

August 19, 2013

Technical Director
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116
director@fasb.org

Re: File Reference No. PCC-13-03: Proposed Accounting Standards Update, Derivatives and Hedging (Topic 815): Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps (*a proposal of the Private Company Council*)

RW Group appreciates the opportunity to respond to the above noted exposure draft on an amendment to Topic 815. RW Group, LLC is a local accounting firm providing accounting and auditing services to many entities that presumably would be able to apply the proposed guidance. We would like to start off by clarifying that this response is solely the position of RW Group, LLC and its author, Richard Wortmann, and not that of the Pennsylvania Institute of CPA's Accounting and Auditing Procedures Committee, of which Mr. Wortmann currently chairs.

RW Group supports the work of the FASB and the PCC in addressing the concerns and needs of non-public companies and overall the exposure draft goes a long way to addressing the particularly onerous accounting regarding "plain vanilla" swaps. Generally the firm supports the proposal but would like to respond to a few of the questions posed by the Board to further reduce the burden on non-public companies, as follows:

Question 3 –

The Board asks whether the scope should be expanded to publicly traded companies and not-for-profit entities. We will limit our response to the question to address not-for-profit entities. In our experience, not-for-profit entities enter into plain vanilla swaps for the same reason as non-public entities, to better manage and budget cash flows. As such it would be appropriate for the accounting to be the same regardless of their profit motive.

Question 4 –

We do not agree with the criteria for applying the combined instruments approach and the simplified hedge accounting approach. It is not unusual for an entity to enter into a forward swap agreement when the entity is negotiating renewals of a plain vanilla swap. The mere fact that a contract is entered into ahead of time should not, on its own, cause an entity to lose the option of applying this simplified approach.

Further, we do not support the simplified hedge accounting approach. It appears to us that, assuming all other criteria are met, the difference between which approach is available to the entity will fall on whether the term of the swap and the term of the debt



are the same. In our experience many swap agreements have different terms than the underlying debt, which under the proposal will require the simplified hedge accounting approach; therefore the settlement value will be recorded on the statement of financial position. Further, in our experience, non-public companies and not-for-profits do not early terminate swaps; accordingly, the asset or liability is never realized by the entity.

We support a single combined instruments approach for all plain vanilla swaps, including forward swaps.

Question 10 –

The costs of obtaining and auditing settlement value are significantly less than for fair value. Settlement value is based on a contractual agreement between two existing parties. It is not difficult to obtain evidence of settlement value directly from the counterparty. Auditing fair value requires an evaluation of the inputs used to arrive at fair value, and is determined based on an exit approach. AU-C Section 540 provides guidance as to how to audit fair value, and due to the complexity, may require an audit firm with limited internal resources to engage a valuation specialist. This would not be required when auditing a contractual settlement amount.

Question 17 –

We disagree with the formal documentation requirements required by paragraph 815-20-25-3. A majority of non-public companies and not-for-profit entities have limited resources and most do not have internal accounting personnel that have a comprehensive understanding of accounting for derivatives. Entities generally go through a thorough evaluation of significant contracts such as long-term debt and swap agreements, but often do not document that thought process and final evaluation of the transaction. If it does happen, it occurs in anticipation of the auditor or even when the auditor arrives. For smaller entities that do not require an audit, the likelihood of the documentation occurring around the time of the transaction is even less likely to occur. If the Board holds onto the documentation requirement, those companies that are in the greatest need of relief will never actually be able to realize it, merely because they did not prepare certain documentation timely.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Richard Wortmann", is written over a white background.

Richard Wortmann, CPA, Member
RW Group, LLC