Summary of FASB's Tentative Liquidity and Interest Rate Risk Disclosures for Financial Instruments

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The views expressed in this presentation are those of the presenter. Official positions of the FASB are reached only after extensive due process and deliberations.

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Introduction

- Feedback from the May 2010 Financial Instruments ED indicated that:
  - Regardless of fair value or amortized cost for loans and financial liabilities, users think that it is important to receive information to understand the key risks of an entity's financial instruments:
    - Credit, liquidity, interest rate, commodity, equity price, foreign exchange.
  - Users focused on credit risk, interest rate risk, and liquidity risk:
    - ASU No. 2010-20 was issued July 2010 to address credit risk.
- Therefore, the FASB decided to focus on improving disclosures about liquidity and interest rate risk.

User Outreach

- The main points of emphasis from the user outreach include the following:
  - Emphasis on comparability as the highest goal of any disclosures required
  - Standardized quantitative disclosures instead of nonstandardized disclosures based on internal reports
  - Linked qualitative and quantitative disclosures on asset/liability management
  - Interrelationships of risks.

Scope

- All entities, both financial and nonfinancial, would provide liquidity risk disclosures and only financial institutions would provide interest rate risk disclosures.
  - Financial institutions include banks, savings and loan associations, savings banks, credit unions, finance companies, insurance entities, and broker-dealers.
- The Financial Instruments project excludes insurance contracts and lease contracts; however, these types of contracts would be included in the liquidity and interest rate risk disclosures.

Liquidity Risk

- The purpose of the liquidity risk disclosure is to provide information about the risk that an entity will encounter difficulty in meeting its obligations.
- Entities would qualitatively disclose:
  - The exposure to liquidity risk and how it arises
  - The entity’s objectives, policies, and processes for managing the liquidity risk and methods used to measure the risk
  - Any changes in the above from the previous period and reasons for the changes.

Other factors to consider include (a) diverse funding sources, (b) significant concentrations of risk, (c) internal control processes, (d) accelerated repayment terms for reasonably possible events, (e) possible requirement to post collateral, (f) optional repayment of cash or by delivering its own shares, and (g) the interrelationships of risks.

Liquidity Risk – Cash Flow Obligations (nonfinancial entities)

- Maturity analysis of expected cash flow obligations:
  - *Expected Maturity* relates to the contractual settlement of financial liabilities
  - This would include undiscounted financial liabilities and off-balance sheet obligations
  - An entity would explain any differences between contractual and expected maturities.

Expected Cash-flow Obligations as of December 31, 20X1

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

Liquidity Risk – Liquidity Gap Table (financial institutions)

- Financial institutions would disclose the expected maturities of financial assets and financial liabilities in a tabular format:
  - *Expected maturity* relates to the contractual settlement of the instrument rather than the entity’s expected timing of the sale of the instrument
  - An entity would explain any assumptions for financial instruments that have expected maturities different from contractual maturities:
    - For example, prepayment of loans, run-off rate for deposits, and insurance payouts.
  - Financial instruments with no expected maturity and those measured at fair value through net income, except derivatives, would be presented as a total amount, by class.
  - Financial institutions would also disclose off-balance sheet commitments and obligations.

Liquidity Gap Maturity Analysis of a Bank's Financial Instruments

As of December 31, 20X1							20X7 and	Total
Financial Assets:	Q1 20X2	Q2 20X2	Q3 20X2	Q4 20X2	20X3	20X4–20X6	Later	Carrying Amount
Amortized Cost								
Cash and due from banks	$ XXXX	$ XXXX	$ XXXX	$ XXXX				$ XXXX
Lease Receivable	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX
Loans:								
Commercial	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX
Mortgage	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX
Consumer	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX
FV-OCI								
Investment Securities:								
U.S. Treasury	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX
Agency MBS	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX
Corporate debt securities	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX
Other	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX
FV-NI								
Debt securities								$ XXXX
Derivatives	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX
Loans held for sale								$ XXXX
Equity securities								$ XXXX
Other financial assets								$ XXXX
Total financial assets	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX
Other assets								$ XXXX
Total assets								$ XXXX
Financial Liabilities:								
Amortized Cost								
Demand deposits	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX
Savings deposits	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX
Money market accounts	$ XXXX	$ XXXX	$ XXXX	$ XXXX				$ XXXX
Brokered deposits	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX
Other time deposits	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX
Short-term borrowings	$ XXXX	$ XXXX	$ XXXX	$ XXXX				
Long-term borrowings	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX
FHLB advances	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX
Subordinated debt	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX
Other borrowings	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX
Other financial liabilities	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX
FV-NI								
Derivatives	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX
Total financial liabilities	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX
Other liabilities								$ XXXX
Equity								$ XXXX
Total liabilities and stockholders' equity								$ XXXX
Excess of financial assets over financial liabilities	$ XXXX	($ XXXX)	($ XXXX)	($ XXXX)	$ XXXX	($ XXXX)	$ XXXX	$ XXXX
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	$ XXXX	($ XXXX)	($ XXXX)	($ XXXX)	$ XXXX	$ XXXX	$ XXXX	$ XXXX
Off-balance sheet commitments and obligations	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX

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

Financial Assets:	Q1 20X2	Q2 20X2	Q3 20X2	Q4 20X2	20X3	20X4–20X6	20X7–20X16	20X17 and Later	Total Carrying Amount
Amortized Cost									
Cash and cash equivalents	$ XXXX								$ XXXX
Reinsurance recoverables	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX
Policy loans	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX
Commercial mortgage and other loans	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX
FV-OCI	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX
Investment securities:									
U.S. Treasury	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX
Agency MBS	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX
Corporate debt securities	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX
Other	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX
FV-NI									
Debt securities									$ XXXX
Equity securities									$ XXXX
Derivatives	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX
Other investments									$ XXXX
Total financial assets	$ XXXX	$ XXXX			$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX
Other assets									$ XXXX
Total assets									$ XXXX
Financial Liabilities:									
Amortized Cost									
Policyholder liabilities	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX
Long-term debt	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX
Other borrowings	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX
Other financial liabilities	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX
FV-NI									
Derivatives	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX
Total financial liabilities	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX
Other liabilities									$ XXXX
Equity									$ XXXX
Total liabilities and stockholders' equity									$ XXXX
Excess of financial assets over financial liabilities	$ XXXX	($ XXXX)	($ XXXX)	($ XXXX)	$ XXXX	($ XXXX)	$ XXXX	$ XXXX	$ XXXX
Financial assets to financial liabilities	X.XX%	X.XX%	X.XX%	X.XX%	X.XX%	X.XX%	X.XX%	X.XX%	X.XX%
Cumulative financial assets over financial liabilities	$ XXXX	($ XXXX)	($ XXXX)	($ XXXX)	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX
Off-balance sheet commitments and obligations	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX	$ XXXX

Liquidity Risk – Available Liquid Funds (all entities)

- An entity would disclose its available liquid funds, including:
  - Unencumbered cash and high quality liquid assets
  - Availability of borrowings.
- Unencumbered cash and high-quality liquid assets include cash, cash equivalents, and unpledged liquid assets held by the reporting entity that are unrestricted, readily convertible to cash and, ideally, central bank eligible (if applicable).
- Borrowing availability includes loan commitments, Fed funds lines, unpledged securities, and lines of credit.

Liquidity Risk – Available Liquid Funds (all entities)

- This table would include a discussion about the effects of regulatory, tax, legal, and other restrictions that could limit the transferability of funds among entities (for example, between the parent company and subsidiaries).

Available Liquid Funds	Dec. 31, 20X1
Parent company	$ XXXX
Subsidiaries	$ XXXX
Broker/Dealers	$ XXXX
Availability of borrowings:	
Amount available under ABC credit facility	$ XXXX
Amount available under receivables purchase agreement	$ XXXX
Amount available under XYZ credit facilities	$ XXXX
Total available funds	$ XXXX

IFRS 7 Comparison for Liquidity Risk

- Nonfinancial institutions would provide a similar table as paragraph 7.39 of IFRS 7.

  Under this guidance, an entity shall disclose:

  a. a maturity analysis for non-derivative financial liabilities (including issued financial guarantee contracts) that shows the remaining contractual maturities.

  b. a maturity analysis for derivative financial liabilities. The maturity analysis shall include the remaining contractual maturities for those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows.

  c. a description of how it manages the liquidity risk inherent in (a) and (b).

IFRS 7 Comparison for Liquidity Risk

	IFRS 7	FASB Tentative Decisions
Nonfinancial Institutions	Maturity analysis of obligations (Worst-case scenario of contractual obligations)	1. Maturity analysis (Reporting date scenario of expected maturities) 2. Available liquid funds
Financial Institutions	Maturity analysis of obligations (Worst-case scenario of contractual obligations)	1. Liquidity gap table including assets and liabilities (Reporting date scenario of expected maturities) 2. Available liquid funds

Interest Rate Risk

- The purpose of the interest rate risk disclosures is to express the exposure of a financial institution’s financial assets and financial liabilities to fluctuations in market interest rates.
- Not required for nonfinancial entities
- Entities would qualitatively disclose:
  - The exposure to interest rate risk and how it arises
  - The entity’s objectives, policies, and processes for managing interest rate risk and methods used to measure the risk
  - Any changes in the above from the previous period and reasons for the changes.

Interest Rate Risk – Repricing Gap

- Financial institutions would disclose a repricing gap table to include:
  - The carrying amount of financial instruments segregated in time intervals based on the repricing dates, or maturing yield, of classes of financial instruments
  - The weighted-average yield (if applicable) for each time interval, by class of financial instrument
  - A total carrying amount column that ties to the amount presented in the statement of financial position and a total weighted-average yield (if applicable) for each class of financial instruments
  - The duration for each class of financial instruments.

Illustrative Bank Repricing Analysis As of December 31, 20X1																	
	Q1 20X2	*Yield*	Q2 20X2	*Yield*	Q3 20X2	*Yield*	Q4 20X2	*Yield*	20X3	*Yield*	20X4–20X6	*Yield*	20X7 and Later	*Yield*	Total Carrying Amount	*Yield*	Duration
Interest-Earning Financial Assets:																	
Interest earning deposits with banks	$ XXXX	XXX%	XXX%	XXX%	XXX%	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	X.XX
Securities purchased under resale agreements	$ XXXX	XXX%	XXX%	XXX%	XXX%	XXX%	$ XXXX	XXX%							$ XXXX	XXX%	X.XX
Investment securities:																	
U.S. Treasury	$ XXXX	XXX%	XXX%	XXX%	XXX%	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	X.XX
Agency MBS	$ XXXX	XXX%	XXX%	XXX%	XXX%	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	X.XX
Other	$ XXXX	XXX%	XXX%	XXX%	XXX%	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	X.XX
Loans held for sale	$ XXXX	XXX%	XXX%	XXX%	XXX%	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	X.XX
Commercial loans	$ XXXX	XXX%	XXX%	XXX%	XXX%	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	X.XX
Mortgage loans	$ XXXX	XXX%	XXX%	XXX%	XXX%	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	X.XX
Consumer loans	$ XXXX	XXX%	XXX%	XXX%	XXX%	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	X.XX
Total interest-earning assets	$ XXXX	XXX%	XXX%	XXX%	XXX%	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	X.XX
Non-Interest-Earning Financial Assets:																	
Equity Securities															$ XXXX		X.XX
Derivatives	$ XXXX		$ XXXX		$ XXXX		$ XXXX		$ XXXX		$ XXXX		$ XXXX		$ XXXX		X.XX
Other financial assets	$ XXXX		$ XXXX		$ XXXX		$ XXXX		$ XXXX		$ XXXX		$ XXXX		$ XXXX		X.XX
Total financial assets	$ XXXX		$ XXXX		$ XXXX		$ XXXX		$ XXXX		$ XXXX		$ XXXX		$ XXXX		X.XX
Other assets															$ XXXX		
Total assets															$ XXXX		
Interest-Bearing Financial Liabilities:																	
Demand deposits	$ XXXX	XXX%													$ XXXX	XXX%	X.XX
Savings deposits	$ XXXX	XXX%	XXX%	XXX%	XXX%	XXX%	$ XXXX	XXX%							$ XXXX	XXX%	X.XX
Money market accounts	$ XXXX	XXX%	XXX%	XXX%	XXX%	XXX%	$ XXXX	XXX%							$ XXXX	XXX%	X.XX
Brokered deposits	$ XXXX	XXX%	XXX%	XXX%	XXX%	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	X.XX
Other time deposits	$ XXXX	XXX%	XXX%	XXX%	XXX%	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	X.XX
Short-term borrowings	$ XXXX	XXX%	XXX%	XXX%	XXX%	XXX%	$ XXXX	XXX%							$ XXXX	XXX%	X.XX
Long-term borrowings	$ XXXX	XXX%	XXX%	XXX%	XXX%	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	X.XX
FHLB advances	$ XXXX	XXX%	XXX%	XXX%	XXX%	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	X.XX
Securities sold under repurchase agreements	$ XXXX	XXX%	XXX%	XXX%	XXX%	XXX%	$ XXXX	XXX%							$ XXXX	XXX%	X.XX
Other borrowings	$ XXXX	XXX%	XXX%	XXX%	XXX%	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	X.XX
Total interest-earning liabilities	$ XXXX	XXX%	XXX%	XXX%	XXX%	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	X.XX
Non-Interest-Bearing Financial Assets:																	
Derivatives	$ XXXX		$ XXXX		$ XXXX		$ XXXX		$ XXXX		$ XXXX		$ XXXX		$ XXXX		X.XX
Other financial liabilities	$ XXXX		$ XXXX		$ XXXX		$ XXXX		$ XXXX		$ XXXX		$ XXXX		$ XXXX		X.XX
Total financial liabilities	$ XXXX		$ XXXX		$ XXXX		$ XXXX		$ XXXX		$ XXXX		$ XXXX		$ XXXX		X.XX
Other liabilities															$ XXXX		
Equity															$ XXXX		
Total liabilities and stockholders' equity															$ XXXX		
Excess of financial assets over financial liabilities	$ XXXX		$ XXXX		$ XXXX		($ XXXX)		$ XXXX		($ XXXX)		$ XXXX		$ XXXX		
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	$ XXXX		$ XXXX		$ XXXX		($ XXXX)		$ XXXX		$ XXXX		$ XXXX		$ XXXX		

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*	20X7–20X16	*Yield*	20X17 and Later	*Yield*	Total Carrying Amount	*Yield*	Duration
Interest-Earning Financial Assets:																			
Cash and cash equivalents	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%											$ XXXX	XXX%	X.XX
Debt securities	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	X.XX
Equity securities	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	X.XX
Commercial and other loans	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	X.XX
Securities purchased under resale agreements	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%									$ XXXX	XXX%	X.XX
Policy Loans	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	X.XX
Total interest-earning assets	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	X.XX
Non-Interest-Earning Financial Assets:																			
Equity securities																	$ XXXX		X.XX
Derivatives	$ XXXX		$ XXXX		$ XXXX		$ XXXX		$ XXXX		$ XXXX		$ XXXX		$ XXXX		$ XXXX		X.XX
Other financial assets	$ XXXX		$ XXXX		$ XXXX		$ XXXX		$ XXXX		$ XXXX		$ XXXX		$ XXXX		$ XXXX		X.XX
Total financial assets	$ XXXX		$ XXXX		$ XXXX		$ XXXX		$ XXXX		$ XXXX		$ XXXX		$ XXXX		$ XXXX		X.XX
Other assets																	$ XXXX		
Total assets																	$ XXXX		
Interest-Bearing Financial Liabilities:																			
Policyholder liabilities	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	X.XX
Long-term debt	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	X.XX
Other borrowings	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	X.XX
Securities sold under agreements to repurchase	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%									$ XXXX	XXX%	X.XX
Total interest-earning liabilities	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	$ XXXX	XXX%	X.XX
Non-Interest-Bearing Financial Liabilities:																			
Derivate liabilities	$ XXXX		$ XXXX		$ XXXX		$ XXXX		$ XXXX		$ XXXX		$ XXXX		$ XXXX		$ XXXX		X.XX
Other financial liabilities	$ XXXX		$ XXXX		$ XXXX		$ XXXX		$ XXXX		$ XXXX		$ XXXX		$ XXXX		$ XXXX		X.XX
Total financial liabilities	$ XXXX		$ XXXX		$ XXXX		$ XXXX		$ XXXX		$ XXXX		$ XXXX		$ XXXX		$ XXXX		X.XX
Other liabilities																	$ XXXX		
Equity																	$ XXXX		
Total liabilities and stockholders' equity																	$ XXXX		
Excess of financial assets over financial liabilities	$ XXXX		$ XXXX		$ XXXX		($ XXXX)		$ XXXX		($ XXXX)		$ XXXX		$ XXXX		$ XXXX		
Financial assets to financial liabilities	X.XX%		X.XX%		X.XX%		X.XX%		X.XX%		X.XX%		X.XX%		X.XX%		X.XX%		
Cumulative financial assets over financial liabilities	$ XXXX		$ XXXX		$ XXXX		($ XXXX)		$ XXXX		$ XXXX		$ XXXX		$ XXXX		$ XXXX		

Interest Rate Risk – Sensitivity Analysis

- A financial institution would disclose an interest rate sensitivity analysis that presents the effects of hypothetical, instantaneous interest rate changes on earnings and equity.
- This sensitivity analysis would include:
  - Parallel shifts of the yield curve
    - Up 100 basis points
    - Up 200 basis points
    - Down 100 basis points
    - Down 200 basis points
  - Flattening shifts of the yield curve
    - Increase short end by 100 basis points
    - Decrease long end by 100 basis points
  - Steepening shifts of the yield curve
    - Decrease short end by 100 basis points
    - Increase long end by 100 basis points

Interest Rate Risk – Sensitivity Analysis

- The parallel, flattening, and steepening interest rate changes would shift the yield curve as described in the table below:

Yield Curve Shifts	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 bps Curve Flatteners										
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 bps Curve Steepeners										
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%

Note: Negative interest rates would not be used.

Interest Rate Risk – Sensitivity Analysis

- The interest rate sensitivity analysis would present the effects of hypothetical interest rate changes on positions outstanding as of the reporting date.
- An entity would not incorporate the effects of internal business strategies such as growth rates, asset mix changes, and so forth.

Interest Rate Sensitivity, Dec. 31, 20X1

Parallel Change in Interest Rates	Estimated Increase/(Decrease) in Net Income		Shareholders' Equity	Estimated Increase/(Decrease) in Shareholders' Equity	
	Amount	Percent		Amount	Percent
+200 bps	$ XXXX	X.XX %	$ XXXXX	$ (XXXX)	(X.XX) %
+100 bps	$ XXXX	X.XX %	$ XXXXX	$ (XXXX)	(X.XX) %
—	N/A	N/A	$ XXXXX	N/A	N/A
-100 bps	$ (XXXX)	(X.XX) %	$ XXXXX	$ XXXX	XXX %
-200 bps	$ (XXXX)	(X.XX) %	$ XXXXX	$ XXXX	XXX %
100 bps Curve Flatteners					
Short end	$ XXXX	X.XX %	$ XXXXX	$ (XXXX)	(X.XX) %
Long end	$ (XXXX)	(X.XX) %	$ XXXXX	$ XXXX	X.XX %
100 bps Curve Steepeners					
Short end	$ (XXXX)	(X.XX) %	$ XXXXX	$ XXXX	X.XX %
Long end	$ XXXX	X.XX %	$ XXXXX	$ (XXXX)	(X.XX) %

Interest Rate Risk – Issuance of Time Deposits (depository institutions)

- Entities would provide a tabular disclosure of the cost of funding from the issuance of time deposits and acquisition of brokered deposits.
- This table would include:
  - The insured and uninsured time deposits issued and brokered deposits acquired during each of the last four quarters
  - The weighted-average yield and life for the deposits issued or acquired during each of the last four quarters.

Illustrative Bank's Deposits Issued for the 12 Months Ended Dec. 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	$ XXXX	X.XX %	X.X	$ XXXX	X.XX %	X.X	$ XXXX	X.XX %	X.X	$ XXXX	X.XX %	X.X
Insured time deposits	$ XXXX	X.XX %	X.X	$ XXXX	X.XX %	X.X	$ XXXX	X.XX %	X.X	$ XXXX	X.XX %	X.X
Brokered deposits	$ XXXX	X.XX %	X.X	$ XXXX	X.XX %	X.X	$ XXXX	X.XX %	X.X	$ XXXX	X.XX %	X.X

Interest Rate Risk – Core Deposits (depository institutions)

- Depository institutions would disclose a remeasurement value of their core deposits.
- The value of the core deposits would be measured at the present value of the average core deposit amount during previous twelve months of the reporting date discounted at the difference between the **alternative funds rate** and the **all-in-cost-to-service-rate** over the **implied maturity** of the deposits.
- Depository institutions would also disclose the inputs to the remeasurement value of core deposits.

Interest Rate Risk – Core Deposits (depository institutions)

- **Core Deposit Liabilities** are deposits without a contractual maturity that management considers to be a stable source of funds, which excludes transient and surge balances.

- **Alternative Funds Rate** is a rate associated with the next available source of funds if core deposit liabilities are not available. The alternative funds source must be cost effective and sufficient in volume and duration to replace the core deposit liabilities as a source of funds. A blended rate may be used if one source alone is not sufficient in volume.

- **All-in-Cost-to-Service Rate** is a rate that comprises the net direct costs to service core deposit liabilities, including all of the following:
    a. Interest paid on the deposits;
    b. The expense of maintaining a branch network; less
    c. Fee income earned on the deposit accounts.

- **Implied Maturity** is management's assessment of the average life by account type of core deposits. Management may make that assessment on the basis of either an analysis of internal data or an analysis of peer information.

IFRS 7 Comparison for Interest Rate Risk

- IFRS 7 provides guidance for all Market Risks
- According to IFRS 7 par. 40–42, an entity shall disclose:
  - Sensitivity analysis for each type of market risk to which the entity is exposed, showing how earnings and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date

    OR

  - Value-at-risk if it is used by the entity to manage financial risks.

IFRS 7 Comparison for Market Risk

	IFRS 7	FASB Tentative Decisions
Nonfinancial Institutions	Sensitivity analysis for each market risk using changes in risk variable or value-at-risk	None
Financial Institutions	Sensitivity analysis for each market risk using changes in risk variable or value-at-risk	**1.** Repricing gap table (Reporting date scenario of expected maturities) **2.** Interest rate sensitivity analysis
Depository Institutions	Sensitivity analysis for each market risk using changes in risk variable or value-at-risk	**(1) and (2) from above** **3.** Issuance of time deposits **4.** Core deposits

Summary of FASB's Tentative Decisions

	Liquidity Risk	Interest Rate Risk
Nonfinancial Institutions	- Maturity analysis - Available liquid funds	None
Financial Institutions	- Liquidity gap table - Available liquid funds	- Repricing gap table - Interest rate sensitivity analysis
Depository Institutions	Same as financial institutions	Same as financial institutions <u>And</u> - Issuance of time deposits - Core deposits

Questions and Answers

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