



The Association for  
Accountants and  
Financial Professionals  
in Business

November 15, 2010

Elizabeth Murphy  
Secretary  
Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549-1090

**Re: File Number S7-22-10, SHORT-TERM BORROWING DISCLOSURE**

Dear Ms. Murphy,

The Financial Reporting Committee (“FRC”) of the Institute of Management Accountants (“IMA”) is writing to provide its views on the Securities and Exchange Commission’s (“SEC”) proposed rule on Short-Term Borrowings Disclosure (“Proposed Rule”). The FRC is comprised of representatives from preparers of financial statement of the largest companies in the world, the largest accounting firms in the world, valuation experts, accounting consultants as well as academics. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals, and other documents issued by domestic and international agencies and organizations.

Overall, we support the SEC’s proposed amendments to enhance the disclosure that registrants provide about short-term borrowings in annual and interim reports containing financial statements. With certain modifications, we believe that the disclosure requirements proposed for short-term borrowings, including certain quantitative and qualitative information, have the potential to improve an investor’s understanding of a company’s financial position and liquidity. We also believe that the interpretative guidance will improve the overall discussion of Liquidity and Capital Resources in Management’s Discussion and Analysis of Financial Condition and Results of Operations to facilitate a better understanding by investors of funding risks. However, we do not believe the Commission should extend the requirement to disclose leverage ratios to companies that are not bank holding companies. We do not believe those disclosures will be meaningful to investors. As indicated in the Proposed Rule, analysts and other users have developed their own models and ratios to use in assessing a company’s financial health. Because there is not a consensus between analysts and users on how all companies should calculate a leverage ratio, we do not believe the Commission mandating a particular approach will change the process that analysts and users engage in to assess a company’s financial health.

Although we are concerned about the significant increase in disclosure requirements, in recent years and the resultant burden on preparers, we do not believe the Proposed Rule, with an appropriate level of flexibility, will add an undue burden on preparers. We believe some of the quantitative and qualitative information that is proposed should already be available as part of management's periodic internal asset and liability analysis and documentation. We encourage the SEC not to be too prescriptive with the final language and to allow some degree of presentation latitude in an attempt to better match the way that management evaluates and views its short-term financing and related risks. If the objective is to help investors better understand short-term borrowing "as viewed through the eyes of management," then that flexibility will enable management to explain its objectives and strategies. We discuss our concerns in our responses to certain questions included in your "Request for Comment" as part of the Appendix to this letter.

We appreciate the Commission's consideration of these matters and welcome the opportunity to discuss any and all related matters. I can be reached at (212) 484-8112.

Sincerely,



Allan Cohen  
Chair, Financial Reporting Committee  
Institute of Management Accountants

## APPENDIX

### Short-Term Borrowings Disclosures; Proposed Rule

#### Request for Comment

We have the following responses to certain questions posed in the Proposed Rule. We did not have responses for all of the questions posed in the Proposed Rule and have only included in this Appendix those questions for which we did have a response.

#### **Proposed New Short-Term Borrowings Disclosure in MD&A**

1. Is information about short-term borrowings and intra-period variations in the level of short-term borrowings useful to investors? If so, should we require specific line item disclosure of this information in MD&A, as proposed, or would existing MD&A requirements for disclosure of liquidity and capital resources provide sufficient disclosure about these issues? If a specific MD&A requirement would be appropriate, does the proposed requirement capture the type of information about short-term borrowings that is important to investors? If not, how should we change the proposed requirement? For example, should we require disclosure of the weighted average interest rate on the short-term borrowings, as proposed?

**Response:** We believe that information about short-term borrowings and intra-period variations can be of use to investors. We recommend the Proposed Rule not be too prescriptive and allow some degree of presentation latitude. If the objective is to help investors better understand short-term borrowing “as viewed through the eyes of management,” then that flexibility will enable management to explain its objectives.

2. Consistent with the approach taken in Guide 3 and in former Rule 12-10 of Regulation S-X, we propose to define “short-term borrowings” by reference to the amounts payable for various categories of short-term obligations that are typically reflected as short-term obligations on the balance sheet and stated as separate line items in accordance with Regulation S-X. Is the proposed definition sufficiently clear? If not, what changes should be made to the proposed definition? For example, should the definition refer to “short-term obligations” as defined in U.S. GAAP? In connection with any response, please provide information as to the costs associated with the implementation of any changes to the proposed definition.

**Response:** The proposed definition is sufficiently clear.

3. Are the proposed categories of short-term borrowings appropriate? If not, why not, and how should we change the proposed requirement? For example, should we apply different categories to Guide 3 companies as compared to other companies, as was the case when former Rule 12-10 of Regulation S-X was in effect? Are the proposed categories appropriately tailored so that companies can monitor and provide the proposed disclosure? In particular, is the category for “any other short-term borrowings reflected on the registrant’s

balance sheet" too broad? If so, how should it be narrowed? Are there other categories of short-term borrowings that should be broken out? For example, should amounts relating to repurchase arrangements be disaggregated into those that are collateralized by U.S. Treasury securities and those that are collateralized by other assets? If so, please include in your discussion the reasons such information would be meaningful to investors and provide an indication of the costs and burdens associated with providing that level of detail.

**Response:** We believe the Final Rule should permit management to define the categories, with sufficient disclosure of how and why management defines the categories in the manner it has. These categories will allow an investor to see liquidity management through the eyes of management. With that in mind, we believe using the current quantitative threshold as the basis for disclosure will allow the investor to focus only on those liquidity lines that are relevant.

4. Is disaggregation by currency or other grouping useful to the understanding of aggregate short-term borrowing amounts? Would the proposed requirement for disaggregation provide an appropriate level of detail? Is it sufficiently clear? Instead, should we prescribe a specified method or threshold for disaggregation? If so, describe it. For example, should we require information to be presented separately by currency where there is a significant amount of borrowings that are not denominated in the company's reporting currency? If so, should we specify a threshold amount (e.g., 5, 15 or 20% of borrowings) and what should that threshold be? Or should the amounts instead be disaggregated into more generalized categories, such as "domestic" and "foreign" borrowings? Please provide details about the costs and benefits of any alternatives to the proposed disaggregation provision, and discuss whether requiring companies to follow a specific disaggregation method would impose practical difficulties on companies (or particular types of companies) when they are gathering and compiling the proposed short-term borrowings disclosure.

**Response:** We believe financial institutions that are applying Guide 3 should be allowed to retain the currently used short-term borrowing categories (i.e., federal funds purchased & securities sold under repo, commercial paper, and other). This would reduce the transition burden as a detailed review of every item currently within the "other" category would not be necessary.

Disaggregation by currency may be useful in certain circumstances. However, for the majority of banking institutions, such information (and its accompanying qualitative analysis) would provide little, if any, value to an investor.

While we believe the proposed categories are useful guidelines, we believe that, to be meaningful to an investor, the categories should be defined through the eyes of management, with the current quantitative thresholds (30% of shareholders' equity) as the basis for disaggregation. This way, investors will be able to focus only on information that is relevant to how the organization manages its liquidity.

5. We note that Guide 3 currently provides a quantitative threshold for separate disclosure of short-term borrowings by category. The proposed short-term borrowings provision does not

contain a specific quantitative disclosure threshold for separate disclosure of amounts in the different categories of short-term borrowings. Should we establish a quantitative disclosure threshold for the separate categories of short-term borrowings, such as above a specified percentage of liabilities or stockholders' equity (e.g., 5, 10, 20, 30 or 40%)? If so, how should the threshold be computed? Should this quantitative disclosure threshold apply to all companies?

**Response:** We believe there should be a quantitative threshold for disclosure. We believe the historic threshold (30% of stockholders' equity) is an appropriate threshold. This threshold would significantly lighten the burden for smaller companies.

8. Should all registrants that are financial companies be required to provide the maximum daily amount of short-term borrowings, as proposed? Should registrants that are not financial companies be required to provide the maximum daily amount of short-term borrowings, rather than permitting them to provide the maximum month-end amount as is proposed? Do registrants that are not financial companies have systems to track and calculate this information on a daily basis? What are the burdens and costs of requiring companies engaged in non-financial businesses to meet that requirement? Should registrants that are not financial companies be required to disclose each month-end amount rather than the maximum, as proposed? Should registrants also be required to provide the minimum month-end (or daily for financial companies) amount outstanding? What are the burdens and costs of requiring companies to meet those requirements?

**Response:** We do not believe a discussion of the maximum amount during the period is necessary unless it materially differs from average and/or period-end balances. We also do not believe that disclosing minimum month-end or daily balances will add value to an investor's analysis.

10. Should registrants be required to provide the largest amount of short-term borrowings outstanding at any time during the reporting period (meaning intra-day as opposed to close of business)? Would this amount be difficult for registrants to track?

**Response:** We do not believe there is any value to the investor for intra-day information. This is not an amount that is currently used by management. The amounts will be difficult to obtain. We recommend that the intra-day information be dropped from the proposal.

11. As proposed, registrants that are financial companies would be required to provide average amounts outstanding computed on a daily average basis. Should averages computed on a daily average basis be required only for certain companies (for example, bank holding companies, banks, savings associations, broker-dealers)? If so, why and which companies? In this connection, please describe whether financial companies that are not banks typically close their books on a daily basis and whether they have the systems to track and calculate this daily balance information used to compute averages on a daily average basis. What are the burdens and costs for a registrant (that is not a bank) to meet the proposed requirement? Are some types of businesses, such as multi-nationals, disproportionately affected by such

costs? If so, please explain why. Is there an alternative requirement for such a business that would still meet the disclosure objective?

**Response:** Guide 3 states that month-end balances are allowed when such averages are representative of the registrant and when collection of daily balances involves undue burden. Certain financial institutions (including BHCs) do not collect daily balances nor would collection and disclosures based on daily balances produce any additional relevant information to users based on the nature of certain entities' short-term debt. The most important point is that those entities don't have the capabilities to provide daily averages and if they need to do so, will need more time to implement. Implementation of a system for daily balance submission would be costly, take a significant amount of time, and based on current yield analyses, would not result in a materially different disclosure than the use of monthly averages for certain entities. In addition, a system would only help on a go-forward basis; comparative data would not be available, which as proposed is required for 2 years (current year plus two years of comparative). We request that month-end averages for the period continue to be acceptable.

13. Should we require a narrative discussion of short-term borrowing arrangements, as proposed? Are the narrative discussion topics useful to investors? Are there other discussion topics that would be useful to investors? If so, what other topics should we require to be discussed? Should we tailor the disclosure to omit information that may be unimportant to investors? If so, what information, and why, and which registrants would be affected?

**Response:** We believe a narrative discussion of an institution's approach to liquidity management is only relevant if it is seen through the eyes of management. The narrative discussion topics can at times be useful to investors. However, the actual narrative must remain responsive to the economic conditions that exist at the reporting period and not be written to complete a set of prescribed discussion points.

14. Do the proposed discussion topics provide enough flexibility to companies to fully and clearly describe their short-term borrowings arrangements?

**Response:** We believe sample explanations should be provided.

#### **Reporting Periods (page 59874)**

16. Are the proposed reporting periods appropriate? Should we require annual short-term borrowings information in annual reports, as proposed? Should annual reports instead include a quarterly breakdown of short-term borrowings information? Should annual reports include quarterly information for the fourth fiscal quarter in addition to annual information, as proposed? For example, would disclosure of information for the fourth fiscal quarter be necessary to highlight any efforts to reduce borrowings at year-end, below the levels prevailing throughout the fourth fiscal quarter? Is the presentation of this information for the fourth fiscal quarter, in isolation without corresponding quarterly financial statements and MD&A for that period, potentially misleading? If so, what additional information should be required? Should quarterly reports be required to include quarterly information, as proposed?

Should registration statements be required to include annual and interim information, as proposed? In each case, explain the reasons for requiring the applicable reporting periods and provide information as to whether investors would find the information useful. Please also include details about additional costs involved.

**Response:** We do not believe there is value in providing a narrative for a year to date short-term borrowing table. Such a narrative would be redundant with the quarterly narratives.

18. For annual periods, should we require, as proposed, three years of comparative data? Or would data for the current year, without historical comparison periods, provide investors with adequate information? Describe in detail the costs and benefits of providing comparative period disclosures in this context.

**Response:** Considering the short-term borrowings table is primarily focused on the balance sheet, we do not understand the value of providing three years of data.

19. Is the proposed disclosure for the current interim period sufficient, or should we also require comparative period data? If so, which comparative periods would be most useful? Explain how prior period comparisons would be useful to investors; for example, would prior period comparisons be needed to identify seasonality in borrowing levels? If so, instead of requiring comparative data, should we specifically require companies to qualitatively describe trends or seasonality in borrowing levels? Describe in detail the costs and benefits of providing comparative period disclosures in this context.

**Response:** We believe information for the current interim period alone is sufficient. Liquidity management is a process that is based on current economic and other environmental factors. We do not see value in providing comparative information.

20. Should we require year-to-date information in addition to quarterly information for interim periods? Would year-to-date information be useful to investors? Describe in detail the costs and benefits of providing year-to-date information in this context.

**Response:** No, we believe year-to-date information is not relevant. Liquidity is not managed with year-to-date information.

### **Smaller Reporting Companies**

28. Does the proposal strike the proper balance between imposing proportional costs and burdens on smaller reporting companies while providing adequate information to investors? Would the proposed new short-term borrowings disclosure be useful to investors in smaller reporting companies? Are there any features of the proposed requirements that would impose unique difficulties or significant costs for smaller reporting companies? If so, how should we change the requirements to reduce those difficulties or costs while still achieving the disclosure objective?

**Response:** The proposed categorization of short-term borrowings, as well as disaggregation requirements, will burden smaller institutions much more than larger institutions.

29. Should we provide the proposed exemption for interim period updating to smaller reporting companies? If not, please discuss whether the expanded level of interim period disclosure by smaller reporting companies would be useful to investors and why.

**Response:** The level of disclosure will be equally useful to investors in smaller institutions as it is for investors in larger companies.

30. Would the gathering of data and preparation of expanded interim period disclosure be burdensome to smaller reporting companies? Could the proposed requirement be structured a different way for smaller reporting entities so as to enable interim period reporting without imposing a significant cost? If so, please provide details of such an alternative.

**Response:** Providing for flexibility and permitting disclosure as seen by management will make it easier for the smaller financial institutions.

31. Are the nature of the short-term borrowings and the related risks different for smaller reporting companies such that additional or alternate disclosure would be appropriate? In particular, would the proposed annual requirement for disclosing short-term borrowings information cause a smaller reporting company to collect the same data it would need to collect for interim reporting, such that the expanded level of interim period disclosure proposed for registrants that are not smaller reporting companies would not be unduly burdensome?

**Response:** Since the requirements are prescriptive in nature, smaller banks will find it more difficult to address trends that are not necessarily significant to their operations or liquidity.

## Transition

38. Is the proposed transition accommodation appropriate? Should we require all companies to present all required periods at the outset?

**Response:** If the proposed disaggregation categories are retained, then bank holding companies should be provided a comparable transition period.

39. Would the proposed transition accommodation be useful for registrants? Is it sufficiently clear? Should we extend it to cover bank holding companies? If so, why?

**Response:** See response to question 38.

40. Are any other transition accommodations necessary for any aspects of the proposed requirements? Would any of the proposed requirements present any particular difficulty or expense that should be addressed by a transition accommodation? If so, please explain what would be needed and why. For example, should we provide a transition period to allow

smaller reporting companies and/or non-bank companies' time to set up systems to gather the data for the proposed disclosure? If so, what should that period be?

**Response:** Some bank holding companies do not produce daily short-term borrowing balances and would require additional time to meet the proposed requirements. For those companies that do not have systems in place to produce daily averages, they would likely need more than one year to be able to produce the required disclosures. Specifically, it will take one year to run a purchase request, agree on the system, buy the system, and get it integrated properly. It would then take an additional quarter for the new system to run and provide the data. Therefore, realistically we would request the effective date be extended to year end 2012.