



CFA Institute

**FASB
Liquidity & Interest Rate Risk Disclosures
Discussion**

October 24, 2012



Liquidity & Interest Rate Risk Disclosures

Liquidity and Interest Rate Risk Disclosures

- **Liquidity Risk Disclosures**
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 - Expected Cash Flow Obligations (Non-Financial Institutions)
 - Liquidity Gap Maturity Analysis (Financial & Non-Financial Institutions)
 - Bank
 - Insurance
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- **Interest Rate Risk Disclosures**
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 - Bank
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Note: Disclosure requirement (825-10-50-23B) by segment – without aggregating the respective financial & non-financial segments – would be especially decision-useful.

Available Liquid Funds – Example Disclosure (Financial & Non-Financial Institutions)

	<u>Parent Company</u>	<u>Subsidiaries</u>	<u>Broker / Dealers</u>
Available liquid funds:			
Cash	\$X,XXX	\$X,XXX	\$X,XXX
Deposits (interest-bearing and non-interest-bearing)	X,XXX	X,XXX	X,XXX
Government-issued debt securities	X,XXX	X,XXX	X,XXX
Public sector debt securities	X,XXX	X,XXX	X,XXX
Availability of borrowings:			
Amount available under ABC credit facility	X,XXX	X,XXX	X,XXX
Amount available under receivables purchase agreement	X,XXX	X,XXX	X,XXX
Amount available under XYZ credit facilities	X,XXX	X,XXX	X,XXX
Total available funds	<u>\$X,XXX</u>	<u>\$X,XXX</u>	<u>\$ X,XXX</u>

Available Liquid Funds – Observations (Financial & Non-Financial Institutions)

- **Table of Liquid Funds –**
 - Agree with concept of table rather than simply narrative description with single number.
 - Needs to be reconciled to the financial statements.
 - Comparable periods is important.
- **Restriction on Flow of Funds –**
 - Agree with the subsidiary split from the parent company.
 - Important that cash restrictions from subsidiaries be quantitative not just narrative.
 - Some want a complete list of encumbered and unencumbered funds as well.
- **Definition of Liquid Funds –**
 - Presently, there is little transparency on how this number is derived at and its comparability across enterprises because of it being presented in an aggregated fashion. There is no single definition of liquid funds used in SEC filings.
 - Unclear whether this definition is sufficient given current lack of transparency.
 - Over time we will need to see how this definition emerges in practice.
 - Liquidity changes over time. The potential to change over time needs to be understood. Are these Level 1, 2 or 3 financial assets? Will there be a narrative of changes over time?
- **Integration with SEC Requirement –**
 - Forepart is many times just a number which cannot be reconciled to financial statements.
 - No single definition of liquid funds used in SEC filings. No consistent presentation.
- **Broker Dealer –** Greater clarity on background and basis for inclusion of broker-deal amounts – in contrast to other subsidiaries with fund restrictions – was sought by our members.
- **Immediately Demandable Obligations –**
 - The liquidity schedules for financial and non-financial institutions which follow need to include an indication of the amounts immediately available on demand. (i.e. who can show up at the door tomorrow and request repayment – even if they have to take a surrender or penalty)
 - And the amount which must be delivered on demand.
 - Investors are seeking an understanding of not just expected/normal case scenarios. They want an idea of whether these liquid funds will stay liquid and who may turn-up demanding the liquid funds.
- **Is This Information Decision-Useful? –** Yes, having the liquid funds is an important element of assessing liquidity and financial flexibility as witnessed in the recent financial crisis. However, the commensurate immediately demandable (rather than expected cash flows) for liabilities is also important to assessing flexibility and solvency. Knowing where the cash and obligations are in a consolidated set of financial statements – especially for entities with regulatory restrictions – is important.

Expected Cash Flow Obligations – Example (Non-Financial Institutions)

Expected Cash Flow Obligations as of December 31, 20X1

	Q1 20X2	Q2 20X2	Q3 20X2	Q4 20X2	20X3	20X4–20X6	20X7 and Later	Total	Adjustment to Carrying Amount	Total Carrying Amount
Short-term borrowings	\$X,XXX	\$X,XXX	\$X,XXX	\$X,XXX	–	–	–	\$X,XXX	\$(X,XXX)	\$X,XXX
Long-term debt	X,XXX	X,XXX	X,XXX	X,XXX	\$X,XXX	\$X,XXX	\$X,XXX	X,XXX	(X,XXX)	X,XXX
Interest payments	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	(X,XXX)	X,XXX
Lease payment obligations	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	(X,XXX)	X,XXX
Commitments	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	(X,XXX)	–
Purchase obligations	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	(X,XXX)	X,XXX
Contributions to defined pension plans	X,XXX	X,XXX	X,XXX	X,XXX	–	–	–	X,XXX	(X,XXX)	–
Other obligations	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	(X,XXX)	X,XXX
Derivatives	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	–	X,XXX
Total obligations	\$X,XXX	\$X,XXX	\$X,XXX	\$X,XXX	\$X,XXX	\$X,XXX	\$ X,XXX	\$X,XXX	\$(X,XXX)	\$X,XXX

Expected Cash Flow Obligations – Observations (Non-Financial Institutions)

- **Agree with Proposals** – We agree in broad strokes with the proposed guidance.
- **Tabular Presentation** – Tabular presentation is **essential**.
- **Disaggregation** –
 - Disaggregation must be at financial statement caption level at a minimum.
 - Further disaggregation based upon underlying risks is likely to be necessary.
- **Quantitative vs. Qualitative** –
 - It is **critical** that the disclosures are quantitative not simply qualitative. Qualitative disclosure is not working effectively.
 - Qualitative language to explain or enhance disclosures can be added as necessary to explain the table or management's own risk management practices.
- **Time Intervals** – See discussion of time intervals under liquidity gap analysis for financial institutions.
- **Cash Flows:**
 - **Expected vs. Contractual** –
 - Based upon the guidance we understand these are expected cash flows.
 - Expected maturities is used in the context of financial institution liquidity gap analysis but that language is not used here. How do you see these expected cash flows and expected maturities to differ for similar liabilities?
 - Investors tell us they want contractual and expected cash flows. [e.g. CFA Institute IFRS 7 Volume 1 Report.]
 - Given reconciliation to carrying amount are these cash flows only related to principal and not interest – say for example on long-term debt?
 - **Discounted vs. Undiscounted**–
 - We prefer undiscounted cash flows.
 - As noted above, expected and contractual cash flows on an undiscounted basis is what we have heard investors want.
- **Obligations:**
 - **All Liabilities vs. Contractual Obligations** – We understand the requirement to be all liabilities and we are supportive of all items being included as liquidity can't be assessed by only looking at contractual obligations.
 - **Immediately Demandable Obligations** – See comment above under liquid funds.

Expected Cash Flow Obligations – Observations (Non-Financial Institutions)

- **SEC Contractual Obligations Table vs. FASB Expected Cash Flow Obligations –**
 - Cash Flows – Cash flows included on the table are not the same. For example, SEC contractual obligations table does not require the inclusion of variable cash flows on contractual obligations such as long-term debt. We are not clear whether this schedule includes principal and interest and how it would include or not include variable cash flows such as those on long-term debt. Not including contractual obligations simply because they are variable substantially mitigates the usefulness of this table.
 - Obligations – Population of items on this schedule and the contractual obligations table in SEC documents may not necessarily be the same. Examples include:
 - Pension may be an expected but not contractual obligation.
 - Contingency accruals are obligations with expected cash flows but they are not contractual obligations.
 - Reconciliation – Rather than utilize “overlap” as reason not to enhance the disclosures, include a reconciliation of the items included and cash flows rather than debate which is correct. We believe including all the liabilities and all the relevant cash flows and reconciling to the balance sheet is a substantial improvement.
- **Financial Institutions vs. Non-Financial Institution Requirements –**
 - There may be items of interest on this schedule which are not included for financial institutions on their liquidity gap maturity analysis (e.g. all liabilities vs. just financial liabilities) (e.g. pensions).
 - There may be items of interest from the liquidity gap maturity analysis for financial instruments which need to be included here (e.g. certain financial assets). Just because you are a financial institution doesn’t make the cash flows from financial assets not meaningful.
 - Need to leave guidance open to include material items of interest to both.
- **Interim Periods** – We support inclusion of interim information. The notion that because the contractual obligations table is only required to be provided annually that this shouldn’t be provided quarterly fails to recognize that the contractual obligations table is required to be updated for material changes. You can’t assess whether there is not a material change without gathering the information.
- **Is This Information Decision-Useful?**
 - Information is decision-useful in assessing liquidity and financial flexibility of the entity.
 - The disclosure also assists investors in making their assessment of the valuation of the liabilities.
 - Improvements such as the following would enhance disclosures and improve decision-usefulness:
 - providing contractual and expected cash flows;
 - clarifying nature of expected cash flows;
 - including disclosure of amounts required to be paid on demand;
 - modifying time intervals slightly;
 - including key financial assets; and
 - reconciling to contractual obligations table.
 - Investors understand that for non-financial institutions that future cash inflows come from operations. This was noted by some as a reason not to make improvements. Our members understand this and still believe that disclosures should be improved.

Liquidity Gap Maturity Analysis (Bank) – Example

Liquidity Gap Maturity Analysis of a Bank's Financial Instruments

	Q1 20X2	Q2 20X2	Q3 20X2	Q4 20X2	20X3	20X4 20X6	20X7 and Later	Total Carrying Amount
As of December 31, 20X1								
Financial assets:								
<i>Amortized cost</i>								
Cash and due from banks	\$X,XXX	\$ X,XXX	\$X,XXX	\$ X,XXX	\$X,XXX	\$X,XXX	\$X,XXX	\$X,XXX
Lease receivable	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
Loans:								
Commercial	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
Mortgage	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
Consumer	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
<i>Fair value with changes recognized in other comprehensive income</i>								
Investment securities:								
U.S. Treasury	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
Agency MBS	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
Corporate debt securities	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
Other	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
<i>Fair value with changes recognized in net income</i>								
Debt securities								
Derivatives	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
Loans held for sale								
Equity securities								X,XXX
Other financial assets								X,XXX
Total financial assets	<u>X,XXX</u>	<u>X,XXX</u>	<u>X,XXX</u>	<u>X,XXX</u>	<u>X,XXX</u>	<u>X,XXX</u>	<u>X,XXX</u>	<u>X,XXX</u>
Other assets								X,XXX
Total assets								<u>\$X,XXX</u>
Financial liabilities:								
<i>Amortized cost</i>								
Demand deposits	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	\$X,XXX
Savings deposits	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
Money market accounts	X,XXX	X,XXX	X,XXX	X,XXX	—	—	—	X,XXX
Brokered deposits	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
Other time deposits	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
Short-term borrowings	X,XXX	X,XXX	X,XXX	X,XXX	—	—	—	X,XXX
Long-term borrowings	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
FHLB advances	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
Subordinated debt	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
Other borrowings	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
Other financial liabilities	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
<i>Fair value with changes recognized in net income</i>								
Derivatives	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
Total financial liabilities	<u>X,XXX</u>	<u>X,XXX</u>	<u>X,XXX</u>	<u>X,XXX</u>	<u>X,XXX</u>	<u>X,XXX</u>	<u>X,XXX</u>	<u>X,XXX</u>
Other liabilities								X,XXX
Equity								<u>X,XXX</u>
Total liabilities and stockholders' equity								<u>\$X,XXX</u>
Excess/deficit of financial assets over financial liabilities	<u>\$X,XXX</u>	<u>\$ (X,XXX)</u>	<u>\$ (X,XXX)</u>	<u>\$ (X,XXX)</u>	<u>\$X,XXX</u>	<u>\$ (X,XXX)</u>	<u>\$X,XXX</u>	<u>\$X,XXX</u>
Financial assets to financial liabilities	X,XXX%	X,XXX%	X,XXX%	X,XXX%	X,XXX%	X,XXX%	X,XXX%	X,XXX%
Cumulative financial assets over financial liabilities	<u>\$X,XXX</u>	<u>\$ (X,XXX)</u>	<u>\$ (X,XXX)</u>	<u>\$ (X,XXX)</u>	<u>\$X,XXX</u>	<u>\$X,XXX</u>	<u>\$X,XXX</u>	<u>\$X,XXX</u>
Off-balance-sheet commitments and obligations	<u>\$X,XXX</u>	<u>\$ X,XXX</u>	<u>\$X,XXX</u>	<u>\$ X,XXX</u>	<u>\$X,XXX</u>	<u>\$X,XXX</u>	<u>\$X,XXX</u>	<u>—</u>

Note: The classes of financial instruments in this table are organized by examples of subsequent measurement attributes to display the application of the guidance in certain circumstances and this presentation is not meant to be prescriptive.

Liquidity Gap Maturity Analysis (Insurance) – Example

Liquidity Gap Maturity Analysis of an Insurance Entity's Financial Instruments

	Q1 20X2	Q2 20X2	Q3 20X2	Q4 20X2	20X3	20X4–20X6	20X7 and Later	Total Carrying Amount
Financial assets:								
<i>Amortized cost</i>								
Cash and cash equivalents	\$X,XXX	–	–	–	–	–	–	\$X,XXX
Reinsurance recoverables	X,XXX	\$ X,XXX	\$ X,XXX	\$X,XXX	\$X,XXX	\$X,XXX	\$X,XXX	X,XXX
Policy loans	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
Commercial mortgage and other loans	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
<i>Fair value with changes recognized in other comprehensive income</i>								
Investment securities:								
U.S. Treasury	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
Agency MBS	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
Corporate debt securities	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
Other	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
<i>Fair value with changes recognized in net income</i>								
Debt securities								X,XXX
Equity securities								X,XXX
Derivatives	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
Other investments								X,XXX
Total financial assets	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
Other assets								X,XXX
Total assets								\$X,XXX
Financial liabilities:								
<i>Amortized cost</i>								
Policyholder liabilities	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	\$X,XXX
Long-term debt	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
Other borrowings	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
Other financial liabilities	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
<i>Fair value with changes recognized in net income</i>								
Derivatives	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
Total financial liabilities	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
Other liabilities								X,XXX
Equity								X,XXX
Total liabilities and stockholders' equity								\$X,XXX
Excess/deficit of financial assets over financial liabilities	\$X,XXX	\$(X,XXX)	\$(X,XXX)	\$(X,XXX)	\$X,XXX	\$(X,XXX)	\$X,XXX	\$X,XXX
Financial assets to financial liabilities	X,XXX%	X,XXX%	X,XXX%	X,XXX%	X,XXX%	X,XXX%	X,XXX%	X,XXX%
Cumulative financial assets over financial liabilities	\$X,XXX	\$(X,XXX)	\$(X,XXX)	\$(X,XXX)	\$X,XXX	\$X,XXX	\$X,XXX	\$X,XXX
Off-balance-sheet commitments and obligations	\$X,XXX	\$X,XXX	\$X,XXX	\$X,XXX	\$X,XXX	\$X,XXX	\$X,XXX	–

Note: The classes of financial instruments in this table are organized by examples of subsequent measurement attributes to display the application of the guidance in certain circumstances and this presentation is not meant to be prescriptive.

Liquidity Gap Maturity Analysis – Observations

- **Agree with Proposals** – We agree in broad strokes with the proposed guidance.
- **Tabular Presentation** – Tabular presentation is **essential**.
- **Disaggregation** –
 - Disaggregation must be at financial statement caption level at a minimum.
 - Further disaggregation based upon underlying risks is likely to be necessary.
- **Quantitative vs. Qualitative** –
 - It is **critical** that the disclosures are quantitative not simply qualitative. Qualitative disclosure is not working effectively.
 - Qualitative language to explain or enhance disclosures can be added as necessary to explain the table or management's own risk management practices.
- **Time Intervals** –
 - *Items Maturing In Less Than One Quarter* – See comment under quarterly below.
 - *Quarterly for Next Year* – Agree with quarter, but there are times like the financial crisis where days, weeks and months were important. The immediacy of the needs was extreme. (e.g. repos)
 - *Year One Total* – Need summation of quarters column to be able to compare to Year 2. Need at least two years where we can make a meaningful comparison.
 - *Year Two* – This is fine, but see comment on years three to five.
 - *Years Three to Five* – Think we should have individually.
 - *Years Five Onward* – This will likely be too aggregated for certain entities (e.g. insurance). If this number is too large (over some threshold, say 50%) then something else needs to be added. Example, years six-ten, ten-fifteen, fifteen-twenty, twenty-thirty and thereafter.
 - *At Least These Intervals* – We understand these intervals are the minimum disaggregation, but we are concerned without an explicit articulation of the need to break down the five year and onwards we are going to be provided a lump number in the outer columns. Also if investors want liquidity characteristics of financial instruments for valuation purposes this is not exceedingly helpful (i.e. know if year 6 or year 26 has significant impact on valuation.)

Liquidity Gap Maturity Analysis – Observations

- **Expected Cash Flows vs. Expected Maturities** – Clarity needs to be added to the definition of “expected maturities” vs. “expected cash flows”. If expected maturities entails presenting cash flow amounts in periods other than when cash flows are expected to occur, we disagree with this presentation. (e.g. derivatives)
- **Expected vs. Contractual Cash Flows** –
 - As expressed earlier, our research suggests investors want contractual and expected cash flows.
 - Investors understand judgment is applied here.
 - Are these principal only cash flows or principal and interest cash flows? Seems just principal with use of carrying value.
- **Discounted vs. Undiscounted Cash Flows (Financial Instruments Measured at AC or FVOCI)** –
 - Amounts are discounted cash flows/carrying values for financial instruments held by financial institutions, but undiscounted cash flows for non-financial institutions. (i.e. disclosures on debt & short-term borrowings will be different between financial & non-financial institutions.)
 - Carrying values and discounted cash flows don’t represent the liquidity provided or demanded by the financial instruments specifically or the financial institution more broadly. Accordingly, using these amounts does not facilitate an analysis of liquidity which is the objective of the table.
 - Undiscounted cash flows give investors inputs they want and flexibility to do their own analysis and valuation of the financial instruments specifically or the financial institution more broadly. This presentation also provides most accurate insight into liquidity of the instruments and institution.
- **Financial Instruments Measured At Fair Value Through Net Income (FVNI)**–
 - Schedule proposed does not provide expected cash flows for financial instruments at fair value through net income.
 - We are equally interested in cash flows of financial instruments measured at fair value through net income.
 - An example of this would be debt carried at fair value as a result of making the fair value election. After making the election many have complained about the debt valuation adjustment (DVA) saying they will never be able to realize these gains and losses. In that case, investors would like the cash flow characteristics of the debt obligation.
 - Just because a financial asset or liability is measured fair value through net income does not mean it is highly liquid – they can be level 3.
 - This requirement seems to highlight a value based focus of these disclosures rather than solely liquidity focus.
- **Immediately Demandable Obligations** – See comment above under liquid funds.

Liquidity Gap Maturity Analysis – Observations

- **Scope/Completeness** –
 - Insurance Liabilities – Agree with inclusion even if not financial instruments under U.S. GAAP.
 - Leases – Agree with inclusion even if not financial instruments under GAAP. This is in-line with our recommendation on leasing standard.
 - Off-Balance Sheet Commitments – Agree with their inclusion of these items.
 - Other – See comments below with respect to integration with SEC requirements.
- **Insurance** –
 - There are no disclosures which require a liquidity or valuation analysis in the forepart for insurance companies. Current price-to-book for life insurance show significant issues. As such, we are very much in favor of this disclosure.
 - It will be important to have symmetry of these disclosures with expected cash flows in proposed insurance measurement.
 - Insurance liabilities will be current value measurements in the future, but will be treated differently than items measured at fair value in this table? Said differently, we will see the expected cash flows of these instruments but not debt measured at fair value?
- **SEC Contractual Obligations Table vs. FASB Liquidity Gap Maturity Analysis** –
 - Assets & Obligations –
 - Assets Not Part of SEC Requirement – SEC contractual obligations table only requires information on liabilities not assets. Asset information is also necessary to assess liquidity and to understand the valuation of these instruments.
 - Liabilities Will Be Different – As noted for non-financial institutions, the population of items on this schedule and the contractual obligations table in SEC documents may not necessarily be the same. Possibly more so for this schedule (as it does not include all liabilities) than for non-financial institutions which is to include all liabilities.
 - Cash Flows – As noted previously, cash flows included on the table may not be the same.
 - Reconciliation – As we noted for non-financial institutions, a reconciliation of the liabilities could facilitate understanding of the differences between this schedule and contractual obligations table.
 - Overlap – We don't believe overlap on financial instruments liabilities should be reason not to make substantial improvement in insight into liquidity of organization. SEC disclosure is not financial institution focused.
- **Integration with Expected Cash Flow Obligations Table (Non-Financial Institutions)** – See comments above. There are items of use on both schedules – irrespective of their categorization as financial vs. non-financial institution. The justification of discounted vs. undiscounted cash flows should be evaluated.
- **Interim** – Similar comments as to non-financial institutions table.

Liquidity Gap Maturity Analysis – Observations

- **Is This Information Decision-Useful?**
 - **Yes.**
 - **Investors In Previous Outreach Articulated Need For Disclosures** – Investors explained how this information could enhance decision-usefulness in previous outreach on FASB 2010 Financial Instruments ED.
 - **A Tabular Snapshot of Liquidity/Cash Flows Would Provide Investors With Information Not Currently Available** – This schedule would provide investors with a high-level overview/snapshot of the liquidity of the financial instruments and the financial institution (with the recommendations made as suggested below) which would enable them to assess financial flexibility of the organization, make their own valuation estimates of financial instruments and consider, if they chose, these cash flows in their valuation of the enterprise.
 - **Partial Overlap with SEC Disclosures Should Not Be A Reason Not to Include** – We don't believe existence of partial requirements elsewhere in SEC document should be used as a reason not to include such disclosures. No similar requirement for all financial institutions and for all financial instruments (assets and liabilities) is provided in a meaningfully displayed fashion. No "snapshot" of liquidity profile is provided – even for public companies. Specifically, there are no required disclosures regarding the cash flow characteristics of financial assets. There are no SEC disclosure requirements which provide cash flow characteristics of all insurance liabilities.
 - **Investors Recognize Limitations of Schedule, But Don't Believe This is A Reason Not to Move Forward** – Investors recognize limitations of such a schedule.
 - They know it is not perfectly comparable between organizations, but they have nothing which is modestly comparable today;
 - They recognize the schedule is not multi-dimensional, but the balance sheet is entirely one-dimensional;
 - They understand the cash flows are estimates;
 - They don't believe the information is any more forward-looking than the fair value disclosures of these financial instruments currently to be provided in the notes or the impairment model under current consideration;
 - They understand management seeks to manage liquidity risk;
 - They appreciate that over time the schedule will vary, but the schedule provides them with information which they can evaluate over time;Despite these limitations, they believe the overall usefulness, as described above, is not lost by these imperfections.
 - **Improvements Could Be Made** – Improvements could be made with respect to the following to enhance decision-usefulness:
 - Cash Flows – Providing undiscounted cash flows, better defining expected cash flows vs. expected maturities, and providing expected and contractual cash flows.
 - Financial Instruments Measured at Fair Value Through Net Income – The inclusion of cash flows on items measured at fair value.
 - Time Intervals – Make refinements to include very short time intervals, if necessary, and disaggregating the periods beyond five years.
 - **Macro-Economic Events Suggest Such Disclosures May Be Particularly Decision-Useful At This Time** – Looking backwards to the financial crisis suggests to many that these disclosures are necessary. However, it is important to consider current macro-economic conditions in evaluating whether it is important to move forward. Current financial repression (i.e. extremely low rates) is having significant impact on the valuation of financial instruments. Some suggest this is creating a bubble in the valuation of financial assets and that changes in macro-economic policy may alter these valuations significantly. Investors need to understand the cash flow, and re-pricing, characteristics of financial instruments to assess valuations and liquidity.

Time Deposit Issuance Table – Example

Illustrative Bank's Deposits Issued for the 12 Months Ended December 31, 20X1
Period of Issuance for the Last 12 Months

	Q4 20X1			Q3 20X1			Q2 20X1			Q1 20X1		
	Total Amount	Avg. Rate	Avg. Life	Total Amount	Avg. Rate	Avg. Life	Total Amount	Avg. Rate	Avg. Life	Total Amount	Avg. Rate	Avg. Life
Uninsured time deposits	\$X,XXX	X.XX%	X.X	\$X,XXX	X.XX%	X.X	\$X,XXX	X.XX%	X.X	\$X,XXX	X.XX%	X.X
Insured time deposits	\$X,XXX	X.XX%	X.X	\$X,XXX	X.XX%	X.X	\$X,XXX	X.XX%	X.X	\$X,XXX	X.XX%	X.X
Brokered deposits	\$X,XXX	X.XX%	X.X	\$X,XXX	X.XX%	X.X	\$X,XXX	X.XX%	X.X	\$X,XXX	X.XX%	X.X

Time Deposit Issuance Table – Observations

- **Clarifying Purpose of This Disclosure–**
 - **Liquidity Risk?** – Paragraph 825-10-50-23L which establishes this proposed disclosure requirement is within the liquidity risk section.
 - **Interest Rate Risk?** – Paragraphs BC 19 & BC 20 explain this disclosure is about interest rate risk – as it is about the cost of funding for depository institutions.
 - **Which Is It?** – Our question is whether this disclosure is meant to communicate liquidity or interest rate risk and how it fully achieves the given objective.
- **One Piece of Large/Complex Puzzle?**– Disclosure seems one-off. Not saying not useful, but this is one piece of a much more complex puzzle.
- **Don't Other Entities Have Economic Similar Funding Cost Issues? –**
 - Wouldn't similar information regarding the new cost of funding for any organization be of interest?
 - As an example, if an insurance company is issuing funding agreements with interest rate guarantees, why wouldn't an investor want similar information on these funding sources and costs?
- **Is This Information Decision-Useful? –**
 - Understand the information it provides.
 - Is this the most important disclosure improvement we need to make?

Bank Re-Pricing Analysis – Example

Illustrative Bank Repricing Analysis as of December 31, 20X1

	Q1 20X2	Yield	Q2 20X2	Yield	Q3 20X2	Yield	Q4 20X2	Yield	20X3	Yield	20X4– 20X6	Yield	20X7 and Later	Yield	Total Carrying Amount	Yield	Duration
Interest-earning financial assets:																	
Interest-earning deposits with banks	\$X,XXX	XXX%	\$X,XXX	XXX%	\$X,XXX	XXX%	\$X,XXX	XXX%	\$X,XXX	XXX%	\$X,XXX	XXX%	\$X,XXX	XXX%	\$X,XXX	XXX%	X.XX
Securities purchased under resale agreements	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	–	–	–	–	–	–	X,XXX	XXX%	X.XX
Investment securities:																	
U.S. Treasury	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X.XX
Agency MDO	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X.XX
Other	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X.XX
Loans held for sale	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X.XX
Commercial loans	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X.XX
Mortgage loans	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X.XX
Consumer loans	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X.XX
Total interest-earning assets	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X.XX
Non-interest-earning financial assets:																	
Equity securities															X,XXX	–	–
Derivatives	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	–
Other financial assets	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	–
Total financial assets	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	–
Other assets															X,XXX	–	–
Total assets															\$X,XXX	–	–
Interest-bearing financial liabilities:																	
Demand deposits	X,XXX	XXX%	–	–	–	–	–	–	–	–	–	–	–	–	\$X,XXX	XXX%	X.XX
Savings deposits	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	–	–	–	–	–	–	X,XXX	XXX%	X.XX
Money market accounts	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	–	–	–	–	–	–	X,XXX	XXX%	X.XX
Brokered deposits	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X.XX
Other time deposits	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X.XX
Short-term borrowings	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	–	–	–	–	–	–	X,XXX	XXX%	X.XX
Long term borrowings	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X.XX
FHLB advances	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X.XX
Securities sold under repurchase agreements	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	–	–	–	–	–	–	X,XXX	XXX%	X.XX
Other borrowings	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X.XX
Total interest-bearing liabilities	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X.XX
Non-interest-bearing financial liabilities:																	
Derivatives	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	–
Other financial liabilities	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	–
Total financial liabilities	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	X,XXX	–	–
Other liabilities															X,XXX	–	–
Equity															X,XXX	–	–
Total liabilities and stockholders' equity															\$X,XXX	–	–
Excess of financial assets over financial liabilities	\$X,XXX		\$X,XXX		\$X,XXX		\$X,XXX		\$X,XXX		\$X,XXX		\$X,XXX		\$X,XXX	–	–
Financial assets to financial liabilities	X,XXX%		X,XXX%		X,XXX%		X,XXX%		X,XXX%		X,XXX%		X,XXX%		X,XXX%	–	–
Cumulative financial assets over financial liabilities	\$X,XXX		\$X,XXX		\$X,XXX		\$X,XXX		\$X,XXX		\$X,XXX		\$X,XXX		\$X,XXX	–	–

Note: The classes in this table are organized by the interest "bearing" or "earning" characteristics of the financial instruments to display the application of the guidance in certain circumstances and this presentation is not meant to be prescriptive.

Insurance Re-Pricing Gap Analysis – Example

Illustrative Insurance Repricing Gap Analysis as of December 31, 20X1

	Q1 20X2	Yield	Q2 20X2	Yield	Q3 20X2	Yield	Q4 20X2	Yield	20X3	Yield	20X4–20X6	Yield	20X7 and Later	Yield	Total Carrying Amount	Yield	Duration
Interest-earning financial assets:																	
Cash and cash equivalents	\$X,XXX	X.XX%	\$X,XXX	X.XX%	\$X,XXX	X.XX%	--	--	--	--	--	--	--	--	\$X,XXX	X.XX%	--
Debt securities	X,XXX	X.XX%	X,XXX	X.XX%	X,XXX	X.XX%	\$X,XXX	X.XX%	\$X,XXX	X.XX%	\$X,XXX	X.XX%	\$X,XXX	X.XX%	X,XXX	X.XX%	X.XX
Commercial and other loans	X,XXX	X.XX%	X,XXX	X.XX%	X,XXX	X.XX%	X,XXX	X.XX%	X,XXX	X.XX%	X,XXX	X.XX%	X,XXX	X.XX%	X,XXX	X.XX%	X.XX
Securities purchased under resale agreements	X,XXX	X.XX%	X,XXX	X.XX%	X,XXX	X.XX%	X,XXX	X.XX%	--	--	--	--	--	--	X,XXX	X.XX%	X.XX
Policy loans	X,XXX	X.XX%	X,XXX	X.XX%	X,XXX	X.XX%	X,XXX	X.XX%	X,XXX	X.XX%	X,XXX	X.XX%	X,XXX	X.XX%	X,XXX	X.XX%	X.XX
Total interest-earning assets	X,XXX	X.XX%	X,XXX	X.XX%	X,XXX	X.XX%	X,XXX	X.XX%	X,XXX	X.XX%	X,XXX	X.XX%	X,XXX	X.XX%	X,XXX	X.XX%	X.XX
Non-interest-earning financial assets:																	
Equity securities	--	--	--	--	--	--	--	--	--	--	--	--	--	--	X,XXX	--	--
Derivatives	X,XXX	--	X,XXX	--	X,XXX	--	X,XXX	--	X,XXX	--	X,XXX	--	X,XXX	--	X,XXX	--	--
Other financial assets	X,XXX	--	X,XXX	--	X,XXX	--	X,XXX	--	X,XXX	--	X,XXX	--	X,XXX	--	X,XXX	--	--
Total financial assets	X,XXX	--	X,XXX	--	X,XXX	--	X,XXX	--	X,XXX	--	X,XXX	--	X,XXX	--	X,XXX	--	--
Total assets															X,XXX	--	--
															\$X,XXX	--	--
Interest-bearing financial liabilities:																	
Policyholder liabilities	X,XXX	X.XX%	X,XXX	X.XX%	X,XXX	X.XX%	X,XXX	X.XX%	X,XXX	X.XX%	X,XXX	X.XX%	X,XXX	X.XX%	\$X,XXX	X.XX%	X.XX
Long-term debt	X,XXX	X.XX%	X,XXX	X.XX%	X,XXX	X.XX%	X,XXX	X.XX%	X,XXX	X.XX%	X,XXX	X.XX%	X,XXX	X.XX%	X,XXX	X.XX%	X.XX
Other borrowings	X,XXX	X.XX%	X,XXX	X.XX%	X,XXX	X.XX%	X,XXX	X.XX%	X,XXX	X.XX%	X,XXX	X.XX%	X,XXX	X.XX%	X,XXX	X.XX%	X.XX
Securities sold under agreements to repurchase	X,XXX	X.XX%	X,XXX	X.XX%	X,XXX	X.XX%	X,XXX	X.XX%	--	--	--	--	--	--	X,XXX	X.XX%	X.XX
Total interest-bearing liabilities	X,XXX	X.XX%	X,XXX	X.XX%	X,XXX	X.XX%	X,XXX	X.XX%	X,XXX	X.XX%	X,XXX	X.XX%	X,XXX	X.XX%	X,XXX	X.XX%	X.XX
Non-interest-bearing financial liabilities:																	
Derivatives	X,XXX	--	X,XXX	--	X,XXX	--	X,XXX	--	X,XXX	--	X,XXX	--	X,XXX	--	X,XXX	--	--
Other financial liabilities	X,XXX	--	X,XXX	--	X,XXX	--	X,XXX	--	X,XXX	--	X,XXX	--	X,XXX	--	X,XXX	--	--
Total financial liabilities	X,XXX	--	X,XXX	--	X,XXX	--	X,XXX	--	X,XXX	--	X,XXX	--	X,XXX	--	X,XXX	--	--
Other liabilities															X,XXX	--	--
Equity															X,XXX	--	--
Total liabilities and stockholders' equity															\$X,XXX	--	--
Excess of financial assets over financial liabilities	\$X,XXX		\$X,XXX		\$X,XXX		\$X,XXX		\$X,XXX		\$X,XXX		\$X,XXX		\$X,XXX	--	--
Financial assets to financial liabilities	X.XX%		X.XX%		X.XX%		X.XX%		X.XX%		X.XX%		X.XX%		X.XX%	--	--
Cumulative financial assets over financial liabilities	\$X,XXX		\$X,XXX		\$X,XXX		\$X,XXX		\$X,XXX		\$X,XXX		\$X,XXX		\$X,XXX	--	--

Note: The classes in this table are organized by the interest-bearing or earning characteristics of the financial instruments to display the application of the guidance in certain circumstances and this presentation is not meant to be prescriptive.

Re-Pricing Analysis – Observations

- **Agree with Proposals** – We agree in broad strokes with the proposed guidance.
- **Tabular Presentation** – Similar comments as to liquidity gap maturity analysis.
- **Disaggregation** – Similar comments as to liquidity gap maturity analysis.
- **Qualitative vs. Quantitative** – Similar comments as to liquidity gap maturity analysis.
- **Time Intervals** – Similar comments as to liquidity gap maturity analysis, some suggest quarterly may be less important on this table.
- **Scope/Completeness & Financial Instruments Measured at Fair Value** –
 - Population Same As Liquidity Disclosure? – It appears – though not explicitly stated – that the items on this schedule will be the same as those included on the financial institutions liquidity gap maturity analysis. True?
 - Inclusive of Instruments Measured at Fair Value? – It would appear that items measured at fair value are included here, but there is no distinction given to these items on the table. They may be interest earning/bearing and re-price but their impact on the income statement and equity are different.
- **Yield & Duration** –
 - Duration – We see the method of computing duration is to be disclosed and to consistently applied.
 - Yield –
 - We understand these are to be contractual yields, but several questions related to yield measurements:
 - Is the yield the yield to expected maturity (i.e. if pre-repayments)?
 - Current yield if carried at fair value?
 - Equity securities have a yield, but it is does not appear to be required to be disclosed? Because not contractual?
 - How meaningful is the contractual yield being provided when presented next to carrying value if there is a substantial premium or discount?
- **Disclosures of Assumptions** – There will be assumptions made in determining these re-pricings. Disclosures around these will be necessary.

Re-Pricing Analysis – Observations

- **Insurance –**
 - Split by different types of products? Some are simply discounted, others are interest bearing with no re-pricing, some re-price. Difficult to see this on one schedule.
 - What income statement amount are you explaining with insurance liabilities? Interest expense?
- **Is This Information Decision-Useful?**
 - Snapshot of Major Re-Pricing Mismatches – Visually will depict significant asset and liability re-pricing mismatches. For example with insurance, the 7-10 year life and yield on assets and the much longer duration on liabilities will become more apparent. Yield and duration disclosures will provide insight into which financial assets and liabilities drive valuation based changes. Also yield and duration disclosures combined with undiscounted cash flows will provide insight for investors to validate own sensitivity assumptions.
 - Differing Measurement Basis Makes More Challenging – Differing measurement basis makes interpretation more challenging. Are you considering impact on interest income/expense or total return?
 - Carrying Value Disclosures vs. Cash Flow Amounts – Re-pricing of carrying amounts or cash flows? As with liquidity gap maturity analysis we question the usefulness of re-pricing disclosures of carrying amounts – especially if they have significant differences between actual cash flows (e.g. large purchase accounting adjustments).
 - Connection to Sensitivity Analysis – Connection to the sensitivity analysis would facilitate understanding of which instruments drive value based measurement changes more directly rather than simply assuming those with longest duration and lowest yield, as an example.

Interest Rate Sensitivity – Example

Interest Rate Sensitivity, December 31, 20X1

Parallel Change in Interest Rates	Net Income	Estimated Increase/(Decrease) in Net Income		Shareholders' Equity	Estimated Increase/(Decrease) in Shareholders' Equity	
		Amount	Percent		Amount	Percent
+200 bps	\$XX,XXX	\$X,XXX	X.XX%	\$XX,XXX	\$(X,XXX)	(X.XX)%
+100 bps	\$XX,XXX	\$X,XXX	X.XX%	\$XX,XXX	\$(X,XXX)	(X.XX)%
Yield curve at Dec. 31, 20X1	\$XX,XXX	—	—	\$XX,XXX	—	—
-100 bps	\$XX,XXX	\$(X,XXX)	(X.XX)%	\$XX,XXX	\$X,XXX	XXX%
-200 bps	\$XX,XXX	\$(X,XXX)	(X.XX)%	\$XX,XXX	\$X,XXX	XXX%
100 bp flattening of curve						
Short end	\$XX,XXX	\$X,XXX	X.XX%	\$XX,XXX	\$(X,XXX)	(X.XX)%
Long end	\$XX,XXX	\$(X,XXX)	(X.XX)%	\$XX,XXX	\$X,XXX	X.XX%
100 bp steepening of curve						
Short end	\$XX,XXX	\$(X,XXX)	(X.XX)%	\$XX,XXX	\$X,XXX	X.XX%
Long end	\$XX,XXX	\$X,XXX	X.XX%	\$XX,XXX	\$(X,XXX)	(X.XX)%

Interest Rate Sensitivity – Observations

- **Only Items Measured at Fair Value = ? –**
 - **Financial Instruments Measured at Fair Value** – It is our understanding that this is only inclusive of items measured at fair value (either through net income or OCI) and that the effects are to be reflected in the table as follows:
 - Fair Value Through Net Income – Only reflect impacts on net income, not the carryover effect on stockholders equity.
 - Fair Value Through OCI – Disclose effects on stockholders equity and net income. Clarity on the wording could be helpful.
 - **Financial Instruments Measured at Amortized Cost** –
 - It is our understanding that this sensitivity analysis will not include financial instruments measured at amortized cost.
 - Investors are interested in the impact of interest rate movements on valuations of all financial instruments – including those measured at amortized cost.
 - Research shows that shares trade based upon fair value of all financial instruments.
 - Accordingly, sensitivity analysis of all financial instruments to interest rate changes is most relevant. (e.g. current price/book ratios of banks and insurance companies)
- **Integration with Liquidity & Re-Pricing Disclosures** –
 - What is not obvious from the proposed disclosure is what financial instruments are included in this table and the relationship of this table to others presented. From the above, it is clear they are items at fair value, but this is not obvious from table.
 - The market risk disclosures in the forepart show the impact on financial statement captions, in some cases.
 - Connection to the re-pricing table with some idea of the average yield & duration would give an idea as to sources of most significant changes and facilitate explanation.

Interest Rate Sensitivity – Observations

- **Integration with SEC Market Risk Disclosures –**
 - Market risk disclosures show sensitivity of interest rate movements on all financial instruments – not just items measured at fair value.
 - Given the various options of presenting market risk disclosures and the differences in presentation utilized by many different entities, striving for integration may be unrealistic.
 - This disclosure provides one view for all entities and while there may be limitations to the analysis, it will provide some basis for comparison and further inquiry/discussion.
- **Economic Value vs. Shareholder's Equity? –**
 - We understand that an economic value approach included in the questions would include the change in fair value of all financial instruments irrespective of their measurement basis in the financial statements. We agree with this being the population of items to include.
 - However, the definition of economic value of equity has not been provided.
 - Economic value definitions are not always consistent and not well explained. Before using, we think how this item is defined would be useful to better understand.
- **What Does The Schedule Communicate? Is It Decision-Useful? –**
 - It is a good starting point for discussion.
 - It has the capacity to explain to analysts and investors the impact of changes in interest rates on the valuation of the enterprise. Research shows shares prices of banks trade based upon fair value of financial instruments.
 - However, its capacity to provide meaning and be decision-useful information could be improved if it was:
 - Comprehensive in its inclusion of all financial instruments.
 - Sufficiently disaggregated such that the financial instruments included and the resulting impact are transparent.
 - Linked to other disclosures such as the re-pricing table, liquidity gap maturity analysis, and market risk disclosures to provide context.
 - Consistently disclosed over time such that movements over time can be observed.

Presentation is such that it appears to be an “output schedule.” Without the above items, it is less useful as you can't see the inputs likely to be driving value changes in the entity.

General Observations – Objective of FASB Proposal?

- **History of the Issue & Genesis of Disclosures Seems to Have Been Overlooked –**
 - **Focus = Liquidity?** – Review of comment letters seems to suggest that the history of this proposal – which stemmed from the 2010 Financial Instruments ED where measurement (valuation) and presentation of financial instruments was the central issue – has been forgotten. The comment letters seem focused on the liquidity of the entity which has led many to say this should be discussed in the forepart to SEC documents. Where did providing more information for assessing/understanding valuation of financial instruments go?
 - **Focus = Cash Flow Characteristics of the Financial Instruments?** –
 - Our outreach suggested that investors wanted more information on the cash flows of the financial instruments – if an investor said they did not want fair value.
 - We found that investors wanted the fair values and they wanted the cash flow characteristics of the financial instruments to make their own estimates of fair value.
 - **Objective = Liquidity or Valuation?** –
 - The issues of liquidity of the financial instruments, valuation of the financial instruments and the liquidity of the entity seem to become interwoven with emphasis on the liquidity of the entity being paramount.
 - The lack of liquidity disclosures of items measured at fair value illustrates the question of liquidity or valuation? Because an entity elects to fair value debt, doesn't make the cash flows of the entity irrelevant – as an example.
- **Which Objective Is FASB Trying to Satisfy?** – Without clarity on the objective it is not easy to evaluate success in meeting the objective.

General Observations – Common Arguments Against Proposal

- **Qualitative Disclosure Is Sufficient** – Some indicate qualitative disclosures are sufficient. There are a long list of examples which can be developed where this has not been sufficient. SEC recently commented on new fair value disclosures noting: “Not granular enough disclosure for qualitative sensitivity disclosures.”
- **Forward Looking Information Should Not Be Included In Financial Statements** –
 - Some indicate this “forward-looking” information does not belong in the financial statements.
 - There are different types of forward-looking information (e.g. sales forecasts are not the same as expected cash flows on existing assets and liabilities)
 - The financial statements are filled with forward-looking information. Examples include, but are not limited, to the following:
 - Assets and liabilities measured at fair value.
 - Fair value disclosures on the very assets and liabilities for which cash flows are being included in these tables.
 - Expected loss model currently under deliberation.
 - Pension obligations.
 - Goodwill and intangibles (through impairment analysis).
 - Insurance contracts model currently under deliberation.
- **Liquidity Information is Provided in the Forepart of SEC Documents (Redundancy)** –
 - We agree that there needs to be integration and coordination with SEC guidance as we noted above.
 - We don’t agree that the information is redundant as the requirements are not the same. (e.g. cash flows of financial assets is not a requirement in the forepart)
 - Information being included in the forepart is not a reason not improve financial statement disclosures for several reasons:
 - Financial crisis demonstrated existing liquidity disclosures are not sufficient. (e.g. liquidity comments, repo letters).
 - The forepart is too qualitative. A picture is worth 1,000 words.
 - Investors are focused on the value of the financial instruments and how they were determined, not just the liquidity. This is not the purpose of the forepart liquidity and capital resources disclosure. Clarity on objectives of disclosures are necessary.
 - Auditors don’t understand the message being communicated by these SEC disclosures and what should be included in the disclosures. A forepart disclosure read to ensure it is not misleading is not the same as a disclosure being meaningful and useful to investors. Additionally, auditors don’t have the training to know what is missing.
 - Liquidity and valuation are not just public company issues.

General Observations – Common Arguments Against Proposal

- **Static Information** –
 - The AICPA has noted these disclosures are not useful because they are static.
 - The balance sheet is even more static and one dimensional.
 - The disclosures may not be as multi-dimensional as we would like, but over time they can allow meaningful insight into liquidity gaps, re-pricing risk and sensitivity to interest rates.
- **Disclosure Framework** – This seems to be the most current reason to do nothing to change existing financial reporting disclosures. Preparers say there is too much. But, we have just experienced a financial crisis where there were important matters such as liquidity and credit risk which were not sufficiently disclosed. The risks were not “hidden in plain sight” – they weren’t disclosed. Investors tell us it isn’t the volume of disclosures but the lack of telling a comprehensive, integrated and understandable story which is the issue. They also don’t see the disclosure framework project as a substitute for specific disclosure principles.
- **Information Should Not Be Standardized** – Some argue that information should not be standardized as it is, therefore, not meaningful. Some element of tabular presentation and standardization is necessary to make meaningful comparisons. Financial institutions are not so unique in their products and management that consensus can’t be reached on meaningful standardized disclosures. Where necessary, additional quantitative and qualitative information can be added to enhance meaning.
- **Financial Reporting vs. Financial Analysis** – Some suggest including fair value measurements in the financial statements has the effect of performing financial analysis in the financial statements. We don’t agree with that statement, but these disclosures were meant to be a substitute for fair value measurement in the financial statements. Some now suggest these disclosures have a similar effect. Our question is how can both have the effect of performing financial analysis in the financial reports? This proposal is requesting companies report information which can be analyzed for investment decision-making. There is nothing which communicates the results of the analysis per se.

General Observations – Improvements Necessary for Investors

- **Investors Need Improvements: What Has Been Provided Post-Crisis to Improve Risk & Liquidity Disclosures? –**
 - **Macro-Economic Conditions** – Current macro-economic conditions (i.e. financial repression) warrant better disclosures about liquidity and valuation of financial instruments and the risk that changes in interest rates will have on the valuation of the financial instruments and businesses. Investors need to understand the cash flow, and re-pricing characteristics, of financial instruments to assess valuations and liquidity. Life insurance companies, for example, have no disclosure requirement in their financial statements or SEC documents to explain current price/book dilemma (i.e. the only forepart disclosure on interest rate market risk is to show a 10% move in interest rates and their impact on investment contracts – not all policyholder liabilities).
 - **Regulators & Rating Agencies Can Make Their Own Requests** – Rating agencies and regulators can make their own requests for liquidity and interest rate risk information. Investors cannot make similar requests and they've lost trust in regulators and their ability to assess liquidity/solvency issues. Credit rating agencies have significantly diminished credibility with investors. Investors want to make their own judgments about these risks.
 - **Minimal Disclosure Improvements Since Financial Crisis** – Other than several fair value and credit disclosures, there has been no guidance to address issues arising from financial crisis.
 - **Repos Continue to Be A Problem** – Liquidity risk related to repurchase transactions have not been substantively addressed. Changes for Lehman Repo 105 and MF Global Repo to Maturity are addressing bright-lines but nothing added yet on enhancing repo disclosures.

General Observations – Studies Have Suggested Improvements Needed

- **Studies Supporting Better Disclosures –**
 - CFA Institute IFRS 7 Disclosures
 - S&P Study
 - Financial Stability Board (FSB) Enhanced Disclosure Task Force (EDTF)

General Observations – Our Historical Perspective & Current Questions

- **Our Historical Perspective on These Issues –**
 - **Financial Instruments Cash Flow Characteristics, Valuation & Accounting –**
 - Supported fair value measurement for all financial instruments.
 - Supported disclosure of amortized cost.
 - Supported disclosures which facilitate understanding of the methods and assumptions used to arrive at fair value as well as financial statement presentation which allowed analysis of these measurements over time.
 - **Liquidity –**
 - Support additional liquidity disclosures as evidenced by our IFRS 7 study and participation in FSB EDTF.
 - Expressed significant concern regarding liquidity issues in response to ED to correct for Lehman Repo 105 transactions and prior to MF Global.
- **Current Questions? –**
 - How will investor input from financial instruments project be considered by the FASB?
 - How will investor input in the development of this proposal be weighted?
 - Is FASB going back to those who said they wanted these disclosures and solicited their input? How will this be reported on?