fair values, nor are gross cash flows captured in the financial reporting systems. Derivatives can and often will be settled before their contractual maturities, and often have the majority of their cash flows occur prior to their contractual maturities (e.g., interest rate swaps, where the cash flows generally occur monthly or quarterly).

In a majority of cases, derivative transactions under master netting agreements are collateralized with cash whereby collateral is called or posted based on the net fair value exposure between the two counterparties on a daily basis. As a result, presenting gross values of derivative instruments by their expected maturities will not help users of financial statements ascertain an entity's liquidity gap risk. Also in many cases, upon maturity of a derivative transaction, a separate cash payment equivalent to the carrying amount of a particular derivative is not needed since cash collateral that was already posted will be used to settle the transaction. Grossing up the liquidity tables for derivative contracts that are collateralized will distort and obscure the resources and obligations of an entity as well as detract from the ability of financial statement users to understand the liquidity as well as assess the entity's future cash flows related to derivative positions.

Number of Time Intervals

The guidance in paragraphs 825-10-50-23G and 23H requires disclosure in the liquidity gap table of the carrying amounts of financial assets and liabilities segregated by expected maturity into seven time intervals for annual reporting and eight time intervals for interim reporting. The proposed liquidity gap table includes too many time intervals, especially in the later periods. We support having quarterly time buckets covering year one after the reporting date, another bucket for year two, and an additional bucket covering everything beyond year two. Beyond year two, the detailed bucketing of information becomes meaningless as most positions will likely have changed by then.

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?*

Response:

ASU paragraph 825-10-50-23S requires that all entities disclose their available liquid funds, which include unencumbered cash and "high-quality liquid assets." We ask for further clarity on whether the assets the Board is proposing be included in this disclosure should be both high quality *and* liquid or either high quality *or* liquid. There is a distinction in this context. For example, one could be holding a highly liquid C-rated bond, which would presumably not be deemed high quality. Alternatively, the Board should consider dropping the high quality requirement altogether and simply require that the available liquid funds disclosure include unencumbered cash and liquid assets free from restrictions and readily convertible to cash.

Additionally, 825-10-50-23U requires companies to disclose its available liquid funds to include a narrative discussion about the effect of regulatory, tax, legal, repatriation, and other conditions that could limit the transferability of funds among entities. However, to the extent that a company has such limitations on the transferability of certain of its liquid funds, those restricted funds would not meet the definition of a high quality liquid asset as defined in 825-10-50-23T.

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?*

Response:

We do not perceive any operational problems with institutions being able to provide the information. As a point of clarification, paragraphs 825-10-50-23 E-K is grouped under the liquidity gap section for financial institutions, but paragraph 825-10-50-23L has its own section for depository institutions. Please clarify how you define a depository institution versus a financial institution. If there is no meaningful difference, we suggest that 825-10-50-23L be included under the previous section and FASB use consistent language in the guidance.

Additionally, please clarify whether renewals/rollovers should be treated as a part of an existing deposit or as the issuance of a new time deposit. Paragraph 825-10-50-23L requires depository institutions to disclose information related to the cost of funding that arises from issuing time deposits and acquiring brokered deposits. Capturing each reissuance as “new” would not be meaningful to users and having to track each rollover to determine if it is an “existing” customer would be extremely burdensome. FASB should consider either excluding rollovers or allowing institutions to present the entire period-end amounts rather than new deposits.

Finally, for consistency in reporting, if a deposit exceeds the maximum FDIC insured level, please clarify whether the insured vs. uninsured balance should be split up and allocated between the respective line items.

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?*

Response:
One operational concern is that repricing is typically based on the outstanding principal balance, whereas the proposed table requires reconciliation to the instrument’s carrying value.
Similar to our previous comments regarding other proposed disclosures, the requirement to provide the interest rate sensitivity analysis in accordance with paragraph 825-10-50-23AD involves forward-looking information and a high degree of management subjectivity. Therefore, such disclosures belong in the MD&A rather than in the audited financial statements.

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 effects 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?*

Response:
We foresee an issue for financial institutions in accurately projecting interest rate sensitivity, particularly for mortgage backed securities (MBS). For these securities, prepayments are just as much a relevant factor for determining liquidity as movements in interest rates. There is an indirect correlation between the rise in interest rates and prepayments of the underlying loans in an MBS. As interest rates fall there is an influx in prepayments of the underlying pool of loans used to fund the security as more borrowers would refinance their mortgages to obtain lower interest rates. To the extent that the MBS is reported as an available-for-sale investment, changes in interest rates will affect the prepayment rate and the MBS’s fair value and, thus, the balance of unrealized holding gains (losses) in Accumulated Other Comprehensive Income.

We also point out that derivatives are carried at fair value like trading securities and should be presented in the same fashion in the table. Isolating the effects solely of interest rate changes on stockholders' equity is not meaningful, since equity is impacted significantly by changes in other market risks and foreign currency exchange rates. Thus, such disclosure would not be decision-useful for a financial statement user.

Finally, we recommend that FASB change the requirement to have companies report effects of changes on a pretax basis. Requiring companies to report on an after-tax basis introduces another level of complexity, for example, for municipal bonds.

Question 15: *As a preparer, do you feel 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?*

Response:
Paragraph 825-10-50-23AF requires that when disclosing the effects of hypothetical interest rate changes on financial assets and financial liabilities, financial institutions should not incorporate any forward-looking expectations regarding non-interest revenues, non-interest expenses, tax rates, projections about growth rates, asset mix changes, or any other internal business strategies in preparing the interest rate sensitivity analysis. We ask the FASB to clarify whether the restrictions regarding interest rate sensitivity disclosure would include any prepayment assumptions. If FASB's intent is for institutions to include prepayment assumptions, additional guidance is needed regarding how the cash received through the prepayment should be treated in the sensitivity analysis. For example, can an entity presume that the cash will be reinvested in other assets, or should the entity be restricted in the analysis to using the cash to pay down existing debt? Furthermore, we also ask for clarification of the yield curve or curves that are intended to be used as the starting point for the hypothetical yield curve table.

Moreover, for many types of insurance contracts, interest rate changes have no direct effect on the amount of benefit or claim payments. We recommend that the ASU clarify that in such cases, no interest rate sensitivity disclosure is required. Lastly, we note that private company investors often have significant access to management information and would not need the proposed information in the ASU to be presented in the financial statements to evaluate their investments.

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 identity the entities and explain why.*

Response:

Scope Clarification

Clarification of Definition of a Financial Institution

Paragraph 825-10-50-23A defines a financial institution as follows:

> "…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.
>
> … 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."

The above criteria need more clarification. First, we request that the FASB clarify what is meant by "substantially all." For example, would a broker-dealer that measures 80 percent of its assets at fair value and only 20 percent at amortized cost be subject to disclosures applicable to financial institutions? The clarification of the term can be achieved by either more explicitly defining it or by providing some clarifying examples.

Second, if the underlying principle that the FASB is trying to achieve is to define financial institutions as all entities engaged in generating a spread between interest earned on assets and paid on borrowed funds, then we point out that there are some insurance companies that would be scoped into the ASU as financial institutions whose primary business activity does not meet this criterion. The business of insurance is extremely diverse with some products having characteristics similar to those of traditional banking (e.g., life insurance companies) while others are more similar to service companies (e.g., property and casualty insurance companies) or entities that are not financial institutions as described in paragraph BC8 of the ASU.

Third, we recommend that the FASB define financial institutions based on a *principle*, which can be accomplished by eliminating criterion b. in paragraph 825-10-50-23A. The remaining criterion a. would then apply to all entities, including many insurance companies, if their primary source of income is to earn the difference between interest income generated by earning assets and interest paid on borrowed funds.

Finally, while paragraph 825-10-50-3 exempts all nonpublic entities with total assets of less than $100 million that hold no derivative instruments (except mortgage loan commitments held for sale) from the required disclosures in ASC Section 825-10-50, the final sentence of the same paragraph makes the ASU's new proposed liquidity and interest rate risk disclosures a requirement for all entities without exception. We ask the FASB to confirm that our reading of paragraph 825-10-50-3 regarding the scope of the disclosures is correct.[3]

Scope Exception for Private Companies

Assuming that our understanding about the proposed scope is correct, FASB should consider a scope exception for private companies.

FASB should forward this issue to the PCC to determine whether private companies should be scoped into this guidance before proceeding further. The extensive amount of proposed disclosures will be extremely costly for private companies to implement. The perceived benefits from implementing these disclosures do not support the cost outlay. Paragraph 2.3 of the FASB's recent exposure draft, *Private Company Decision-Making Framework, A Framework for Evaluating Financial Accounting and Reporting Guidance for Private Companies*, lists items that should be considered to determine whether private companies should be excluded from proposed disclosure requirements. Such considerations in the list include:

- The typical needs and areas of focus of lenders, other creditors, and investors that use private company financial statements
- Whether the accounting guidance is primarily intended for a particular industry
- The relevance of the measurement attribute required by the current guidance to typical users of private company financial statements, including unique industry-specific considerations
- The existing knowledge and familiarity that many users of private company financial statements typically have about the reporting entity
- The ability of users to obtain additional information directly from preparers of private company financial statements, and
- Given the resource constraints of many private companies, the cost of preparing, auditing, or reviewing the information to be disclosed

Using the FASB's own proposed framework, a compelling argument can be made for why private companies should be excluded. The main users of financial statements of those entities are shareholders and, in the case of smaller banks, regulators. Users of those financial statements differ from larger publicly traded institutions, whose shares are often held by sophisticated and institutional investors. Privately held institutions will typically have a majority of their shares held by a small number of individuals who are active in the management or governance of the

[3] We also ask for the same clarification in paragraph 825-10-50-2A regarding the scope of disclosures in interim periods.

institution, or both, so having the disclosures in audited financial statements may be of limited benefit. Also, the remaining minority ownership of these institutions tends to be distributed among many shareholders who have extremely small ownership percentages and do not manage their investment in a manner that makes this information beneficial to them[4].

As previously discussed, there will be significant costs involved in implementing this guidance. Private companies will have to make extensive modifications to their financial reporting systems. In many cases, they will have to engage third-party specialists for assistance and provide extensive training to their staff that will have to prepare the needed disclosures.

Auditors of these institutions will incur additional costs to train their staff. Extensive training of audit personnel will be necessary because the proposed forward-looking estimates are not necessarily derived from historical financial statement information. There is a great deal of judgment involved in auditing forward looking information. Thus, new internal controls and audit procedures will be required to comply with the requirements. These costs will ultimately be passed on to the institutions.

Exemption for Smaller Financial Institutions

FASB should increase the exemption threshold for all ASU Topic 825 fair value disclosures, including those proposed in this ASU. We propose that financial institutions with assets less than a $1 billion[5] as of the beginning of the reporting period be exempt from the required disclosures proposed by the ASU. While we recognize that only a limited number of banking institutions have assets exceeding this threshold, from a systemic risk perspective, those institutions hold over eighty-five percent of deposits of all banking institutions.[6] This threshold is reasonable and is necessary to provide some relief for smaller banking institutions whose operations are not as complex.

Additionally, derivatives such as interest-rate swaps are a common risk management tool even among banks with assets less than $1 billion. The use of derivative instruments for hedging purposes should not prevent these community banking institutions meeting the other exemption criteria from qualifying for the exemption from the disclosures proposed by the ASU.

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[4] The same argument about lack of usefulness also holds true for smaller publicly traded institutions whose shares do not trade in volumes that provide liquidity to their shareholders.

[5] While many members believe that $1 billion is appropriate, the consensus varies among our individual members regarding the exact amount.

[6] FDIC data as of June 30, 2011 reports that institutions with asset size greater than $1 billion had $7.07 trillion in total deposits. Total deposits for all institutions totaled $8.25 trillion.

If FASB chooses to move forward and not to adopt our recommendation to exclude banking institutions under the $1 billion asset threshold from the scope of the ASU, the Board should consider creating more simplified disclosure requirements for these entities.

Employee Benefit Plans

Employee benefit plans should be specifically excluded from the scope of this proposed ASU. If plans are not excluded, they would be required to make the liquidity risk disclosures outlined in paragraphs 825-10-50-23M through 23U related to future cash flow obligations and available liquid funds. This conflicts with the current guidance in the pension accounting sections of the ASC (ASC 960-205-45-6; 962-205-45-9; and 965-205-45-5), which acknowledges that in most cases, cash flow information is not relevant to plan financial statement users.

Employee benefit plans subject to ERISA are established and operated strictly for the purpose of funding the pension or other benefits of employees. Plan distributions are restricted by ERISA which allows plan assets to be used to only pay benefits to participants or to pay plan expenses. Additionally, plan investments are required to be reported in the financial statements at fair value, with few exceptions.

Defined contribution plan assets are allocated to individual participant accounts and the vested benefits may be distributed to the plan participant upon termination of employment. Defined contribution plan financial statements do not show a benefit obligation as the plan's net assets available to pay benefits equal the sum of participants' individual account balances Defined benefit plans, however, must include either a statement of accumulated plan benefits (pension plans) or a statement of benefit obligations (health & welfare plans). The additional calculations required to prepare the proposed disclosures regarding when the obligations will be paid out would be difficult for plans with limited benefit. For example, the plan administrator of a defined benefit pension plan would have to estimate when the participants will retire and request payout. In some plans, a participant can elect either a single payout or an annuity. For a health and welfare plan, payouts are based on claims requests, and estimates would be based on past experience which may or may not be accurate in predicting future activity.

The proposed ASU is focused on the cash flows in the five years immediately after the financial statement date, for a pension plan the distribution of benefits during this period of time would most likely be insignificant. The proposed ASU also requires that these cash flows be shown undiscounted, which could cause confusion to the financial statement users, as the undiscounted amounts would grossly overstate the amount of liquid assets needed to satisfy those obligations.

It should also be noted that the plan's financial statements typically are issued seven to ten months after the plan's year end and, therefore, are not used by plan participants for the purpose of making investment decisions. Rather, participants rely on more timely information provided through individual investment prospectuses describing the investments, strategic objectives, liquidity and risk for that purpose.

We also would like to note that in its proposed private company decision making framework, FASB acknowledges that employee benefit plans have unique characteristics, and that the needs of users of these financial statements are specific and more focused when compared with the needs of financial statement users of both public and private companies. Employee benefit plans generally follow accounting guidance that is tailored to the unique nature of the plans, and we believe that should be the case for this proposed ASU. If the decision is made to include employee benefit plans in the scope of this document, we request that FASB provide implementation guidance to assist in the transition to these disclosures.

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.*

Response:
The effective date should be no less than two years from the date of the issuance of the final standard to allow institutions to modify their financial reporting systems and put the proper SOX controls in place and for auditors to obtain an understanding of the area and train their staff in order to be able to audit the underlying assumptions.

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.*

Response:

Public entities are already required to provide significant qualitative and quantitative disclosures related to liquidity and interest rate risk in the Management's Discussion & Analysis (MD&A) section of the financial statements. While we understand the Board's desire to require audited, standardized and consistent disclosures about liquidity and interest rate risk that are complementary to those already found in the MD&A of public companies, many of the qualitative and quantitative disclosures proposed by the ASU do not belong in the audited financial statements. Because of the forward-looking nature of the proposed disclosures, we question the auditors' ability to audit those expectations and believe that, because of its forward-looking nature, this type of disclosure belongs in the MD&A.

Forward-looking information in the MD&A is afforded a safe harbor while such protection for information in the body of the financial statements included in quarterly and annual filings with the Securities and Exchange Commission (SEC) is more limited. If the underlying reason for proposing these changes is that the FASB or SEC has uncovered deficiencies with the existing MD&A disclosures, then these concerns could be addressed by enhancing MD&A disclosures rather than incorporating disclosures based on forward-looking information into audited financial statements. We recommend that the FASB not move forward with the issuance of the ASU, but rather engage the SEC in clarifying the necessary enhancements regarding liquidity and interest rate risk disclosures that should be included in the MD&A.

With regard to areas in which the proposal overlaps current SEC reporting requirements, we see an overlap between the cash flow obligations table and the SEC's contractual obligations table which is prepared on a pure contractual maturity basis and may include certain nonfinancial obligations (A summary could be provided to the staff upon request). With respect to the interest rate gap disclosures, in accordance with the SEC's Industry Guide 3, banks currently provide tables showing yields for interest-earning assets and interest-bearing liabilities for the current and prior periods presented, which is prepared on a different basis than the FASB's proposed forward-looking interest rate gap tables. Financial institutions also provide disclosure of available liquid funds that is similar to the FASB's proposed disclosure. Financial institutions provide extensive disclosure of liquidity, often including sensitivity to changes in interest rates, prepared on a different basis than the FASB's proposal. We note that all of these disclosures are currently in MD&A.

Other Concerns

Reportable Segments

Paragraph 825-10-50-23B indicates that entities may combine reportable segments of financial institutions and also separately combine reportable segments of nonfinancial institutions for the purpose of providing the ASU's disclosures. However, there is no indication in the proposed ASU that combining reportable segments that qualify as financial institutions with reportable segments that do not qualify as such would be allowed. Bank holding companies may have subsidiaries not included in the proposed definition of financial institutions, but management generally evaluates and measures its liquidity and interest rate risk for the institution on a consolidated basis. Excluding risk data for nonfinancial institution subsidiaries or segments as defined in the ASU could be operationally complex and provide an incomplete picture to financial statement users about the risks involved regarding the consolidated entity as a whole. Therefore, we ask the FASB to clarify in the final standard that entities would be allowed to combine financial and nonfinancial subsidiaries and segments to provide disclosures for the entire consolidated entity as a financial institution even if some consolidated subsidiaries or segments may not be separately deemed financial institutions as defined in the ASU.