

August 22, 2013

SENT VIA EMAIL

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

File Reference: PCC-13-03, *Derivatives and Hedging* (Topic 815)

Dear Ms. Cosper,

Moss Adams LLP is pleased to comment on the proposed Accounting Standards Update, *Derivatives and Hedging* (Topic 815) (the “proposed ASU” or “proposal”).

Moss Adams LLP is the largest accounting and consulting firm headquartered in the Western United States, with a staff of over 2,000, including more than 260 partners. Founded in 1913, the firm serves public and private middle-market businesses, not-for-profit, and governmental organizations.

We appreciate the efforts of the Private Company Council (the “PCC”) and the Financial Accounting Standards Board (the “Board”) to simplify the accounting for nonpublic entities in the complex area of accounting for derivative instruments. After reviewing the proposal we believe it could go further to simplify the rules and that further clarification is needed around certain aspects of the requirements in the proposal.

Our comments are organized as follows:

- Settlement value
- Simplified hedge accounting approach
- Combined instruments approach
- Comment period
- Transition

We have also provided responses to selected questions in Attachment A.

Settlement value

We believe the introduction of a new valuation premise of “settlement value” for financial reporting may introduce unnecessary and unintended complexity and believe “fair value” as defined in ASC 820 should be retained. Estimating the fair value of a plain vanilla interest rate swap is not

Ms. Susan M. Cospers, Technical Director
Financial Accounting Standards Board
August 22, 2013
Page 2

difficult or complex. We do not believe introducing settlement value will be an improvement or simplification.

Settlement value has not been defined in the proposal, and if retained, the proposal should include a clear definition. Our understanding is that value information provided to an entity by the financial institution swap counterparty is not typically the amount at which a swap could be settled. Also, we expect that entities and their auditors would find it difficult to obtain information from the swap counterparty regarding the inputs that went into the calculation of settlement value. Based on our understanding, we expect that certain entities may not have the requisite knowledge or resources to understand and disclose the information they would receive. Entities and their auditors may need the assistance of valuation specialists to help them distill the information. As this issue (preparer knowledge and resources) is one of the reasons for a push to simplify swap accounting, we find this to be troubling. Overall, the use of settlement value, in addition to introducing complexity, could result in reduced comparability and additional cost for the reporting entities.

As noted above we recommend that the measurement metric for interest swaps continue to be “fair value.” We note it may be an improvement if the definition of “fair value” in ASC 820 was adjusted such that a valuation obtained from a financial institution swap counterparty was accepted as a proxy for “fair value.” We expect it is not possible to make that adjustment in this project. On balance, then, we believe it would be less complex to maintain “fair value” as the measurement metric.

If settlement value is retained, the disclosure requirements around the settlement value should be significantly reduced and simplified. For example, entities should be allowed to disclose that they received the settlement value of the swap from the counterparty (a “black box value”) without disclosure of the methods and significant assumptions used to estimate settlement value. Users of financial statements would potentially be able to request additional information due to their access to management, if needed.

Simplified hedge accounting approach

We believe that the scope of the simplified hedge accounting approach as currently proposed may be too narrow. The proposal includes instruments with a fair value of the swap at or near zero and excludes forward-starting swaps. These requirements will exclude the application of this approach for instruments that are otherwise plain-vanilla interest rate swaps. We recommend that the guidance be expanded in these areas. Conversely, we note that criteria (f) should be clarified to require that the swap notional be equal to or less than the principal amount of the borrowing for the entire term of the swap.

Combined instruments approach

We appreciate the introduction of this approach as we believe it is a significant simplification in accounting for interest rate swaps by permitting an entity to effectively bookkeep the debt as fixed rate debt. However, we believe additional clarification should be provided as to why the terms of the swap must approximate the term of the borrowing. If all other criteria are met, then a swap that is for a shorter term or was initiated after the borrowing should also be able to qualify for the combined instruments approach. Also, similar to our comment above, the availability of the combined approach should be limited if the swap notion exceeds the amount of the debt.

We do not agree with the proposed disclosures under the combined instruments approach. In addition to the concerns noted under the heading settlement value, we do not believe the

Ms. Susan M. Cosper, Technical Director
Financial Accounting Standards Board
August 22, 2013
Page 3

disclosures would provide useful information to which users don't already have access. We believe relevant and decision useful information would include whether the fair value of the swap is in a gain or loss position at the reporting date and whether management intends to terminate the swap in the next twelve months. If management intends to terminate the swap during the next twelve months, the fair value of the swap at the reporting date should be disclosed. We believe this approach would balance the costs and benefits of providing the disclosures.

Comment period

We believe that the comment period for this proposed ASU was not sufficient. While the proposed amendments do appear to simplify the guidance, there are several nuances and ramifications to the proposed changes that may introduce new or different complexity or inconsistencies into practice that would require more time than the current comment period allows for consideration. Furthermore, the Board has a few other projects, such as the decision making framework, and definition of a public entity, outstanding that would impact the evaluation of the proposed guidance. The conclusions reached in those other projects could lead to different results or implementation under this proposed guidance that may be unintended.

We recommend that the Board allow for longer comment periods so that users, preparers and auditors have the appropriate amount of time necessary to fully consider proposals of the PCC.

Transition

We have two concerns with the transition guidance. First, our understanding is that a decision to apply the combined approach to swaps existing at adoption would also be binding on future swaps. We do not believe the use of the combined approach should constitute an adoption of an accounting policy. If the intent is to bring about a certain level of consistency, creating the nonpublic entity swap accounting exceptions will, in any event, reduce (maybe significantly) comparability and consistency. Next, and this relates back to our concerns with the comment period, even if it is not discussion specific to this project, we think there should be discussion and guidance that entities can consider so they understand the consequence they would face if the entity becomes a public entity. We strongly encourage the FASB and the PCC to clarify how an entity should unwind its application of the accounting alternative when it is no longer in the scope of the guidance.

Moss Adams appreciates the opportunity to comment on the proposed ASU. If you would like to discuss our comments, please contact Fred Frank in our Professional Practice Group at 206-302-6800.

Yours truly,

Handwritten signature of Moss Adams LLP in cursive script.

Enclosure

Ms. Susan M. Cosper, Technical Director
Financial Accounting Standards Board
August 22, 2013
Page 4

ATTACHMENT A

The following are responses to selected questions in the proposed ASU:

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 believe that the Board should consider expanding aspects of the proposal to public companies as well as not-for profit entities. We do not believe any changes to the approaches would be warranted, as the goal is to simplify the accounting and whether an entity is public, not-for-profit or a private entity, they face similar challenges in applying current guidance to their swap transactions.

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.

Generally, we agree with the differences in criteria for applying the combined instruments approach versus the simplified hedge accounting approach.

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.

We do not believe additional criteria should be added about management's intent to hold the swap to maturity.

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.

We do not believe there should be such a requirement for the combined instruments approach. We believe the guidance in ASC 450, *Contingencies*, could be followed. Entities would consider whether the counter party default is remote, reasonably possible or probable in determining whether to record a gain or loss and the extent of disclosure.

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 believe that the definition of settlement value incorporates more than just the nonperformance risk of the swap counterparties. It is our understanding that other penalties or prepayment fees may be triggered.

Ms. Susan M. Cosper, Technical Director
Financial Accounting Standards Board
August 22, 2013
Page 5

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.

We believe a requirement to disclose the settlement value instead of fair value results in costs that outweigh the benefits unless there is an anticipated impact on future cash flows in the near term.

We believe relevant and decision useful information would include whether the swap is in a gain or loss position at the reporting date and whether management intends to terminate the swap in the next twelve months. If management intends to terminate the swap during the next twelve months, the fair value of the swap at the reporting date should be disclosed. We believe this approach would balance the costs and benefits of providing the fair value disclosures.

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

We believe that the costs to obtain and audit settlement value would not be significantly less and may be higher since settlement value is not yet well defined. We do not believe the introduction of settlement value is an improvement or simplification. The swap counterparties may either not be able to or will not provide all of the information necessary for entities to meet the requirements in the proposed guidance.

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 do not agree with a above in the proposed disclosure requirements. As indicated in the letter and in response to question 9 above, we believe that the disclosures should be simplified further to disclose the information most helpful to users.

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.

We do not believe the combined instruments approach should be an accounting policy decision, but should be an approach that is applied on an instrument by instrument basis consistent with the extant ASC 815. As the decision making framework is still in the process of being finalized, it is not clear whether this proposed policy election is consistent with the framework that will be used to

Ms. Susan M. Cosper, Technical Director
Financial Accounting Standards Board
August 22, 2013
Page 6

evaluate modifications to U.S. GAAP. We suggest additional clarification be provided to support the decision to create an accounting policy election.

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.

We do not agree with the requirement as proposed to apply the combined instruments approach. We recommend that the entities should be allowed until the date financial statements are available to be issued in which the proposed guidance would be adopted to make the election. We also believe that when an entity enters into its first transaction that is eligible for the combined instruments approach that the election be available up until the entity makes its financial statements available for issuance. For a nonpublic company the difference between contemporaneously and “few weeks” is negligible because if an entity does not comply with the contemporaneous requirement, it will likely not comply the “few weeks” criteria. We don’t believe this easing of the timing requirement goes far enough.

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.

Consistent with our response to question 14, we recommend that entities be allowed similar timing to complete the formal documentation required by paragraph 815-20-25-3 to qualify for the simplified hedge accounting approach.

More broadly speaking, we also believe that the hedge accounting contemporaneous documentation criteria in the extant ASC 815 is too restrictive for nonpublic entities and that it should be eliminated or significantly relaxed to coincide with the date when an entity’s financial statements are available for issuance.

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 that entities should be permitted to early adopt the proposed amendments.