

August 23, 2013

Technical Director – File Reference No. PCC-13-03  
Financial Accounting Standards Board  
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Technical Director:

We appreciate the opportunity to comment on the Financial Accounting Standards Board (FASB) Proposed Accounting Standards Update (ASU), *Derivatives and Hedging (Topic 815) - Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps*. BerryDunn is a regional firm that audits approximately 500 private companies and not-for-profit organizations within a variety of industries. We also audit a small number of SEC registrants.

Overall, we are in support of this proposed ASU. We find that the preparers and users of financial statements of nonpublic companies disregard the accounting adjustments for swaps that are entered into for the purpose of economically converting variable-rate borrowing to fixed-rate borrowing. We believe the proposed ASU would mitigate private company stakeholders' concern about the costs, complexity, and relevance of applying current U.S. GAAP to swaps.

In addition to our overall view on the proposed ASU, we have selected specific questions posed in the Exposure Draft to address as follows:

*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 that such entities often use derivative instruments and, therefore, introducing a special accounting model only for certain types of swaps could be confusing to users. Additionally such entities, if using swaps, are more likely to have the resources and knowledge necessary to comply with current U.S. GAAP requirements in Topic 815, due to regulatory demands they have appropriate levels of knowledge to manage derivatives prior to entering into such transactions.

*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? If not, please explain why.*

The provisions of the amendments will benefit not-for-profit entities by reducing the costs and complexity of accounting for “plain vanilla” swaps while still providing decision-useful information. These entities enter into similar financing transactions to those employed by nonpublic companies, and we believe the accounting for these transactions should not differ between nonpublic companies and not-for-profit entities. While we do not have public company clients other than financial institutions, we suspect marking “plain vanilla” swaps to market provides little if any value to users of those entities’ financial statements.

*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 disagree with the provisions of the proposal that enable entities to elect one of two accounting approaches, in addition to the two accounting approaches permitted under current U.S. GAAP. We believe the combined instruments approach should be the method required to be employed by all entities. Eliminating accounting alternatives will provide enhanced consistency and comparability for financial statement users, and would result in similar accounting for similar transactions (i.e., variable-rate debt with a swap and fixed-rate debt). Now that FASB has abandoned its plans to mark all financial instruments to market, marking these swaps to market results in an anomalous treatment for these instruments which provides little useful information in the context of an entity’s balance sheet, especially in comparison to balance sheets of other similar entities.

The criteria under the combined instruments approach for the term of the swap to approximate the term of the borrowing should be modified to allow for the term of the swap to be equal to or less than the term of the borrowing. It is common for the term of the swap to be less than the term of the borrowing, and this structure is similar to, and should be accounted for similarly to, a loan whose rate is fixed for a period of time, and then floats, which is also a common structure in practice.

*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.*

The criteria for the term of the swap to be equal or less than the term of the borrowing is sufficient and no additional criteria about management’s intent to hold the swap to maturity should be considered necessary. It is implicit when entering into a “plain vanilla” swap that management intends 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 believe there should not be a requirement that there have been no adverse development regarding the risk of the counterparty default such that the swap is not expected to be effective in economically converting variable-rate borrowing to fixed rate borrowing. In our experience, such “plain vanilla” swap markets are sufficiently well developed that other parties are likely to assume counterparty swaps in the event of the insolvency of the counterparty. We believe evaluating the adverse developments would require the use of highly subjective judgment which is costly and of limited value, and nonpublic companies generally do not have adequate resources to make such determinations.

Technical Director – File Reference No. PCC-13-03  
Financial Accounting Standards Board  
Page 3

*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 assumption).*
- 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 the above items should be disclosed.

*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 believe a full retrospective application should be permitted but not required; an entity could make a cost-benefit decision as to whether its financial statement users would sufficiently benefit from the enhanced comparability retrospective application would provide to justify the incremental costs.

We appreciate the opportunity to submit these comments for your consideration, and look forward to FASB's consideration of feedback on the proposed ASU and decisions regarding the next steps.

Sincerely,



BerryDunn