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August 23, 2013

Via email to director@fasb.org

Susan M. Cospers
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

RE: Proposed Accounting Standards Update, *Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps—a Proposal of the Private Company Council* (File Reference No. PCC-13-03)

Dear Ms. Cospers:

We are pleased to provide comments on the hedging exposure draft (the ED). We note hedge accounting has proven challenging in practice for many entities and believe it would be worthwhile for the Board to consider whether similar reforms would benefit all companies, both public and private. It is our sense that criticism of today's hedging model relates to the cost and complexity of the formal and contemporaneous documentation requirements, assessing hedge effectiveness, as well as the income statement volatility that arises when hedge accounting is not elected or is unavailable. We believe the simplified hedge accounting approach addresses a substantial portion of these issues while maintaining transparency of the financial statements by recognizing the swap.

We note the Board's previous fundamental decision that derivatives meet the definition of assets and liabilities that should be recognized in the financial statements. As such, the synthetic accounting proposed under the combined instruments approach would represent a significant shift in accounting principles. If the Board continues to pursue this topic, we believe the long-term accounting, auditing, and regulatory effects, as well as any unintended consequences, are best redeliberated as part of the hedging phase of the Board's financial instruments project. Therefore, we recommend providing the simplified hedge accounting approach as a single accounting alternative, not as a fallback for those arrangements that are ineligible for the combined instruments approach. This would preserve a timely completion of the current ED for private companies, while the Board reconsiders the current hedge accounting requirements for reporting entities outside the scope of this ED in the financial instruments project.

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Lee Gaul, National Director of Accounting at (312) 616-4667 or Adam Brown, Partner in the National Accounting Department at (214) 665-0673.

Very truly yours,

A handwritten signature in blue ink that reads 'BDO USA, LLP'. The letters are cursive and somewhat stylized.

BDO USA, LLP

Appendix

Note: We have responded to all questions other than those posed specifically to users.

Question 1: Please describe the entity or individual responding to this proposed Update. For example:

- a. Please indicate whether you primarily are a preparer, user, public accountant, or other (if other, please specify).
- b. If you are a preparer of financial statements, please indicate whether your entity is privately held or publicly held and describe your primary business and its size (in terms of annual revenue, the number of employees, or other relevant metric).
- c. If you are a public accountant, please describe the size of your firm (in terms of number of partners or other relevant metric) and indicate whether your practice focuses primarily on public entities, private entities, or both.
- d. If you are a user of financial statements, please indicate in what capacity (for example, lender, investor, analyst, or rating agency) and whether you primarily use financial statements of private entities or those of both private entities and public entities.

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Question 2: Do you agree that the scopes of both the combined instruments approach and the simplified hedge accounting approach should exclude financial institutions described in paragraph 942-320-50-1, such as banks, savings and loan associations, savings banks, credit unions, finance companies, and insurance entities? If not, please explain why. Are there any other entities that should be excluded? (See also Question 3 below.)

We agree.

Question 3: Should the Board consider expanding the scope of either the combined instruments approach or the simplified hedge accounting approach (or both) to other entities, such as publicly traded companies or not-for-profit entities? If the scope is expanded to other entities, what changes, if any, should the Board consider for these approaches? Please explain why.

We recommend expanding the scope to include not-for-profit entities. We understand certain NFP healthcare entities that report a performance indicator might benefit from the final amendments.

We also support a larger effort to re-evaluate the current hedge accounting requirements for reporting entities outside the scope of this project. We note hedge accounting has proven challenging in practice for many entities and believe it would be worthwhile for the Board to consider whether similar reforms would benefit all companies, for example assessing hedge effectiveness and the formal and contemporaneous documentation requirements in Topic 815. However, we believe these issues should be considered in the context of the hedging phase of the

Board's financial instruments project. This would preserve a timely completion of the current ED for private companies.

Question 4: Do you agree with the required criteria for applying the combined instruments approach and the simplified hedge accounting approach, respectively? If not, please explain why.

As discussed in our cover letter, it is our sense that criticism of today's hedging model relates to the cost and complexity of the formal and contemporaneous documentation requirements, assessing hedge effectiveness, as well as the income statement volatility that arises when hedge accounting is not elected or is unavailable. We believe the simplified hedge accounting approach addresses a substantial portion of these issues while maintaining transparency for users. Therefore, we recommend providing the simplified hedge accounting approach as a single accounting alternative, not as a fallback for those arrangements that are ineligible for the combined instruments approach.

However, if the Board ultimately adopts the combined instruments approach, we generally agree with the proposed criteria, but believe the lender should also be the counterparty in the swap. This is consistent with the notion of economically converting variable rate debt and a swap to a single, fixed-rate debt instrument. In addition, because the word "settlement" appears in both of the terms "most imminent net cash *settlement*" and "*settlement value*," we recommend defining or clarifying them for the benefit of private company constituents to illustrate the difference between the next periodic contractual *cash* settlement (e.g., one quarter) compared to the *value* of the entire swap contract (e.g., several years).

Lastly, we note that paragraphs 815-10-35-1B and 815-50-35-2 of the ED specify that the General Subsections of Topic 815 would apply if any of the conditions of applying the alternative accounting approaches proposed in the ED subsequently cease to be met. For clarity, we recommend incorporating an example to that effect in which the principal amount of the debt falls below the notional amount of the swap after inception, for instance due to a partial prepayment that was not anticipated on Day 1.

Question 5: Do you agree with the differences in criteria for applying the combined instruments approach versus the simplified hedge accounting approach? If not, please explain why.

We agree with the criteria proposed for the simplified hedge accounting approach. Since that method would continue to separately recognize the derivative, we do not believe the lender and the swap counterparty would need to be the same, as we suggested for the combined instruments approach. These differences would be acceptable because the derivative and the loan are separate units of account.

Question 6: For applying the combined instruments approach, should additional criteria about management's intent to hold the swap to maturity (unless the borrowing is prepaid) be included? Please explain why.

Yes, we believe management's intent to hold the swap to maturity should be required because it is consistent with most fixed-rate borrowing arrangements. In other words, most commercial lending arrangements are fixed for the duration of the loan.

Question 7: Under the combined instruments approach, should there be a requirement that there have been no adverse developments regarding the risk of counterparty default such that the swap is not expected to be effective in economically converting variable-rate borrowing to fixed-rate borrowing? Please explain why or why not.

Yes. If facts and circumstances indicate that a swap and variable rate loan are no longer the economic equivalent of a fixed-rate arrangement, we believe the financial statements should reflect that change by treating the two units of account separately.

Question 8: Do you agree that the primary difference between settlement value (that is, the amount to be paid to or received from the swap counterparty to terminate the swap) and fair value is that generally the nonperformance risk of the swap counterparties is not considered in the settlement value? If not, please explain why.

We agree.

Question 9: Would disclosure of the swap's settlement value (instead of its fair value) adequately provide users of financial statements with an indication of potential future cash flows if the swap were to be terminated at the reporting date? If not, please explain why.

Yes, we believe disclosing the settlement value of the swap would provide adequate and relevant information.

Question 10: Are the costs of obtaining and auditing settlement value significantly less than fair value? Please explain why.

We believe there will be meaningful cost savings to report settlement value instead of fair value. As the Board and PCC are aware, the time and expense associated with analyzing nonperformance risk in the context of a formal valuation should be largely avoided for most plain-vanilla swaps.

Question 11: Do you agree that the following should be disclosed if the combined instruments approach is applied and that no additional disclosures should be required? If not, please explain why.

- a. The settlement value of the swap (along with the valuation method and assumptions)
- b. The principal amount of the borrowing for which the forecasted interest payments have been swapped to a fixed rate and the remaining principal amount of the borrowing that has not been swapped to a fixed rate
- c. The location and amount of the gains and losses reported in the statement of financial performance arising from early termination, if any, of the swap

- d. The nature and existence of credit-risk-related contingent features and the circumstances in which the features could be triggered in a swap that is in a loss position at the end of the reporting period.

We agree with reporting the settlement value under item a.). However, we do not believe reporting entities will be able to easily obtain the information necessary to disclose the counterparty's valuation method and assumptions—if that is the intent of the parenthetical language. In most cases, the settlement amount is based on a statement from the counterparty (e.g., a bank statement). Requiring private companies to “look through” to the underlying components of the swap value could pose significant costs. We question the usefulness of disclosing these figures since most of the informational value associated with item a.) is the amount of a hypothetical settlement, not the build-up of that figure.

However, if the parenthetical language in item a.) relates to the reporting entity's valuation method and assumptions, it is unclear what the disclosure would need to state beyond the fact that the settlement value was obtained from the counterparty. In many cases, this could lead to boilerplate disclosures about using the present value of net cash flows to arrive at the swap value. Additional clarification on this point may be necessary if the requirement to disclose methods and assumptions is retained in the final amendments. Alternatively, the Board could consider whether this disclosure should be limited to specifying that nonperformance risk of the swap counterparties has (not) been considered in determining the settlement value.

We agree with the rest of the disclosures, although we would not require detailed disclosures of the information in item d.) until at least one of the contingencies that could trigger a credit-risk related feature is considered reasonably possible. A detailed disclosure of those terms when a potential credit-risk event is considered remote would likely add unnecessary volume to footnote disclosures.

Question 12: Do you agree that the current U.S. GAAP disclosures, including those under Topics 815 and 820 should apply for a swap accounted for under the simplified hedge accounting approach and that the settlement value may be substituted for fair value, wherever applicable? If not, please explain why.

We are not certain all of the fair value disclosures in Topic 820 should apply. A exemption from or reduction of the disclosures otherwise required by Topics 815 and 820 would be consistent with the general tenet of the project to provide relief in this area of practice. If there are particular disclosures the Board or PCC have in mind that might be relevant, we recommend including them specifically in the final ASU.

Question 13: Do you agree with providing an entity-wide accounting policy election for applying the combined instruments approach? If that policy election is availed, should this approach be applicable for all qualifying swaps, whether entered into on or after the date of adoption or existing at that date? If not, please explain why.

As noted previously, until the consequential long-term accounting, auditing, regulatory and legal effects of the synthetic accounting proposed under the combined instruments approach are redeliberated as part of the hedging phase of the Board's separate financial instruments project, we recommend providing the simplified hedge accounting approach as a single accounting

alternative, not as a fallback for those arrangements that are ineligible for the combined instruments approach. However, if the Board finalizes the amendments and provides this alternative, we do not believe private companies should be required to use the combined instruments approach on an entity-wide basis. We believe it would generally be preferable to recognize the interest rate swap in the financial statements and would leave that possibility open even if the combined instruments approach is used initially.

Question 14: Do you agree that the entity-wide accounting policy election to apply the combined instruments approach must be made upon adoption of the amendments in this proposed Update or, for entities that do not have existing eligible swaps, within a few weeks after the entity enters into its first transaction that is eligible for the accounting policy election? If not, please explain why.

See our response to the prior question. We do not believe an entity wide election to apply the combined instruments approach should be required.

Question 15: Do you agree that the simplified hedge accounting approach could be elected for any qualifying swaps, whether existing at the date of adoption or entered into on or after the adoption date? If not, please explain why.

We agree.

Question 16: Do you agree that the election to apply the simplified hedge accounting approach to an existing qualifying swap must be made upon adoption of the amendments in this proposed Update? If not, please explain why.

We agree. For new qualifying swaps, we believe the election should apply when a reporting entity enters into them.

Question 17: Do you agree that the formal documentation required by paragraph 815-20-25-3 to qualify for hedge accounting must be completed within a few weeks of hedge designation under the simplified hedge accounting approach? If not, please explain why.

We believe entities need to document their intent to apply hedge accounting within a few weeks of hedge designation under the simplified approach. However, we recommend allowing formal documentation to be completed any time within the financial reporting period up until the point financial statements are available to be issued. An initial "marker" would still provide a contemporaneous evidence of management's intent to hedge interest rate risk, but allow private companies with limited resources more time to comply with the detailed hedging requirements in Topic 815. We are not certain "a few weeks" will provide significant relief for private companies who only prepare financial statements annually.

Question 18: Do you agree that entities within the scope of this proposed Update should be provided with an option to apply the amendments in this proposed Update using either (a) a modified retrospective approach in which the opening balances of the current period

presented would be adjusted to reflect application of the proposed amendments or (b) a full retrospective approach in which financial statements for each individual prior period presented and the opening balances of the earliest period presented would be adjusted to reflect the period-specific effects of applying the proposed amendments? If not, please explain why.

We agree.

Question 19: Do you agree that an entity within the scope of this proposed Update should be permitted to early adopt the proposed amendments? If not, please explain why.

We agree.

Question 20: How much time is needed to implement the proposed amendments? Please explain.

We do not anticipate significant time will be required to apply the proposed amendments. However, we recommend delaying the effective date of the final ASU for at least year in order for private company constituents to complete the annual CPE cycle. This would be in connection with permitting early adoption as noted above. A one year period should prevent entities from inadvertently failing to avail themselves of the relief that the final amendments provide.

Question 21: The scope of this proposed Update uses the term publicly traded company from an existing definition in the Master Glossary. In a separate project about the definition of a nonpublic entity, the Board is deliberating which types of business entities would be considered public and would not be included within the scope of the Private Company Decision-Making Framework. The Board and PCC expect that the final definition of a public business entity resulting from that project would be added to the Master Glossary and would amend the scope of this proposed Update. The Board has tentatively decided that a public business entity would be defined as a business entity meeting any one of the following criteria:

- a. It is required to file or furnish financial statements with the Securities and Exchange Commission.
- b. It is required to file or furnish financial statements with a regulatory agency in preparation for the sale of securities or for purposes of issuing securities.
- c. It has issued (or is a conduit bond obligor) for unrestricted securities that can be traded on an exchange or an over-the-counter market.
- d. Its securities are unrestricted, and it is required to provide U.S. GAAP financial statements to be made publicly available on a periodic basis pursuant to a legal or regulatory requirement.

Do you agree with the Board's tentative decisions reached about the definition of a public business entity? If not, please explain why.

We will provide views on this topic in our comment letter on the August 7, 2013 exposure draft regarding the definition of a public business entity.