



EXPOSURE DRAFT

Proposed Accounting Standards Update

Issued: June 27, 2012

Comments Due: September 25, 2012

Financial Instruments (Topic 825)

Disclosures about Liquidity Risk and Interest Rate Risk

This Exposure Draft of a proposed Accounting Standards Update of Topic 825 is issued by the Board for public comment. Comments can be provided using the electronic feedback form available on the FASB website. Written comments should be addressed to:

Technical Director

File Reference No. 2012-200

Financial Accounting Standards Board
of the Financial Accounting Foundation

The *FASB Accounting Standards Codification*[®] is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective.

Notice to Recipients of This Exposure Draft of a Proposed Accounting Standards Update

The Board invites comments on all matters in this Exposure Draft and is requesting comments by September 25, 2012. Interested parties may submit comments in one of three ways:

- Using the electronic feedback form available on the FASB website at [Exposure Documents Open for Comment](#)
- Emailing a written letter to director@fasb.org, File Reference No. 2012-200
- Sending written comments to "Technical Director, File Reference No. 2012-200, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116."

Do not send responses by fax.

All comments received are part of the FASB's public file. The FASB will make all comments publicly available by posting them to the online public reference room portion of its website.

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Financial Instruments (Topic 825)
Disclosures about Liquidity Risk and Interest Rate Risk
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Summary and Questions for Respondents

Why Is the FASB Issuing This Proposed Accounting Standards Update (Update)?

In May 2010, the Board issued proposed Accounting Standards Update, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities—Financial Instruments (Topic 825) and Derivatives and Hedging (Topic 815)*. In addition to reviewing the comment letters received, the Board performed extensive outreach to obtain feedback on that proposed Update from all types of stakeholders, including users, preparers, auditors, and regulators.

Stakeholders' feedback indicated that the risks that are inherent in a class of financial instruments and the way in which an entity manages those risks through its business operations should be instrumental in developing the reporting model for financial instruments. However, it has become clear that no measurement attribute would convey to users of financial statements complete information about a financial instrument's inherent risks and the broader risks to which an entity is exposed. That is, attempting to represent all of the risks in an instrument with a single amount or measurement attribute is not possible. For example, the fair value of a particular financial instrument would reflect current market information about the risks inherent in that instrument but may not convey information about how that financial instrument contributes to the entity's broader risk profile. The Board decided to issue this proposed Update separately from the classification and measurement aspects of the project on accounting for financial instruments to address stakeholders' concerns and to provide information that users have expressed is important but may not be captured in any specific measurement attribute. The Board's redeliberations of the May 2010 proposed Update are ongoing as of the issuance of this proposed Update.

The important risks identified by users of financial statements during the Board's outreach efforts were credit risk, liquidity risk, and interest rate risk. In July 2010, the Board issued Accounting Standards Update No. 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, with the intent of providing users of financial statements with decision-useful information about a reporting entity's credit risk exposure. This proposed Update is intended to provide users of financial statements with additional decision-useful information about an entity's liquidity risk and interest rate risk. The Board also considered other market risks, such as movements in commodity prices, equity prices, and foreign exchange rates but decided that liquidity risk and interest rate risk were the areas of risk for which users expressed the greatest demand for improved disclosures. In a separate project, the Board is considering investors' requests for expanded disclosure

about the credit and liquidity risks arising from repurchase agreements and similar transactions and will explore potential improvements to current recognition, measurement, and disclosure requirements.

The Board's efforts in developing this proposed Update included extensive outreach. The staff interacted with nearly 60 users and 20 preparers of financial statements through questionnaires, field visits, in-person meetings, and conference calls. Demographically, participants represented a diverse sampling of the public and private capital markets from preparer and user perspectives. The Board and its staff considered differences, if any, between the feedback received from public and nonpublic preparers of financial statements and between users of public financial statements and users of nonpublic financial statements.

Who Would Be Affected by the Amendments in This Proposed Update?

The amendments in this proposed Update would apply to all reporting entities. Some proposed amendments would apply only to financial institutions, and others would apply only to entities that are not financial institutions.

What Are the Main Provisions?

With the goal of providing users of financial statements with more decision-useful information about entity-level exposures to liquidity risk and interest rate risk, the Board proposes the following disclosures, depending on the characteristics of the reporting entity.

Liquidity Risk Disclosures

The proposed liquidity risk disclosures would provide information about the risks and uncertainties that a reporting entity might encounter in meeting its financial obligations. For a financial institution, as defined by this proposed Update, the proposed amendments would require tabular disclosure of the carrying amounts of classes of financial assets and financial liabilities segregated by their expected maturities, including off-balance-sheet financial commitments and obligations. The term *expected maturity* refers to the expected settlement of the instrument resulting from contractual terms (for example, call dates, put dates, maturity dates, and prepayment expectations). Classes of financial assets and financial liabilities can refer to the underlying risks associated with the financial instruments and should be applied such that the resulting classes are best suited to achieve the objectives of the disclosure requirement. The proposed amendments also would require a financial institution to disclose in a table its available liquid funds, which include any unencumbered cash and highly liquid

assets and any available borrowings such as loan commitments, unpledged securities, and lines of credit.

The proposed amendments would require an entity that is not a financial institution to disclose in a table its expected cash flow obligations disaggregated by their expected maturities. Furthermore, in a separate table, an entity that is not a financial institution would be required to disclose its available liquid funds.

The proposed disclosure requirements about liquidity risk are different for financial institutions and entities that are not financial institutions. Users commented that it would be less useful to disclose the maturities of both assets and liabilities of entities that are not financial institutions because they generally do not have a strategic imperative to manage the maturities of their financial assets and financial liabilities and often settle financial liabilities with funds from operations.

Additionally, the proposed amendments would require a depository institution to disclose information about its time deposit liabilities. Specifically, a depository institution would be required to disclose in a table the cost of funding from the issuance of time deposits and acquisition of brokered deposits during the previous four fiscal quarters.

The proposed amendments would require all reporting entities to provide additional quantitative or narrative disclosure to the extent necessary so that users of financial statements can understand an entity's exposure to liquidity risk. A reporting entity also would disclose the significant changes related to the timing and amounts of financial assets and financial liabilities in the tabular disclosures about liquidity risk and available liquid funds from the last reporting period to the current reporting period, including the reasons for the changes and actions taken, if any, during the current period to manage the exposure related to those changes.

Interest Rate Risk Disclosures

An entity that is not a financial institution would not be required to provide any of the interest rate risk disclosures in this proposed Update. The proposed interest rate risk disclosures would provide information about the exposure of a financial institution's financial assets and financial liabilities to fluctuations in market interest rates. The proposed amendments would require a financial institution to disclose the carrying amounts of classes of financial assets and financial liabilities segregated according to time intervals based on the contractual repricing of the financial instruments. Such a disclosure also would include the weighted-average contractual yield by class of financial instrument and time interval as well as the duration for each class of financial instrument, if applicable.

The proposed amendments would require a financial institution to disclose in an interest rate sensitivity table the effects on net income and shareholders' equity of specified hypothetical, instantaneous shifts of interest rate curves as of the measurement date. The form and extent of the hypothetical shifts of interest rate curves being proposed would provide consistent information across reporting entities.

Finally, the proposed amendments would require a financial institution to provide additional quantitative or narrative disclosure to the extent necessary so that users of financial statements can understand an entity's exposure to interest rate risk. A financial institution also would disclose the significant changes related to the timing and amounts of financial assets and financial liabilities in the tabular disclosures about interest rate risk from the last reporting period to the current reporting period, including the reasons for the changes and the actions taken, if any, during the current period to manage the exposure related to those changes.

How Would the Main Provisions Differ from Current U.S. Generally Accepted Accounting Principles (GAAP) and Why Would They Be an Improvement?

The proposed amendments would provide information that is incremental to that provided under current U.S. GAAP. During the Board's outreach efforts on the May 2010 proposed Update, users of financial statements overwhelmingly indicated that, regardless of the ultimate classification and measurement model, understanding a reporting entity's exposures to risks that are inherent in financial instruments and the ways in which reporting entities manage these risks is integral to making informed decisions about capital allocation. As further discussed in the basis for conclusions of this proposed Update, the Board acknowledges that the Securities and Exchange Commission's (SEC) rules for management's discussion and analysis (MD&A), among other requirements, also currently require certain disclosures about an entity's liquidity risk and interest rate risk. However, the Board decided to propose the disclosures in this proposed Update primarily because of the strong demand by users for audited, standardized, and consistent disclosures that are complementary to those found today in MD&A of public entities. For nonpublic entities, these disclosures would provide incremental new information about these important risks.

When Would the Amendments Be Effective?

This proposed Update does not include a proposed effective date. The Board is seeking to address, on a timely basis, the needs of users of financial statements for more information about liquidity risk and interest rate risk. The effective date will be determined after the Board considers the feedback on the amendments in this proposed Update.

The proposed amendments would be effective as of the beginning of the period of adoption. A reporting entity would provide the disclosures on an interim and annual basis prospectively and provide comparative disclosures for each reporting period ending after initial adoption.

How Do the Proposed Provisions Compare with International Financial Reporting Standards (IFRS)?

As part of the research for this project, the Board reviewed risk disclosures currently required by various regulatory and accounting bodies and obtained feedback from users and preparers. As part of this analysis, the Board considered disclosures about various risk factors that currently are required under IFRS. Consequently, the amendments in this proposed Update bear many similarities to disclosures that are required by IFRS 7, *Financial Instruments: Disclosures*, with some differences, as discussed below.

Liquidity Risk Disclosures

IFRS 7 requires that all entities disclose a maturity analysis of their nonderivative and derivative financial liabilities segregated by time intervals based on the earliest period in which a reporting entity could be required to pay the liability. For an entity that is not a financial institution, that maturity analysis is very similar to the liquidity risk disclosures that would be required by the proposed amendments. An important difference is that the proposed amendments would prescribe the time intervals under U.S. GAAP used to segregate the financial instruments. In contrast, under IFRS 7, an entity uses its own judgment to determine the appropriate time intervals.

The proposed amendments would require that maturities of financial instruments be based on expected maturity dates that are contractually possible (for example, call dates, put dates, conversion dates, and prepayment expectations) rather than the earliest possible payment date as required under IFRS 7. Under the proposed amendments, an entity would be required to apply judgment in determining the expected maturities. An entity that is not a financial institution would be required to disclose additional information not required by IFRS 7, specifically, a table that describes the entity's available liquid funds, which includes unencumbered cash and high-quality liquid assets and availability of borrowings.

The amendments in this proposed Update would require a financial institution to similarly disclose the expected maturities of its financial liabilities, resulting in the same differences with IFRS 7 noted above, but the entity also would disclose in the same table the expected maturities of its financial assets. A financial institution also would disclose information about its available liquid funds.

Interest Rate Risk Disclosures

IFRS 7 requires that an entity disclose a sensitivity analysis for each type of market risk to which it is exposed at the end of a reporting period. Interest rate risk is one of the risks within the broader definition of different types of market risk in IFRS 7. The sensitivity analysis under IFRS 7 requires an entity to disclose changes in profit or loss and equity for the current period on the basis of changes in the relevant risk variable that were reasonably possible at the measurement date. As an alternative to this sensitivity analysis, IFRS 7 allows an entity to present an analysis that reflects interdependencies between risk variables. One such alternative analysis is estimating value-at-risk.

Similar to IFRS 7, the amendments in this proposed Update would require a sensitivity analysis of net income and shareholders' equity to changes in interest rates. However, only financial institutions would provide that disclosure. Unlike IFRS 7, in which the amounts by which interest rates change in the analysis are based on an entity's judgment, this proposed Update would prescribe the amounts by which interest rates change when performing the sensitivity analysis. As previously stated, reporting entities may use an alternative measure of sensitivity, such as value-at-risk, when complying with IFRS 7's requirement. No such alternative is included in this proposed Update.

This proposed Update also includes disclosures about interest rate risk that are not currently required by IFRS. The proposed amendments that would be incremental to IFRS and current U.S. GAAP include a repricing gap table and a table with information about a depository institution's time deposit liabilities.

Questions for Respondents

The Board invites individuals and organizations to comment on all matters in this proposed Update, particularly on the issues and questions below. Comments are requested from those who agree with the proposed guidance as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposed guidance are asked to describe their suggested alternatives, supported by specific reasoning.

Questions for Preparers and Auditors—Liquidity Risk

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?

Question 2: For an entity that is not a financial institution, the proposed amendments would require a cash flow obligations table that includes the expected maturities of an entity's obligations. Do you foresee any significant operational concerns or constraints in complying with this requirement? If yes, what operational concerns or constraints do you foresee and what would you suggest to alleviate them?

Question 3: The proposed amendments would require information about expected maturities for financial assets and financial liabilities to highlight liquidity risk. *Expected maturity* is the expected settlement of the instrument resulting from contractual terms (for example, call dates, put dates, maturity dates, and prepayment expectations) rather than an entity's expected timing of the sale or transfer of the instrument. Do you agree that the term *expected maturity* is more meaningful than the term *contractual maturity* in the context of the proposed liquidity risk disclosures? If not, please explain the reasons and suggest an alternative approach.

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?

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?

Question 6: As a preparer, do you feel that the proposed amendments would provide sufficient information for users of your financial statements to develop an understanding of your entity's exposure to liquidity risk? If not, what other information would better achieve this objective?

Questions for Users—Liquidity Risk

Question 7: Does the liquidity gap table described in paragraphs 825-10-50-23E through 50-23K provide decision-useful information about the liquidity risk of a financial institution? If yes, how would you use that information in analyzing a financial institution? If not, what information would be more useful?

Question 8: Does the cash flow obligations table described in paragraphs 825-10-50-23M through 50-23R provide decision-useful information about the liquidity risk of an entity that is not a financial institution? If yes, how would the information provided be used in your analysis of an entity that is not a financial institution? If not, what information would be more useful?

Question 9: Paragraphs 825-10-50-23S through 50-23V would require an entity to disclose its available liquid funds. Would this table provide decision-useful information in your analysis? If not, what information would be more useful?

Question 10: Are the proposed time intervals in the tables appropriate to provide decision-useful information about an entity's liquidity risk? If not, what time intervals would you suggest? Do you believe that there are any reasons that these required time intervals should be different for financial institutions and entities that are not financial institutions?

Question 11: With respect to the time intervals, should further disaggregation beyond what is proposed in this Update be required to provide more decision-useful information to the extent that significant amounts are concentrated within a specific period (for example, if a significant amount of liabilities are due in Year 10 of the "past 5 years" time interval)? Please explain.

Question 12: For depository institutions, the proposed Update would include a time deposit table that includes the issuances and acquisitions of brokered deposits during the previous four fiscal quarters. Would this table provide decision-useful information in your analysis of depository institutions? If not, what information would be more useful?

Questions for Preparers and Auditors—Interest Rate Risk

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?

Question 14: The interest rate risk disclosures in this proposed Update would include a sensitivity analysis of net income and shareholders' equity. Do you foresee any significant operational concerns or constraints in determining the effect of changes in interest rates on net income and shareholders' equity? If yes, what operational concerns or constraints do you foresee and what would you suggest to alleviate them?

Question 15: As a preparer, do you feel that the proposed amendments would provide sufficient information for users of your financial statements to understand your entity's exposure to interest rate risk? If not, what other information would better achieve this objective?

Questions for Users—Interest Rate Risk

Question 16: Would the repricing gap analysis in paragraphs 825-10-50-23Y through 50-23AC provide decision-useful information in your analysis of financial institutions? If yes, how would this disclosure be helpful in your analysis? If not, what information would be more useful?

Question 17: Are the proposed time intervals in the repricing gap table in paragraphs 825-10-50-23AB through 50-23AC appropriate to provide decision-useful information about the interest rate risk to which a financial institution is exposed? If not, which time intervals would you suggest?

Question 18: The interest rate risk disclosures in this proposed Update would include a sensitivity analysis portraying the effects that specified changes in interest rates would have on net income and shareholders' equity. Currently, many banks and insurance companies provide a sensitivity analysis of the economic value of equity instead of shareholders' equity. A sensitivity analysis of economic value would include the changes in economic value of financial instruments measured at amortized cost, such as loans and deposits. A sensitivity analysis of shareholders' equity would only include those changes that affect shareholders' equity. Therefore, the changes in the economic value of financial instruments measured at amortized cost would not be reflected in the sensitivity analysis although changes in interest income would be reflected. Do you think that a sensitivity analysis of shareholders' equity would provide more decision-useful information than would a sensitivity analysis of economic value? Please discuss the reasons why or why not.

Question 19: Do you think that it is appropriate that an entity that is not a financial institution would not be required to provide disclosures about interest rate risk? If not, why not and how would the information provided be used in your analysis of an entity that is not a financial institution?

Questions for All Respondents

Question 20: The amendments in this proposed Update would apply to all entities. Are there any entities, such as nonpublic entities, that should not be within the scope of this proposed Update? If yes, please identify the entities and explain why.

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.

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.

Amendments to the *FASB Accounting Standards Codification*[®]

Summary of Proposed Amendments to the Accounting Standards Codification

1. The following table provides a summary of the proposed amendments to the Accounting Standards Codification.

Codification Section	Description of Changes
Disclosure (Section 825-10-50)	Added proposed disclosure guidance that pertains to an entity's exposure to liquidity risk and interest rate risk that arise from financial instruments
Implementation Guidance and Illustrations (Section 825-10-55)	- Added examples that illustrate the proposed liquidity and interest rate risk disclosures - Added implementation guidance on certain terms used in the proposed liquidity and interest rate risk disclosures

Introduction

2. The Accounting Standards Codification is amended as described in paragraphs 3–6. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

Amendments to Subtopic 825-10

3. Amend paragraphs 825-10-50-1, 825-10-50-2A, 825-10-50-3, and 825-10-50-23, with a link to transition paragraph 825-10-65-2, as follows:

Financial Instruments—Overall

Disclosures

General

825-10-50-1 Paragraph 825-10-05-3 identifies various Topics within the Codification that address ~~financial instruments~~ matters pertaining to financial instruments. Those and other Topics in the Codification require disclosures about specific financial instruments. This Subsection addresses incremental disclosures about all of the following:

- a. **Fair value** of financial instruments
- b. Concentrations of credit risk of all financial instruments
- c. Market risk of all financial ~~instruments-instruments~~
- d. Liquidity risk and interest rate risk arising from financial instruments.

> Applicability of this Subsection

825-10-50-2 This guidance discusses the applicability of the disclosure requirements in this Subsection to entities and transactions.

> > Entities

825-10-50-2A For interim reporting periods, the disclosure guidance in this Subsection applies to all entities but is optional for those entities that do not meet the definition of a **publicly traded company**. The disclosure guidance in paragraphs 825-10-50-23A through 50-23AF applies to all entities, but for interim reporting periods it is optional only for a {add glossary link to 4th definition}nonpublic entity{add glossary link to 4th definition}.

825-10-50-3 For annual reporting periods, the disclosure guidance in this Subsection applies to all entities but is optional for an entity that meets all of the following criteria:

- a. The entity is a **{remove glossary link}nonpublic entity{remove glossary link}**.
- b. The entity's total assets are less than \$100 million on the date of the financial statements.
- c. The entity has no instrument that, in whole or in part, is accounted for as a derivative instrument under Topic 815 other than commitments related to the origination of mortgage loans to be held for sale during the reporting period.

However, the disclosure guidance in paragraphs 825-10-50-23A through 50-23AF applies to all entities for annual reporting periods.

> Market Risk of All Financial Instruments

825-10-50-23 An entity is encouraged, but not required, to disclose quantitative information about the market risks of financial instruments that is consistent with the way it manages or adjusts those risks. Appropriate ways of reporting that quantitative information will differ for different entities and will likely evolve over time as management approaches and measurement techniques evolve. Possibilities include disclosing any of the following:

- a. More details about current positions and perhaps activity during the period
- b. The hypothetical effects on comprehensive income (or net assets), or annual income, of several possible changes in market prices
- c. Subparagraph superseded by Accounting Standards Update 2012-XX. A gap analysis of interest rate repricing or maturity dates
- d. Subparagraph superseded by Accounting Standards Update 2012-XX. The duration of the financial instruments
- e. The entity's value at risk from derivatives and from other positions at the end of the reporting period and the average value at risk during the year.

This list is not exhaustive, and an entity is encouraged to develop other ways of reporting quantitative information.

4. Add paragraphs 825-10-50-23A through 50-23AF and their related headings, with a link to transition paragraph 825-10-65-2, as follows: **[For ease of readability, these newly added paragraphs and headings are not underlined.]**

> Liquidity Risk and Interest Rate Risk Disclosures

825-10-50-23A The liquidity risk disclosures in paragraphs 825-10-50-23E through 50-23K apply only to financial institutions. The liquidity risk disclosures in paragraphs 825-10-50-23M through 50-23R apply only to entities that are not financial institutions. The liquidity risk disclosures in paragraphs 825-10-50-23S through 50-23V apply to all entities. The interest rate risk disclosures in paragraphs 825-10-50-23W through 50-23AF apply only to financial institutions. For the purposes of these disclosures, the term *financial institution* refers to 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.

The business activities of an entity's reportable segments shall be considered when determining whether a reporting entity meets the definition of a financial institution. 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.

825-10-50-23B These disclosures shall apply to the reportable segments of an entity (see Section 280-10-50). Reportable segments that are financial institutions may be combined with other reportable segments that are financial institutions for the purposes of providing these disclosures. Combining reportable segments that are not financial institutions also is permitted for the purposes of providing these disclosures.

825-10-50-23C Paragraph 825-10-50-23L applies only to depository institutions.

> > Liquidity Risk Disclosures

825-10-50-23D Except for nonpublic entities, the liquidity risk disclosures in paragraphs 825-10-50-23E through 50-23V apply to annual and interim reporting periods and are intended to convey the risk that an entity will encounter difficulty in fulfilling obligations associated with financial liabilities that are settled by delivering cash or another financial asset. A nonpublic entity is required to provide these disclosures only for annual reporting periods.

> > > Liquidity Gap Maturity Analysis

825-10-50-23E An entity that is a financial institution shall provide a tabular maturity analysis of its financial instruments, which for the purposes of this requirement includes leases and insurance contracts (see paragraphs 825-10-

55-5A through 55-5C). The table shall include the carrying amounts of classes of financial assets and financial liabilities segregated into time intervals by their expected maturities. In identifying classes of financial assets and financial liabilities, the entity shall determine the appropriate level of disaggregation on the basis of the nature, characteristics, or risks of the financial instruments. In this context, risks can refer to the underlying risks associated with the financial asset or financial liability or how the financial instruments contribute to the risk conveyed in the disclosure. Identifying classes of financial instruments requires judgment and should result in classes that are best suited to achieve the objective of the disclosure requirement described in the preceding paragraph. Classes of financial instruments often are more disaggregated than the line items presented in the statement of financial position. However, an entity shall provide information sufficient to permit reconciliation to the line items presented in the statement of financial position. If another Topic specifies the class for a financial asset or financial liability, an entity may use that class in providing the disclosures required by this paragraph if that class meets the requirements in this paragraph. The term *expected maturity* relates to the expected settlement of the instrument resulting from contractual terms (for example, call dates, put dates, maturity dates, and prepayment expectations), rather than the entity's expected timing of the sale or transfer of the instrument (see paragraph 825-10-55-5A for further discussion of estimating expected maturity).

825-10-50-23F Financial instruments that are measured at fair value with all changes in fair value included in net income, excluding derivatives, and equity securities measured at fair value with all changes in fair value included in other comprehensive income would not be segregated into different time intervals and shall only be presented in the total carrying amount column. To meet the disclosure objective in paragraph 825-10-50-23D, an entity shall disclose separately its off-balance-sheet commitments (for example, operating lease commitments, loan commitments, lines of credit, and other similar arrangements).

825-10-50-23G For annual reporting periods, an entity shall disclose in a table the carrying amounts of its financial assets and financial liabilities segregated by expected maturity in at least the following seven time intervals:

- a. Separately, the next four fiscal quarters
- b. The time period commencing from the end of the last fiscal quarter in (a) above through the end of the second fiscal year after the reporting date
- c. The time period commencing from the end of the time period in (b) above through the end of the fifth fiscal year after the reporting date
- d. The time period after the end of the time period in (c) above.

825-10-50-23H For interim reporting periods, an entity shall disclose in a table the carrying amounts of its financial assets and financial liabilities segregated by expected maturity in at least the following eight time intervals (see paragraph 825-10-55-5C):

- a. Separately, the next four fiscal quarters
- b. The time period commencing from the end of the last fiscal quarter in (a) above through the end of that fiscal year
- c. The time period commencing from the end of the time period in (b) above through the end of the second full fiscal year after the reporting date
- d. The time period commencing from the end of the time period in (c) above through the end of the fifth full fiscal year after the reporting date
- e. The time period after the end of the time period in (d) above.

825-10-50-23I A financial institution that is a nonpublic entity or is a reportable segment of a nonpublic entity is not required to provide the liquidity risk disclosures for interim periods. However, if an entity chooses to provide the disclosures about liquidity risk for an interim period, the entity shall disclose the time intervals in the preceding paragraph.

825-10-50-23J A financial institution shall provide any additional quantitative and narrative disclosures necessary to provide users of financial statements with an understanding of its exposure to liquidity risk. To meet the objective in this paragraph, a financial institution shall discuss the significant changes related to the timing and amounts of financial assets and financial liabilities in the tabular disclosures about liquidity risk and available liquid funds from the last reporting period to the current reporting period, including the reasons for the changes and actions taken, if any, during the current period to manage the exposure related to those changes.

825-10-50-23K In a discussion that accompanies the liquidity gap table required by paragraph 825-10-50-23E, a financial institution shall explain the significant assumptions used in estimating the expected maturities of its financial assets and financial liabilities if they differ significantly from the contractual maturities.

> > > Issuance of Time Deposits

825-10-50-23L A depository institution shall disclose in a table information related to the cost of funding that arises from issuing time deposits and acquiring brokered deposits (see paragraph 825-10-55-5F). The table shall include:

- a. The insured and uninsured time deposits issued and brokered deposits acquired during each of the last four quarters

- b. The weighted-average contractual yield and weighted-average contractual life for the deposits issued or acquired during each of the last four quarters.

> > > Cash Flow Obligations

825-10-50-23M An entity that is not a financial institution shall provide a cash flow obligations table that includes the entity's expected financial cash flow obligations as of the end of the reporting period (see paragraph 825-10-55-5D). Cash flow obligations may be grouped on the basis of their nature, characteristics, or risks, and the grouping should follow the objective in paragraph 825-10-50-23D. The table shall include the undiscounted amounts of the entity's financial liabilities and off-balance-sheet obligations. As a result, summing across the time intervals for a particular financial liability may not produce an amount that reconciles to the carrying amount of that financial liability on the statement of financial position. Therefore, an entity shall provide in the table a column that adjusts the sum of the amounts across time intervals for a particular financial liability to the carrying amount of that financial liability on the statement of financial position (see paragraph 825-10-55-5D).

825-10-50-23N For annual periods, an entity that is not a financial institution shall segregate its expected cash flow obligations using the time intervals described in paragraph 825-10-50-23G.

825-10-50-23O For interim reporting periods, an entity that is not a financial institution shall segregate its expected cash flow obligations using the time intervals described in paragraph 825-10-50-23H.

825-10-50-23P When disclosing the information in paragraph 825-10-50-23M, for the annual reporting period, a nonpublic entity may combine the quarterly time intervals into a single time interval.

825-10-50-23Q An entity that is not a financial institution shall provide any additional quantitative and narrative disclosures necessary to provide users of financial statements with an understanding of its exposure to liquidity risk. To meet the objective in this paragraph, an entity that is not a financial institution shall discuss the significant changes related to the timing and amounts of cash flow obligations and available liquid funds in the tabular disclosures from the last reporting period to the current reporting period, including the reasons for the changes and actions taken, if any, during the current period to manage the exposure related to those changes.

825-10-50-23R In a discussion that accompanies the cash flow obligations table required by paragraph 825-10-50-23M, an entity that is not a financial institution shall explain the significant assumptions used in estimating the expected timing of its cash flow obligations if they differ significantly from the contractual maturities.

> > > Available Liquid Funds

825-10-50-23S All entities shall disclose in a table their available liquid funds, which shall include unencumbered cash and high-quality liquid assets as well as the entities' borrowing availability (see paragraph 825-10-55-5E). Disclosure shall be made by class of asset.

825-10-50-23T Unencumbered cash and high-quality liquid assets are free from restrictions and **readily convertible to cash** and include:

- a. Cash
- b. Cash equivalents
- c. Unpledged liquid assets.

An entity's borrowing availability might include loan commitments and other lines of credit.

825-10-50-23U In disclosing its available liquid funds, an entity shall include a narrative discussion about the effect of regulatory, tax, legal, repatriation, and other conditions that could limit the transferability of funds among entities. This disclosure shall include quantitative amounts related to funds subject to those conditions, if applicable.

825-10-50-23V For the purposes of the disclosure required by paragraphs 825-10-50-23S through 50-23U, the term *high quality* generally refers to the level of nonperformance risk associated with fixed income financial instruments. A reporting entity shall apply judgment in determining which liquid assets are high quality and shall describe the characteristics considered by the entity in making this determination, including whether the characteristics considered have changed compared with prior reporting periods.

> > Interest Rate Risk Disclosures

825-10-50-23W The interest rate risk disclosures in paragraphs 825-10-50-23X through 50-23AF apply to annual and interim reporting periods of a financial institution and are intended to convey the exposure of an entity's financial assets and financial liabilities to fluctuations in market interest rates. A nonpublic entity that is a financial institution shall provide these disclosures only for annual reporting periods. However, an entity shall use the time intervals described in

paragraph 825-10-50-23H if the entity chooses to provide the disclosures about interest rate risk for an interim period.

825-10-50-23X A financial institution shall provide any additional quantitative and narrative disclosures necessary to provide users of financial statements with an understanding of its exposure to interest rate risk. To meet the objective in this paragraph, a financial institution shall discuss the significant changes related to the timing and amounts of financial assets and financial liabilities in the tabular disclosures about interest rate risk from the last reporting period to the current reporting period, including the reasons for the changes and actions taken, if any, during the current period to manage the exposure related to those changes.

> > > Repricing Gap Analysis

825-10-50-23Y A financial institution shall provide a repricing gap table of classes of financial assets and financial liabilities. In identifying classes of financial assets and liabilities, an entity shall determine the appropriate level of disaggregation on the basis of the nature, characteristics, or risks of the financial instruments (see paragraph 825-10-50-23E for further guidance on identifying classes of financial assets and financial liabilities). This table shall include:

- a. The carrying amount of financial assets and financial liabilities segregated in time intervals based on the repricing dates of classes of financial instruments
- b. The weighted-average contractual yield (if applicable) for each time interval, by class of financial instrument
- c. A total carrying amount column that reconciles to the amount presented in the statement of financial position and a total weighted-average contractual yield (if applicable) for each class of financial instruments
- d. The duration for each class of financial instruments (see paragraph 825-10-55-5G for further explanation).

825-10-50-23Z In complying with (a) in the preceding paragraph, a financial instrument's repricing date is the earlier of the date when the interest rate contractually resets and the date that the financial instrument contractually matures. In complying with (b) and (c) in the preceding paragraph, yield shall represent the weighted-average contractual yield applicable to the carrying amounts shown in each time interval.

825-10-50-23AA A reporting entity shall describe in a narrative discussion accompanying the repricing gap table the method that was used to estimate duration in the table and shall apply that method consistently from period to period.

825-10-50-23AB For annual periods, a financial institution shall segregate the carrying amounts of its financial assets and financial liabilities based on repricing dates using the time intervals described in paragraph 825-10-50-23G.

825-10-50-23AC For interim reporting periods, a financial institution shall segregate the carrying amounts of its financial assets and financial liabilities based on repricing dates using the time intervals described in paragraph 825-10-50-23H.

> > Interest Rate Sensitivity

825-10-50-23AD A financial institution shall provide an interest rate sensitivity analysis that presents the effects of specified hypothetical, instantaneous interest rate changes as of the measurement date on after-tax net income for the 12-month period immediately after the reporting date and on shareholders' equity. The changes in net income and shareholders' equity shall reflect the measurement attributes used in the statement of financial position. For example, an entity shall estimate the effect of changes in the hypothetical yield curve on the fair value of a financial asset or financial liability carried on the statement of financial position at fair value with changes recognized in net income when analyzing the effect on net income. An entity shall consider only how income components reported in net income would be affected when analyzing the effect on net income from the effect of changes in the hypothetical yield curve on financial assets or financial liabilities carried on the statement of financial position at fair value with changes recognized through other comprehensive income or at amortized cost. However, the entity shall consider the effects of the full fair value change on equity, including accumulated other comprehensive income, when analyzing the effect on shareholders' equity from the effect of hypothetical changes in the yield curve on financial assets and financial liabilities carried on the statement of financial position at fair value with changes recognized through other comprehensive income. This sensitivity analysis shall include the effects of the following changes:

- a. Parallel shifts of the yield curve:
 - 1. Up 100 basis points
 - 2. Up 200 basis points
 - 3. Down 100 basis points
 - 4. Down 200 basis points.
- b. Flattening shifts of the yield curve:
 - 1. Increase the short end by 100 basis points
 - 2. Decrease the long end by 100 basis points.
- c. Steepening shifts of the yield curve:
 - 1. Decrease the short end by 100 basis points
 - 2. Increase the long end by 100 basis points.

825-10-50-23AE The financial institution shall assume that interest rates will not decrease below zero. For (b) and (c) in the preceding paragraph, the increases or decreases in the yield curve should be applied to all points before and within the first 24 months of the curve when adjusting the short end, and to all points including and after Year 10 of the curve when adjusting the long end (see paragraph 825-10-55-5J).

825-10-50-23AF The interest rate sensitivity analysis shall disclose the effects of hypothetical interest rate changes on financial assets and financial liabilities included in the statement of financial position as of the reporting date. That is, the financial institution should not incorporate any forward-looking expectations regarding non-interest revenues, non-interest expenses, tax rates, projections about growth rates, asset mix changes, or other internal business strategies in preparing the interest rate sensitivity analysis.

5. Add paragraphs 825-10-55-5A through 55-5J and their related headings, with a link to transition paragraph 825-10-65-2, as follows: **[For ease of readability, these newly added paragraphs and headings are not underlined.]**

Implementation Guidance and Illustrations

> Illustrations

> > Liquidity Risk Disclosures

> > > Example 4: Liquidity Gap Maturity Analysis for a Bank

825-10-55-5A This Example illustrates the table that a financial institution would use to disclose the liquidity gap maturity analysis as required by paragraph 825-10-50-23E. The table would apply to all financial instruments, including those that are not included in the scope of Topic 825, such as insurance contracts and lease contracts. This Example is not meant to fully represent all of the financial assets and financial liabilities that might be included by a bank. Expected maturity could be considered in different ways for different instruments but should not represent an entity's expectation of the sale or transfer of the financial instrument. Financial instruments that are used in trading activities or are measured at fair value with all changes recognized in net income are shown as a total amount in the liquidity gap table. For all derivatives, and for financial instruments that are measured on the statement of financial position at amortized cost or at fair value with changes in fair value being reflected in other comprehensive income, the following contractual features should be considered in estimating expected maturities if they relate to the characteristics of the financial instrument:

- a. For loans, consideration should be given to expected prepayment rates if a borrower has the contractual right to prepay principal amounts in advance of the maturity date.
- b. For deposits, consideration should be given to expected run-off rates if a depositor has the contractual right to withdraw funds before a specified date.
- c. For instruments with certain provisions, such as call options by the issuer or put or conversion options by the holder, consideration should be given to the current and expected environment and whether a reporting entity expects any of these provisions to be exercised.
- d. For financial assets or financial liabilities that require the return of a principal amount but that have no contractual means to prepay before maturity, it may not be likely that the expected maturity differs from the contractual maturity. However, such a circumstance may be an important consideration in the expected maturity estimate if circumstances arise that make it probable that an early or delayed settlement permitted under the contract will occur.
- e. For derivatives, expected maturity does not necessarily relate to the timing of expected cash flows. For example, the fair value of a five-year interest rate swap should not be allocated across the five years that cash flows are expected to be paid or received. However, the fair value of the swap should be shown in the time interval that corresponds with the financial instrument's contractual maturity.
- f. For leases, consideration should be given to whether a reporting entity expects those rights to be exercised if either party has the contractual right to end a lease before its contractual maturity.
- g. For insurance liabilities, a reporting entity's expectation of the timing of the payout of the liabilities, which could be multiple for a single contract, should be a consideration in the expected maturity estimate.

The list in this paragraph is not meant to be exhaustive. Other considerations may apply to those financial instruments listed. Additionally, other financial instruments that might have expected maturities different from their contractual maturities may not be listed.

Liquidity Gap Maturity Analysis of a Bank's Financial Instruments

As of December 31, 20X1	Q1 20X2	Q2 20X2	Q3 20X2	Q4 20X2	20X3	20X4-20X6	20X7 and Later	Total Carrying Amount
Financial assets:								
Amortized cost								
Cash and due from banks	\$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
Fair value with changes recognized in other comprehensive income								
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
Fair value with changes recognized in net income								
Debt securities	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
Loans held for sale	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
Equity securities	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	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
Total assets	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
Financial liabilities:								
Amortized cost								
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	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	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
Fair value with changes recognized in net income								
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	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
Equity								
Total liabilities and stockholders' equity	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	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	X,XXX
	X,XXX	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.

> > > Example 5: Liquidity Gap Maturity Analysis for an Insurance Company

825-10-55-5B This Example illustrates the table that an insurance company would use to disclose the liquidity gap maturity analysis as required by paragraph 825-10-50-23E. This Example is not meant to represent all of the financial assets and financial liabilities that might be included by an insurance company. See the preceding paragraph for further discussion of estimating expected maturities.

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
Other investments								X,XXX
Total financial assets								X,XXX
Other assets	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	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.

825-10-55-5C Interim reporting time intervals for the liquidity gap maturity analysis would include an additional column immediately following the columns for the next four quarters so that the remaining time intervals are aligned with an entity's fiscal years. For example, the time intervals that would be used for the second quarter reporting date would include at least the following time intervals.

As of June 30, 20X2							
<u>Q3 20X2</u>	<u>Q4 20X2</u>	<u>Q1 20X3</u>	<u>Q2 20X3</u>	<u>Q3 20X3 and Q4 20X3</u>	<u>20X4</u>	<u>20X5– 20X7</u>	<u>20X8 and Later</u>

> > **Cash Flow Obligations**

> > > **Example 6: Cash Flow Obligations**

825-10-55-5D This Example illustrates the cash flow obligations table of an entity that is not a financial institution as required by paragraphs 825-10-50-23M through 50-23R. The table presents an entity's undiscounted financial liabilities and off-balance-sheet obligations. This Example is not meant to represent all of the financial liabilities that might be included by an entity that is not a financial institution. See paragraph 825-10-55-5A for further discussion of estimating expected maturities.

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

> > Available Liquid Funds

> > > Example 7: Available Liquid Funds

825-10-55-5E This Example illustrates the table that an entity would use to disclose its available liquid funds as required by paragraphs 825-10-50-23S through 50-23V. If certain conditions exist that could limit the transferability of funds among entities, that may be reflected by showing the entities separately as part of meeting the objectives of paragraph 825-10-50-23U, as shown in the following table. This Example is not meant to represent all of the available liquid funds that might be included.

	Parent Company	Subsidiaries	Broker / Dealers
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>

> > Issuance of Time Deposits

> > > Example 8: Time Deposit Issuance

825-10-55-5F This Example illustrates the table that a depository institution would use to disclose the issuance of time deposits as required by paragraph 825-10-50-23L. The weighted-average contractual rate and weighted-average contractual life to be disclosed is based on the date of issuance of the time deposits. For example, if issued time deposits had a 1.6-year weighted-average contractual life when they were issued two fiscal quarters ago and a 1-year weighted-average remaining contractual life as of the end of the reporting period, the reporting entity would disclose the weighted-average contractual life of 1.6 years as of the issuance date for those time deposits in the table in the current period's financial statements.

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

> > Interest Rate Risk Disclosures

825-10-55-5G Examples 9 and 10 illustrate the disclosures in a repricing gap table. They are not meant to represent all of the financial assets and financial liabilities that might be included in the table. For purposes of this table, duration represents a measure of the weighted-average time until cash payments are received or paid, which is an important measure to help understand the price sensitivity or price volatility of the financial instruments in relation to changes in interest rates. Duration does not refer to the contractual maturity of the financial instruments, although contractual maturity and duration could be identical for some instruments, such as zero-coupon bonds. Several methods are available and differ in appropriateness based on the characteristics of the financial instrument (for example, differing methods include Macaulay duration, modified duration, effective duration, and average duration for a portfolio). This implementation guidance does not prescribe the method to be used to estimate duration, but the method used must be disclosed and applied consistently across reporting periods. Financial instruments with no contractual repricing dates, for example, equity securities, should be presented in the aggregate in the total carrying amount column.

> > > Example 9: Repricing Gap for a Bank

825-10-55-5H This Example illustrates the repricing gap table for a bank.

Illustrative Bank Repricing Analysis as of December 31, 20X1

	Q1 20X2	Yield	Q2 20X2	Yield	Q3 20X2	Yield	Q4 20X2	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%	XXX
Securities purchased under resale agreements	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	-	-	-	-	X,XXX	XXX%	XXX
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%	XXX
Agency MBS	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	XXX
Agency CDO	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	XXX
Other	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	XXX
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%	XXX
Commercial loans	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	XXX
Mortgage loans	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	XXX
Consumer loans	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	XXX
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%	XXX
Non-interest-earning financial assets:															
Equity securities	X,XXX	-	X,XXX	-	X,XXX	-	X,XXX	-	X,XXX	-	X,XXX	-	X,XXX	-	XXX
Derivatives	X,XXX	-	X,XXX	-	X,XXX	-	X,XXX	-	X,XXX	-	X,XXX	-	X,XXX	-	XXX
Other financial assets	X,XXX	-	X,XXX	-	X,XXX	-	X,XXX	-	X,XXX	-	X,XXX	-	X,XXX	-	XXX
Total financial assets	X,XXX	-	X,XXX	-	X,XXX	-	X,XXX	-	X,XXX	-	X,XXX	-	X,XXX	-	XXX
Other assets	X,XXX	-	X,XXX	-	X,XXX	-	X,XXX	-	X,XXX	-	X,XXX	-	X,XXX	-	XXX
Total assets	X,XXX	-	X,XXX	-	X,XXX	-	X,XXX	-	X,XXX	-	X,XXX	-	X,XXX	-	XXX
Interest-bearing financial liabilities:															
Deposits	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	-	-	-	-	X,XXX	XXX%	XXX
Savings deposits	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	-	-	-	-	X,XXX	XXX%	XXX
Money market accounts	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	-	-	-	-	X,XXX	XXX%	XXX
Brokered deposits	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	XXX
Other time deposits	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	XXX
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%	XXX
Non-interest-bearing financial liabilities:															
Long-term borrowings	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	-	-	-	-	X,XXX	XXX%	XXX
Short-term borrowings	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	XXX
PLB advances	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	XXX
Securities sold under repurchase agreements	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	-	-	-	-	X,XXX	XXX%	XXX
Other borrowings	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	X,XXX	XXX%	XXX
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%	XXX
Non-interest-bearing financial liabilities:															
Derivatives	X,XXX	-	X,XXX	-	X,XXX	-	X,XXX	-	X,XXX	-	X,XXX	-	X,XXX	-	XXX
Other financial liabilities	X,XXX	-	X,XXX	-	X,XXX	-	X,XXX	-	X,XXX	-	X,XXX	-	X,XXX	-	XXX
Total financial liabilities	X,XXX	-	X,XXX	-	X,XXX	-	X,XXX	-	X,XXX	-	X,XXX	-	X,XXX	-	XXX
Other liabilities	X,XXX	-	X,XXX	-	X,XXX	-	X,XXX	-	X,XXX	-	X,XXX	-	X,XXX	-	XXX
Equity	X,XXX	-	X,XXX	-	X,XXX	-	X,XXX	-	X,XXX	-	X,XXX	-	X,XXX	-	XXX
Total liabilities and stockholders' equity	X,XXX	-	X,XXX	-	X,XXX	-	X,XXX	-	X,XXX	-	X,XXX	-	X,XXX	-	XXX
Excess of financial assets over financial liabilities	\$X,XXX		\$X,XXX		\$X,XXX		\$X,XXX		\$X,XXX		\$X,XXX		\$X,XXX		XXX
Financial assets to financial liabilities	X,XXX		X,XXX		X,XXX		X,XXX		X,XXX		X,XXX		X,XXX		XXX
Cumulative financial assets over financial liabilities	\$X,XXX		\$X,XXX		\$X,XXX		\$X,XXX		\$X,XXX		\$X,XXX		\$X,XXX		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.

> > > Example 10: Repricing Gap for an Insurance Company

825-10-55-5I This Example illustrates the repricing gap table for an insurance company.

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	XXX%	\$X,XXX	XXX%	\$X,XXX	XXX%	\$X,XXX	XXX%	\$X,XXX	XXX%	\$X,XXX	XXX%	\$X,XXX	XXX%	\$X,XXX	XXX%	-
Debt securities	XXXX	XXX%	XXXX	XXX%	XXXX	XXX%	XXXX	XXX%	XXXX	XXX%	XXXX	XXX%	XXXX	XXX%	XXXX	XXX%	XXX
Commercial and other loans	XXXX	XXX%	XXXX	XXX%	XXXX	XXX%	XXXX	XXX%	XXXX	XXX%	XXXX	XXX%	XXXX	XXX%	XXXX	XXX%	XXX
Securities purchased under resale agreements	XXXX	XXX%	XXXX	XXX%	XXXX	XXX%	XXXX	XXX%	-	-	-	-	-	-	XXXX	XXX%	XXX
Policy loans	XXXX	XXX%	XXXX	XXX%	XXXX	XXX%	XXXX	XXX%	XXXX	XXX%	XXXX	XXX%	XXXX	XXX%	XXXX	XXX%	XXX
Total interest-earning assets	XXXX	XXX%	XXXX	XXX%	XXXX	XXX%	XXXX	XXX%	XXXX	XXX%	XXXX	XXX%	XXXX	XXX%	XXXX	XXX%	XXX
Non-interest-earning financial assets:																	
Equity securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	XXXX	-	-
Derivatives	XXXX	-	XXXX	-	XXXX	-	XXXX	-	XXXX	-	XXXX	-	XXXX	-	XXXX	-	-
Other financial assets	XXXX	-	XXXX	-	XXXX	-	XXXX	-	XXXX	-	XXXX	-	XXXX	-	XXXX	-	-
Total financial assets	XXXX	-	XXXX	-	XXXX	-	XXXX	-	XXXX	-	XXXX	-	XXXX	-	XXXX	-	-
Other assets	XXXX	-	XXXX	-	XXXX	-	XXXX	-	XXXX	-	XXXX	-	XXXX	-	XXXX	-	-
Total assets	XXXX	-	XXXX	-	XXXX	-	XXXX	-	XXXX	-	XXXX	-	XXXX	-	XXXX	-	-
Interest-bearing financial liabilities:																	
Policyholder liabilities	XXXX	XXX%	XXXX	XXX%	XXXX	XXX%	XXXX	XXX%	XXXX	XXX%	XXXX	XXX%	XXXX	XXX%	XXXX	XXX%	XXX
Long-term debt	XXXX	XXX%	XXXX	XXX%	XXXX	XXX%	XXXX	XXX%	XXXX	XXX%	XXXX	XXX%	XXXX	XXX%	XXXX	XXX%	XXX
Other borrowings	XXXX	XXX%	XXXX	XXX%	XXXX	XXX%	XXXX	XXX%	XXXX	XXX%	XXXX	XXX%	XXXX	XXX%	XXXX	XXX%	XXX
Securities sold under agreements to repurchase	XXXX	XXX%	XXXX	XXX%	XXXX	XXX%	XXXX	XXX%	-	-	-	-	-	-	XXXX	XXX%	XXX
Total interest-bearing liabilities	XXXX	XXX%	XXXX	XXX%	XXXX	XXX%	XXXX	XXX%	XXXX	XXX%	XXXX	XXX%	XXXX	XXX%	XXXX	XXX%	XXX
Non-interest-bearing financial liabilities:																	
Derivatives	XXXX	-	XXXX	-	XXXX	-	XXXX	-	XXXX	-	XXXX	-	XXXX	-	XXXX	-	-
Other financial liabilities	XXXX	-	XXXX	-	XXXX	-	XXXX	-	XXXX	-	XXXX	-	XXXX	-	XXXX	-	-
Total financial liabilities	XXXX	-	XXXX	-	XXXX	-	XXXX	-	XXXX	-	XXXX	-	XXXX	-	XXXX	-	-
Other liabilities	XXXX	-	XXXX	-	XXXX	-	XXXX	-	XXXX	-	XXXX	-	XXXX	-	XXXX	-	-
Equity																	-
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.

> > Interest Rate Sensitivity

> > > Example 11: Interest Rate Sensitivity

825-10-55-5J This Example illustrates the interest rate sensitivity table as required by paragraphs 825-10-50-23AD through 50-23AF. This interest rate sensitivity analysis assumes that interest rates will not go below zero. To illustrate, an entity would apply the following interest rate changes for the parallel, flattening, and steepening yield curve shifts.

Hypothetical Yield Curves, December 31, 20X1

	3-Month	6-Month	1-Year	2-Year	3-Year	5-Year	7-Year	10-Year	20-Year	30-Year
Yield curve at Dec. 31, 20X1	1.50%	1.60%	1.70%	2.00%	2.50%	3.50%	4.40%	5.00%	5.45%	5.80%
+200 bps	3.50%	3.60%	3.70%	4.00%	4.50%	5.50%	6.40%	7.00%	7.45%	7.80%
+100 bps	2.50%	2.60%	2.70%	3.00%	3.50%	4.50%	5.40%	6.00%	6.45%	6.80%
-100 bps	0.50%	0.60%	0.70%	1.00%	1.50%	2.50%	3.40%	4.00%	4.45%	4.80%
-200 bps	0.00%	0.00%	0.00%	0.00%	0.50%	1.50%	2.40%	3.00%	3.45%	3.80%
100 bp flattening of curve										
Short end	2.50%	2.60%	2.70%	3.00%	2.50%	3.50%	4.40%	5.00%	5.45%	5.80%
Long end	1.50%	1.60%	1.70%	2.00%	2.50%	3.50%	4.40%	4.00%	4.45%	4.80%
100 bp steepening of curve										
Short end	0.50%	0.60%	0.70%	1.00%	2.50%	3.50%	4.40%	5.00%	5.45%	5.80%
Long end	1.50%	1.60%	1.70%	2.00%	2.50%	3.50%	4.40%	6.00%	6.45%	6.80%

Interest Rate Sensitivity, December 31, 20X1

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

6. Add paragraph 825-10-65-2 and its related heading as follows:

**> Transition Related to Accounting Standards Update No. 2012-XX,
Financial Instruments (Topic 825): Disclosures about Liquidity Risk and
Interest Rate Risk**

825-10-65-2 The following represents the transition and effective date information related to Accounting Standards Update No. 2012-XX, *Financial Instruments (Topic 825): Disclosures about Liquidity Risk and Interest Rate Risk*:

- a. For public entities, the pending content that links to this paragraph shall be effective for the first interim or annual reporting period ending on or after [date to be inserted after exposure].
- b. For nonpublic entities, the pending content that links to this paragraph shall be effective for the first annual reporting period beginning after [date to be inserted after exposure].
- c. An entity shall provide comparative disclosures for each reporting period ending after initial adoption.

The amendments in this proposed Update were approved for publication by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Leslie F. Seidman, *Chairman*
Daryl E. Buck
Russell G. Golden
Thomas J. Linsmeier
R. Harold Schroeder
Marc A. Siegel
Lawrence W. Smith

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this proposed Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

BC2. The proposed amendments in this Update would improve the usefulness of financial statements by providing detailed, relevant disclosures about an entity's exposure to liquidity risk and interest rate risk that arise from its financial instruments.

BC3. Specifically, the proposed amendments for liquidity risk would include:

- a. For a financial institution, a liquidity gap table presenting the expected maturities of financial assets and financial liabilities
- b. For an entity that is not a financial institution, a cash flow obligations table that presents the expected maturities of the financial liabilities of the entity
- c. For all entities, an entity's available liquid funds including availability of borrowings, unencumbered cash, and high-quality liquid assets
- d. For a depository institution, a table of the time deposits issued in the previous four fiscal quarters, including the weighted-average yield and weighted-average life of those deposits.

BC4. Additionally, the proposed amendments for interest rate risk, which would apply only to a financial institution, would include the following:

- a. A repricing gap table presenting the repricing dates of financial assets and financial liabilities, including the yield for each class of financial instrument by time interval and the duration for each class of financial instrument
- b. An interest rate sensitivity analysis presenting the hypothetical effects of specified interest rate changes on net income and shareholders' equity.

Background Information

BC5. In response to the May 2010 proposed Update on accounting for financial instruments and revisions to the accounting for derivative instruments and hedging activities, and considering the 2008 financial crisis, many stakeholders stated that expanded disclosures are needed about key risks that arise from an entity's financial instruments. At the December 2010 FASB Board meeting, the Board discussed risks that are inherent in financial instruments, how an entity manages those risks, and whether disclosures about those risks should be required in the financial statements. The Board reviewed risk disclosures currently required by various regulatory and accounting bodies and obtained feedback from users and preparers about risk disclosures relating to an entity's financial instruments.

BC6. The feedback from the outreach to users of financial statements included the following main points:

- a. It is imperative that liquidity and interest rate risk disclosures achieve a high level of comparability to be useful.
- b. Standardized quantitative disclosures provide more decision-useful information than nonstandardized disclosures based on management's internal reports.
- c. Linked qualitative and quantitative disclosures on asset-liability management would be useful.
- d. It is important that the quantitative disclosures reconcile to the amounts presented in the statement of financial position.
- e. It is important to understand the interrelationships of risks.

Scope

BC7. In light of the results of its outreach to users of financial statements, the Board decided not to require additional interest rate risk disclosures for entities that are not financial institutions because the users of their financial statements noted that additional interest rate risk disclosures would not be essential. Although a few users supported additional interest rate risk disclosures for entities that are not financial institutions, the Board reasoned that the benefits would not outweigh the costs.

BC8. The Board also decided that the type of liquidity risk disclosures should be different for financial and nonfinancial institutions. The liquidity risk disclosures that would be required for an entity that is not a financial institution include a maturity analysis of expected cash flow obligations only; in contrast, the maturity analysis for a financial institution would include both financial assets and financial liabilities. The Board noted that asset-liability management is an integral aspect

of liquidity risk for financial institutions; conversely, entities that are not financial institutions generally do not match the maturities of their assets and liabilities and often use cash flows from operations (rather than from existing financial assets) to pay obligations as they come due.

BC9. Many entities that are not financial institutions have large finance subsidiaries, and some have a significant percentage of total assets in reportable segments that are financial institutions. Therefore, the Board decided that the disclosures proposed in this Update should apply to an entity's reportable segments, permitting the combination of reportable segments that are financial institutions to be separate from a combination of those that are not. For some entities, this will result in providing the disclosures required of financial institutions for one or more reportable segments and the disclosures required of entities that are not financial institutions for its other reportable segments.

Disclosures

Liquidity Risk

BC10. The purpose of the liquidity risk disclosures is to provide users of financial statements with information that helps them assess the risk that an entity will encounter difficulty in meeting obligations that are settled by delivering cash or another financial asset.

BC11. Users of financial statements expressed strong interest in more information about an entity's liquidity position. For financial institutions, users stated that an asset-liability maturity analysis would be useful to understand more about an entity's asset-liability management. However, users of financial statements of entities that are not financial institutions provided feedback that it would not be useful to disclose the maturities of both assets and liabilities because an entity that is not a financial institution generally does not have a strategic imperative to manage the maturities of its assets and liabilities and often settles its liabilities with funds generated from operations. Therefore, the Board tentatively decided that a financial institution would disclose a liquidity gap table and that an entity that is not a financial institution would disclose a cash flow obligations table.

BC12. The maturity analyses for both financial and nonfinancial institutions would be based on expected maturities. The Board decided that, especially for a financial institution, expected maturities would provide meaningful and complementary information because of the significant difference in expected and contractual maturities of some loans and demand deposits.

BC13. Most users who participated in the outreach indicated that they attempt to track and analyze an entity's available liquid funds (including available borrowings), especially when circumstances dictate that this information is vital to understanding the health of the entity, but the information is often difficult to

obtain because it is not provided consistently across entities. Users of financial statements recommended disclosures about any restrictions on the available funds of the entity, for example, repatriation issues, encumbrances against the assets, or any other regulatory, tax, legal, or other restrictions against the assets that could limit the transferability of funds among entities. The Board incorporated these recommendations from users into the liquidity risk disclosure for all entities, as described in paragraphs 825-10-50-23S through 50-23V.

Interest Rate Risk

BC14. The purpose of the interest rate risk disclosures is to provide incremental information that helps users to assess the exposure of a financial institution's financial instruments to fluctuations in market interest rates. Based on user feedback, the Board decided that the proposed interest rate risk disclosures should not apply to an entity that is not a financial institution.

BC15. The Board decided that all financial institutions should disclose a repricing gap table. The purpose of this table is to provide information about an entity's exposure to changes in interest rates by showing the amounts and yields of financial instruments that are subject to repricing (that is, their interest rate will reset) and when the financial instruments will reprice. This table would indicate to a user how well an entity is match-funded or how well an entity is matching the duration of its assets and liabilities.

BC16. The Board decided that a financial institution should disclose an interest rate sensitivity analysis because users are interested in understanding the potential effects of shifts in the yield curve on an entity's financial instruments. For example, if the negative effect on earnings of an increase in interest rates is much higher for one bank than for another bank, users might pay more attention to the first bank's interest rate risk management or might perform more research about that bank's repricing positions included in the repricing gap table.

BC17. The Board received many comments and suggestions during the outreach process to enhance the usefulness of interest rate sensitivity analyses in financial reporting. Many users were concerned about the varying methods currently used by preparers and stated that it would be important for the Board to set parameters to increase the disclosure's comparability and usefulness. Therefore, users recommended disclosure of a standardized interest rate sensitivity analysis of balance sheet positions based on an instantaneous yield curve shift as of the end of the reporting period, assuming no growth and no change in asset mix. The Board believes that this approach would remove forecasting and strategy from the disclosure. Such standardized parameters also would reduce the disclosure's subjectivity and improve its auditability.

BC18. All users who provided feedback suggested including the effect of interest rate changes on net income; however, views differed on whether the sensitivity analysis should reflect changes in shareholders' equity or economic value of equity. On one hand, a sensitivity analysis of shareholders' equity would

not include the changes in economic value of financial instruments measured at amortized cost because these changes do not affect shareholders' equity. On the other hand, a sensitivity analysis of economic value would include changes in the value of financial instruments because of hypothetical changes in interest rates. Most users suggested a sensitivity analysis of shareholders' equity instead of economic value of equity; therefore, the Board decided that the sensitivity analysis should present the effects of interest rate changes on net income and shareholders' equity.

BC19. The Board decided that a depository institution should disclose in a table its issuances and acquisitions of time deposits during the previous four quarters. The purpose of this table is to show the cost of funding for a depository institution by displaying the issuance of time deposits or acquisitions of brokered deposits. Paragraph 825-10-55-5F includes an example of this table, which includes the weighted-average interest rate and weighted-average lives of time deposits issued and brokered deposits acquired in the last four fiscal quarters. The disclosure would enable users to analyze trends in interest rates and deposit makeup over the last four quarters.

BC20. Users who participated in the Board's outreach stated that the proposed time deposit table would help in understanding how a bank is positioning itself for the future with short-term or long-term financing. Those users explained that time deposits are an important source of funding for banks. Therefore, it would be useful to understand how that source of funding is being managed by the entity compared with other similar depository institutions.

Time Intervals

BC21. For the cash flow obligations table, liquidity gap table, and repricing gap table, the Board decided that entities should segregate financial data into the time intervals proposed in paragraphs 825-10-50-23G through 50-23H. The Board considered the minimum amount of time intervals that would provide users with the most decision-useful information. The Board decided that the four quarters after the reporting date and next full fiscal year would be the most important information to include in the tables. The Board also considered specifying additional time intervals for even longer term financial instruments. The Board noted that additional time intervals beyond five years would be inappropriate for most entities and, therefore, did not recommend requiring any additional time intervals beyond five years as a minimum requirement. However, the Board emphasized that such a time interval may be appropriate for certain entities such as life insurance companies, and it decided to allow additional time intervals under the proposed guidance.

BC22. As indicated in paragraph 825-10-50-23I, the Board decided that a nonpublic entity would not be required to disclose quarterly time intervals

because many nonpublic entities only prepare financial statements annually and it may be costly to have a more detailed segregation of financial obligations.

Benefits and Costs

BC23. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Board's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC24. As part of the deliberation process, the Board performed outreach with many users and preparers to assess the costs and benefits of the proposed disclosures. On the basis of that feedback, the Board proposed disclosures that would (a) strike an appropriate balance of costs and benefits and (b) align with information that entities prepare internally or information that could be disclosed without disproportionate cost to preparers to respond to users' requests for standardization across reporting entities.

BC25. Outreach on the usefulness and operability of the proposed disclosures was an important part of the development of this proposed Update. As with any new accounting guidance, the Board seriously considers the benefits of new guidance and the costs associated with implementing the new guidance. In this case, the Board is responding to a need expressed by users for incremental information about liquidity risk and interest rate risk. The initial outreach effort studied the perceived benefit of providing additional disclosures about liquidity risk and interest rate risk. On the basis of the Board's decisions, the staff drafted a preliminary set of quantitative risk disclosures. Through questionnaires, field visits, in-person meetings, and conference calls, the staff interacted with more than 40 users of financial statements, including sell-side analysts, equity investors, and credit analysts. Users of financial statements of public and nonpublic entities were included in the outreach. Outreach focused on users of bank holding company financial statements because of the highly relevant nature of liquidity risk and interest rate risk to their primary operations.

BC26. On the basis of that feedback, the staff then refined the disclosures to better address the cost-benefit concerns of users of financial statements. The next outreach effort was with 12 banks that are preparers of financial statements, ranging from large, public, global financial institutions to smaller, private, regional banks. Some institutions conveyed their concern about incremental audit costs,

while others noted that the information that would be required by the proposed disclosures is already captured and used through the general management of their business.

BC27. The staff also expanded its outreach to preparers in the insurance industry and users of their financial statements as well as to users of financial statements from the following nonfinancial industries: Internet, software, biotechnology, agricultural products, and other/general. Preparers' feedback in the insurance industry and users of their financial statements was consistent with that received from their counterparts in financial services, which served as a basis for including insurance companies in the definition of *financial institution*. The feedback from users of financial statements from industries other than insurance and financial services served as the basis for differentiating the liquidity risk disclosures and the requirements for interest rate risk disclosures.

BC28. The staff interacted with 58 users of financial statements and 20 preparers. Demographically, they represented a diverse sampling of the public and private capital markets from both a preparer's perspective and a user's perspective. The specific outreach targeted to nonpublic entity preparers and the users of their financial statements produced responses that were consistent with the perspectives of their public market counterparts. The Board will continue its outreach efforts during the comment period and redeliberations.

BC29. Throughout the project, the Board has acknowledged the potential for overlap with certain of the SEC's requirements, including the SEC's MD&A disclosures, specifically those required by Item 303 and Item 305 of Regulation S-K for public entities that are not smaller reporting companies. During its deliberations on this project, the Board's intention was to create new, complementary disclosure requirements that provide meaningful incremental information to users of financial statements beyond those provided by the SEC.

BC30. The Board believes that it is important to weigh the perceived benefits to users of public company financial statements of the proposed disclosures against the identified areas of overlap with the SEC's requirements. The following observations, which are based on extensive outreach with users, preparers, and regulators, describe the incremental benefits that the Board believes are being provided to users of financial information.

Liquidity Risk

BC31. For the most part, the identified areas of overlap relate to the qualitative disclosures about an entity's exposure to liquidity risk and how they manage it, the information about available liquid funds, and certain information in the maturity table.

BC32. Users most frequently commented on the need for standardized, consistent information. They explained that the relative performance and risk exposure of an entity compared with its peers and other investment alternatives are essential in the capital allocation decision-making process. Users also stated that it was important to require standardized disclosure of information to facilitate trend and peer analyses. Therefore, although some overlap with the SEC's requirements may exist, for example, in the requirement that a financial institution present the types of loans it holds by maturity time interval, the Board believes that standardized presentation of such information across all financial instruments provides an incremental benefit to users.

BC33. The Board believes that another important aspect of the liquidity disclosures is the requirement to present the *expected* maturities of financial assets and financial liabilities in the maturity table. The SEC's requirements stipulate that a reporting entity should present financial liabilities at their contractual maturities. The distinction between contractual and expected is important in several main areas. For example, two of the most significant items in a financial institution's statement of financial position are loans and deposits. Significant portions of both of these items can be long-dated, or in the case of deposits, have no specified maturity date (although maturity can be realized through a depositor's withdrawal of funds). However, information that is currently not provided in financial statements, but would be required to meet the objectives of presenting financial assets and financial liabilities in time intervals on the basis of expected maturities, is information about expected prepayment speeds of loans and longevity expectations for deposits. This is just one example. Another could be the importance of reflecting the put or call features in certain financial liabilities. If the current and expected operating environment makes an entity believe that one of these provisions would be exercised, it may reflect significantly different information about liquidity than displaying the obligation at its contractual maturity. However, by requiring expected rather than contractual maturity information, the Board is allowing for more judgment by reporting entities in determining expected maturities.

BC34. Still another example is that the proposed maturity table disaggregates the time intervals used to present the maturities of financial assets and financial liabilities. The SEC's requirements currently prescribe the use of the following time intervals: (a) less than one year, (b) one to three years, (c) three to five years, and (d) more than five years. For annual periods, the Board has proposed the following time intervals for the maturity table: (1) separately, for each of the next four quarters, (2) the year after that (full second fiscal year), (3) the three years following that (full third to fifth fiscal years), and (4) more than five years. Users consistently stated that disaggregating near-term periods is important to their assessment of liquidity risk, which has a significant time element associated with it. The Board believes that providing users with a better ability to assess liquidity exposure within those time intervals is a significant benefit of the proposed liquidity risk disclosures.

BC35. Finally, for financial institutions, the proposed disclosure requirements in the maturity table would require that financial assets be presented with financial liabilities. For financial institutions under the SEC's disclosure requirements, contractual maturities for some assets are disclosed separately from contractual maturities for some liabilities (specifically loans and deposits). The Board believes that the benefits of the proposed maturity table include an ability to more easily assess an entity's overall liquidity risk. The proposed table requires a full reconciliation to the statement of financial position, including all financial assets and financial liabilities. This, combined with the requirement to present financial liabilities by expected maturity, essentially presents all of the liquidity information in the financial statements and certain other information provided to regulators (such as call reports) in a single place in the financial statements. The Board notes that although it believes that this aggregate presentation would be an improvement that would facilitate users' ability to more easily discern the risk faced by the entity resulting from asset and liability timing mismatches, other periodic information will continue to exist outside the financial statements that also should be considered.

BC36. Users of financial statements of entities that are not financial institutions stated that this gap analysis is not as important to them because those entities generally fulfill their financial obligations through cash flows from operations. Nevertheless, the Board believes that requiring financial liabilities to be expressed in terms of expected maturities rather than contractual maturities could be meaningful under certain circumstances in which the timing or amount of a financial obligation changes unexpectedly or in response to broader economic environments.

BC37. With respect to the overlap of information about available liquid funds, some users emphasized the importance of having this information audited, which is not required when the information is provided in MD&A. Generally, most users were not concerned about auditing the collective set of information about liquidity risk and interest rate risk. However, some users noted that it would be a meaningful improvement.

Interest Rate Risk

BC38. In general, the potential overlap between the SEC's requirements and the proposed disclosures exists in the qualitative discussion about interest rate risk and the quantitative sensitivity analysis. Potential overlap also may occur in the information about time deposits for a depository institution.

BC39. With respect to the sensitivity analysis, under the SEC's requirements an entity may choose from the following three methods for expressing its exposure to interest rate risk. These methods are generalized for the purpose of this proposed Update, but are described in detail in Item 305 of Regulation S-K.

- a. Tabular presentation of fair values of interest-rate-sensitive instruments by expected maturity in a way that allows users to determine the expected cash flows from these instruments for each of the next five years
- b. Sensitivity analysis disclosures that express the potential loss in future earnings, fair values, or cash flows of interest-rate-sensitive instruments resulting from one or more selected hypothetical changes in interest rates
- c. Value-at-risk disclosures that express the potential loss in future earnings, fair values, or cash flows of interest-rate-sensitive instruments over a selected period of time, with a selected likelihood of occurrence, from changes in interest rates.

BC40. User feedback on interest rate risk was similar to the feedback on liquidity risk—a request for standardization and consistency. These types of sensitivity analyses are generally performed through the use of complex simulation models that require subjective assumptions. The methods outlined in the SEC’s requirements generally allow entities the freedom of expressing their interest rate risk in a way that management monitors this risk. The Board acknowledges that this aspect of interest rate risk disclosures in the SEC’s requirements differs from the standardized approach proposed by the Board and that the proposed guidance may not align with every management team’s strategy for managing that risk. However, the Board believes that the proposed disclosures provide users with greater consistency and comparability that they have stated are vital in analyzing financial statements. To the extent that the results of the proposed disclosures differ from an entity’s risk management strategy, the qualitative disclosures about interest rate risk should provide users with an opportunity to understand how the preparer’s perspective differs from the required sensitivity analysis.

BC41. In some cases, reporting entities (financial institutions in particular) satisfy the SEC’s requirements in Item 305 of Regulation S-K by presenting value-at-risk disclosures. User feedback on this project indicates that it may be beneficial to have presentation requirements that are more consistent across entities. Preparers similarly noted the difficulties in comparing value-at-risk across entities.

BC42. The Board believes that, similar to user feedback on the proposed liquidity risk disclosures, the ability to compare results across entities would make these disclosures incrementally more useful. The proposed disclosures about interest rate risk sensitivity aim to facilitate these comparisons by prescribing (a) a method and (b) the nature and amount of the shock to interest rates that an entity should consider in its analysis.

BC43. Regarding the time deposit disclosure, the SEC’s Exchange Act Industry Guide 3, *Statistical Disclosure by Bank Holding Companies*, calls for a tabular presentation of the average amount of and average rate paid on its deposits by

domestic and foreign bank offices. The proposed amendments would require that a depository institution provide a tabular disclosure, not of its average deposit balances, but of its new issuances of time deposits that occurred during the last four quarters, including the weighted-average rate and weighted-average life. Furthermore, the proposed amendments potentially provide a more granular indication of trends in the cost of this funding source by requiring disaggregation by quarter.

BC44. Although the SEC's requirements and the proposed disclosures do not appear to overlap as much with respect to the repricing gap disclosure, the Board believes that it is important to express the perceived benefits of this disclosure. In general, financial institutions face some critical risks that are fundamental to their business model, which includes basis risk, gap risk, yield curve risk, and option risk. The repricing gap table categorizes interest-bearing assets and interest-bearing liabilities in the same table by the earlier of the next repricing date or the contractual maturity. The Board expects that the results of the table will provide users of financial statements with incrementally meaningful information to allow them to assess these risks. Users who provided feedback on this proposed disclosure strongly supported requiring that information.

Other Benefits

BC45. These proposed disclosures would be required by nonpublic entity preparers who are not required to comply with the SEC's requirements. Feedback from users of nonpublic entity financial statements indicated support for the proposed disclosures. That feedback was consistent with feedback provided by users of public entity financial statements.

BC46. Additionally, the Board has considered existing disclosure requirements in IFRS, particularly IFRS 7. Acknowledging that some of the requirements may not necessarily be identical to those required by IFRS, the Board believes that their similarity represents a meaningful step toward convergence of U.S. GAAP and IFRS.

Amendments to the XBRL Taxonomy

The FASB will expose for public comment the changes to the U.S. GAAP Financial Reporting Taxonomy (UGT) that would be required were the provisions of this Exposure Draft finalized as proposed. The proposed changes to the UGT will be available on the FASB website on or about July 27, 2012.

The FASB will alert the public of the availability of proposed UGT changes and the deadline for comment through an announcement on its website and in its *Action Alert* email service.