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August 23, 2013

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

RE: Proposed Accounting Standards Updates, "Accounting for Identifiable Intangible Assets in a Business Combination" (File Reference No. PCC-13-01A); "Accounting for Goodwill" (File Reference No. PCC-13-01B); and "Accounting for Certain Receive Variable, Pay Fixed Interest Rate Swaps" (File Reference No. PCC-13-03)

Dear Technical Director:

We appreciate the opportunity to comment on the FASB's and Private Company Council's proposed Accounting Standards Updates on "Accounting for Identifiable Intangible Assets in a Business Combination", "Accounting for Goodwill", and "Accounting for Certain Receive Variable, Pay Fixed Interest Rate Swaps". We believe that differences in Generally Accepted Accounting Principles for private companies established by the FASB should meet the following criteria.

(1) Differences in accounting standards should be based on differences in information needs of users of private company financial statements as compared to users of public company financial statements. The assessment of whether there are differences in information needs should include consideration of the information needs of both users of private company financial statements and users of public company financial statements and a comparison of those information needs.

(2) Standards that establish differences or alternatives in accounting by private companies should be supported by an analysis and explanation of how the differences and alternatives meet the Private Company Decision-Making Framework.

(3) Differences in accounting standards for private companies should not create a fundamentally different conceptual basis for preparing financial statements of private companies as compared to the conceptual basis for public company financial statements. We understand that the FAF's decision to require endorsement by the FASB of the PCC's recommendations is intended to avoid the creation of two fundamentally different GAAPs for public and private companies.

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(4) Modifications to accounting standards for private companies should reduce unnecessary complexity in the overall standard-setting process and financial reporting system. The assessment of the impact of modifications and alternatives to accounting standards for private companies on cost and complexity should consider the potential implications on the overall standard-setting process and financial reporting system, not just the application of a specific provision of an individual standard.

We believe these criteria are consistent with the objectives of the Financial Accounting Foundation and the FASB in establishing the PCC and the related operating procedures. Based on the information provided in the proposed ASUs, the proposals either do not appear to meet some of these criteria or do not provide sufficient information to evaluate the extent to which these criteria were used by the FASB and PCC in reaching these conclusions.

The proposed ASUs do not describe the differences in information needs of users of public company and private company financial statements with respect to the matters covered in the proposals. Although the bases for conclusions of the proposed ASUs refer to the Private Company Decision-Making Framework, the Board and the PCC do not provide an analysis of how the Framework was used in reaching their conclusions on the proposed alternative accounting treatments. The proposed ASUs do not address how the FASB considered whether the proposed accounting alternatives would result in creating two fundamentally different GAAPs with different conceptual bases for public and private companies. The considerations of cost and complexity described in the bases for conclusions of the proposed ASUs focus on the application of the specific provisions of the accounting standards covered by the proposals. The FASB and PCC do not appear to have considered broader implications on cost and complexity in the overall financial reporting system of establishing these alternative accounting treatments. For example, cost and complexity may increase for financial statement users as a result of differences in accounting that will result between public companies and private companies and differences among private companies that may elect some, all or none of the alternatives.

The following paragraphs describe our suggestions for alternative approaches to address the concerns of private company constituents with respect to some of the proposals and other matters that we believe the FASB and PCC should consider in their redeliberations of the proposals. The appendices to this letter provide responses to some of the questions for respondents in each of the proposed ASUs.

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Our Suggested Alternative Approach to Accounting for Goodwill by Private Companies

If the Board believes that users of private company financial statements do not use or need information about goodwill, we believe a better alternative would be to immediately write-off goodwill through net income as of the date of the business combination. An immediate write-off would be less confusing for users of financial statements who would otherwise disregard reported information about goodwill, amortization, and impairments. That alternative would also be less complex for preparers of private company financial statements because there would be no need for a goodwill impairment test or ongoing amortization.

We acknowledge that approach, like the approach in the proposed ASU, would be inconsistent with the conceptual basis in accounting for goodwill for public companies. However, if the basis for allowing an alternative is that users of private company financial statements do not need or use information about goodwill, then there is no reason to recognize goodwill on the balance sheet for any period of time. The objection to that approach as described in BC17 of the proposed ASU on Goodwill appears to be simply that an immediate write-off may be a large amount. If the Board and PCC believe an immediate write-off would not be appropriate because the write-off may be a large amount, that conclusion appears to be inconsistent with a belief that users of private company financial statements disregard information about goodwill.

Need to Simplify Hedge Accounting for Public and Private Companies

As described more fully in Appendix C to this letter, we suggest that the FASB consider reducing the complexity of applying hedge accounting for both public and private companies by replacing the prescriptive documentation requirements within ASC 815 with a more objectives oriented approach. We also suggest that the current effectiveness testing requirements of hedging be simplified by requiring, without dictating the level or form of documentation, that an assessment of effectiveness be completed at the inception of the hedging relationship and only thereafter when facts and circumstances suggest that the hedging relationship would no longer be highly effective. Additionally, if hedge documentation subsequently is deemed to be flawed, we suggest that the financial statement correction would be to record the difference between hedge accounting as applied and what the correct hedge accounting would have been, rather than to record a correction to disallow hedge accounting in its entirety. We believe these suggestions would more effectively address many of the current challenges associated with hedge accounting and should apply to both public and private companies.

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Subsequent Election of Alternatives

It is not clear if private companies would be required to make elections to follow certain alternatives in the proposed ASUs only on the effective dates of the ASUs or whether accounting changes to adopt the elections could be made at some time in the future. If the election could be made in subsequent periods, the Board should clarify whether the assessment of preferability and the general transition requirements for accounting changes as discussed in ASC Topic 250 would apply. If those provisions would apply to subsequent elections, the Board should address how preferability would be assessed in those situations.

Disclosure about the Use of Private Company Alternatives

Whenever a private company applies alternatives allowed only for private companies, we believe that the financial statements should include prominent disclosure of the fact that the financial statements are prepared in accordance with generally accepted accounting principles for private companies. That disclosure should include a description of the accounting alternatives allowed for private companies that the entity has elected to apply. Those disclosures would be incremental to the specific disclosure requirements of the proposed ASUs.

* * * * * *

If you have any questions about our comments or wish to discuss any of the matters addressed herein, please contact Mark Bielstein at (212) 909-5419, Paul Munter at (212) 909-5567, or Enrique Tejerina at (212) 909-5530.

Sincerely,

KPMG LLP

KPMG, LLP

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Appendix A

Proposed Accounting Standards Update, "Accounting for Identifiable Intangible Assets in a Business Combination" (File Reference No. PCC-13-01A)

Responses to Selected Questions for Respondents

Question 5: Do you agree that the accounting alternative for the recognition and measurement of intangible assets acquired in a business combination would provide relevant and decision-useful information to users of private company financial statements? If not, what accounting alternative, if any, would provide more relevant information to users?

We believe that the proposed ASU does not provide a compelling argument that users will not be adversely affected if private companies were to recognize separately from goodwill only those identifiable intangible assets that arise from contractual rights with noncancelable contractual terms, or that arise from other legal rights. In many acquisitions, intangible assets such as customer relationships are a key part of the value proposition of the transaction and failing to fully reflect the value of those assets may detract from the usefulness of the information provided to the financial statement users. Further, there may be situations where an intangible asset that does not arise from legal rights (e.g., unpatented technology) may be more valuable than an intangible asset that does arise from legal rights (e.g., patented technology) but would be disregarded due to the proposed recognition criteria.

ASC 360 requires that, when a portion of a reporting unit is disposed of, goodwill is allocated to the portion sold if that portion constitutes a business. If the portion sold does not constitute a business, then goodwill is not allocated to the component sold in determining the gain or loss on sale. Under the proposal, for any subsequent sale of an intangible asset that was not recognized in the initial business combination accounting (e.g., unpatented technology) but included in goodwill, it appears that a gain would be recognized for the full amount of the proceeds received because there would be no recognized asset to derecognize and goodwill would not be allocated to a sale of the asset that does not constitute a business. That result does not appear appropriate if the asset otherwise meets the definition of a separately identifiable intangible asset. We believe the accounting for such sales should be clearly explained in the final ASU to avoid confusion.

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Question 6: Do you agree that for contractual intangible assets, recognition and measurement should be limited to the noncancelable term of the contract? If so, do you agree with the proposed definition of a noncancelable contractual term? Do you agree that market participant expectations about the potential renewal or cancellation of the contract should not be factored into the measurement? Do you foresee any increase in cost and complexity or other difficulties in applying this alternative recognition and measurement principle? If yes, would additional implementation guidance address those difficulties?

The proposal creates a measurement exception rather than a practical expedient to fair value. It would result in a measurement of contractually-based intangible assets that is neither cost nor fair value. Creating a new measurement attribute results in unnecessary complexity both for preparers and users of the private company financial statements.

Additionally, this exception differs from the other measurement exceptions in ASC 805 which are intended to align the measurement of an asset or liability in a business combination with its measurement outside of a business combination to avoid "day two" measurement adjustments (e.g., measurement of deferred taxes, assets held for sale). The proposed measurement exception in this case does not have a similar objective.

The efforts by preparers could be complicated, at least in the short-term, by the removal of certain intangible assets as seperately recognized, as well as the differing measurement criteria for contractually-based intangible assets. For instance, well-established valuation methodologies and processes would likely need to be revised if the alternative to not recognize certain identifiable intangibles and to measure others at an amount other than fair value is elected. The alternative could also impact the reliability of the valuations for the assets that continue to be measured at fair value. For example, management or third party appraisers generally reconcile discount rates such as the weighted average cost of capital, internal rate of return, and weighted average return on assets based on the value-drivers of the transaction. Under the proposed alternative, a reconciliation of this nature would be challenging given the shift in value from intangible assets to goodwill. In addition, use of the alternative treatments may result in additional differences with valuations for tax purposes.

Question 7: Do you agree that intangible assets arising from other legal rights should continue to be measured at fair value considering all market participant expectations, consistent with Topic 820? If not, what accounting alternative for measurement do you recommend?

We agree that intangible assets arising from other legal rights should be measured at fair value considering market participant expectations, consistent with ASC 820.

Question 8: Do you agree that an entity should disclose the nature of identifiable intangible assets that are not recognized separately as a result of applying the amendments in this proposed Update? If not, please explain why.

We agree that an entity that elects not to recognize certain identifiable intangible assets should disclose the nature of those identifiable intangible assets that are not recognized separately.

Whenever a private company applies alternatives allowed only for private companies, we believe that the financial statements should include prominent disclosure of the fact that the financial statements are prepared in accordance with generally accepted accounting principles for private companies. That disclosure should include a description of the accounting alternatives allowed for private companies that the entity has elected to apply. Those disclosures would be incremental to the specific disclosure requirements of the proposed ASU.

Question 9: For identifiable intangible assets that are recognized separately as a result of applying the amendments in this proposed Update, do you agree that the amendments should not require any other additional recurring disclosures and that entities should be required to comply with disclosure requirements in relevant Topics, as applicable (for example, Topic 350, Intangibles—Goodwill and Other, and Topic 805)? If not, what additional disclosures should be required and please explain why.

We agree that for identifiable intangible assets that are recognized separately as a result of applying the proposed ASU, no additional recurring disclosures should be added and that entities should be required to comply with disclosure requirements in relevant Topics (e.g., ASC 350, ASC 805).

Question 10: Do you agree that the proposed Update should be applied on a prospective basis? Should retrospective application be permitted?

We agree that this proposed ASU should be applied prospective basis. We believe that once elected, the accounting alternative should be consistently applied to all future business combinations.

The proposed ASU does not specifically address whether a private company could elect to apply the alternatives subsequent to the first business combination following the effective date of the final ASU and, if that is possible, whether the entity would be required to consider preferability under ASC Topic 250 on accounting changes and follow the general transition for accounting changes in ASC 250. The Board should address whether the requirements of ASC 250 would apply to accounting changes made to elect the alternative treatment in periods subsequent to the initial effective date.

Question 14: If an entity elects the accounting alternative in this proposed Update, should that entity also be required to apply the PCC's proposed accounting alternative for the subsequent measurement of goodwill (in Topic 350)? Alternatively, if an entity elects the accounting alternative in Topic 350 for goodwill, should that entity also be required to adopt the accounting alternative in this proposed Update? (No decisions have been reached by the Board and the PCC about this question.)

We agree that if an entity elects the accounting alternative in this proposed ASU, the entity should also be required to apply the proposed accounting alternative for the subsequent amortization of goodwill if that ASU is finalized as proposed. The identifiable intangible assets that would be subsumed into goodwill generally would be amortizable under ASC 350. It would

contradict the economic characteristics and value of the finite-lived intangible assets to be included in goodwill which is not being amortized.

Conversely, we believe that an entity that elects to adopt the proposed accounting alternative to amortize goodwill should not be required to elect the accounting alternative in this proposed ASU as we believe an entity should always have the alternative to recognize all identifiable intangible assets that qualify for recognition under ASC 805.

Question 15: 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 question whether it would be appropriate for a subsidiary of a public company that issues stand-alone financial statements to be allowed to elect the alternative in this proposed ASU. A subsidiary of a public company that elected the alternative would have to reverse the effects of this election and report the intangible assets in accordance with current U.S. GAAP, including all required disclosures, in consolidation. We believe that this would increase both the cost and complexity for the preparers of those financial statements.

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Appendix B

Proposed Accounting Standards Update, "Accounting for Goodwill" (File Reference No. PCC-13-01B)

Responses to Selected Questions for Respondents

Question 3: Should the Board consider expanding the scope of the accounting alternative 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 to the accounting alternative for the subsequent measurement of goodwill? If the scope is expanded to public companies or not-for-profit entities, should the accounting alternative continue to be elective?

We believe our alternative for the accounting for goodwill by private companies (allow private companies to immediately write off goodwill through income) would more readily address the Board's and PCC's belief that users of private company financial statements do not need or use goodwill information. If that belief is appropriate for users of private company financial statements, the Board should consider whether it is also applicable for users of public company financial statements as well.

If the Board and PCC proceed with their proposal or our alternative proposal, we believe that the final ASU should clearly explain why the Board no longer believes that goodwill is an indefinite lived asset as it stated in Statement 142, *Goodwill and Other Intangible Assets,* and how the election is supported by the Private Company Decision-Making Framework.

Question 4: Would the proposed amendments reduce overall costs and complexity compared with existing guidance? If not, please explain why.

Although the proposed amendment to the accounting for goodwill would likely reduce costs for some preparers, we do not believe that the proposed alternative would necessarily reduce the overall costs and complexity for the financial reporting system. We believe that costs and complexity should be evaluated more holistically than from the perspective of the application of specific provisions of a standard. Although our suggested alternative to allow private companies to immediately write off goodwill would also create a lack of comparability, we believe that approach would be less confusing to users (and less complex for preparers) than presenting goodwill for a limited, and potentially arbitrary, period of time.

Question 5: Do you agree that the accounting alternative for goodwill would provide relevant and decision-useful information to users of private company financial statements? If not, what accounting alternative, if any, would provide relevant information to users?

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The Board and PCC indicate in the basis for conclusions that users of private company financial information do not need information about goodwill and goodwill impairments. If that is true, a simpler alternative would be to write-off goodwill immediately through net income. Under our suggested alternative, users of private company financial statements would need to disregard the write-off amount only once rather than annually over the amortization period. Further, under this alternative, there would be no need for an impairment test or ongoing amortization of goodwill. We believe our alternative for the accounting for goodwill would more simply address the Board's and PCC's belief regarding the needs of users of private company financial statements.

Question 6: Do you agree with the PCC's decision to amortize goodwill on a straight-line basis over the life of the primary asset acquired in a business combination, not to exceed 10 years? If not, please tell us what alternative approach or useful life you would prefer.

If the Board and PCC proceed with the proposal, we do not agree that the goodwill amortization period should be arbitrarily limited to 10 years when it is clear that the life of the goodwill is significantly longer than 10 years. Additionally, we believe that amortization of goodwill if the primary asset is an indefinite-lived asset such as a brand is inconsistent with what appears to be the basis for this proposal. It is also unclear what the appropriate amortization period would be if the primary asset acquired is an intangible asset that is not recognized separately from goodwill under the FASB's and PCC's proposed ASU on accounting for identifiable intangible assets. Finally, we believe that the final ASU should clearly state why an amortization period of 10 years is consistent with the needs of private company financial statement users and with the Private Company Decision-Making Framework.

Question 7: Do you agree that goodwill accounted for under the alternative should be tested for impairment at the entity-wide level? If not, should an entity be either required or given an option to test goodwill at the reporting unit level? What issues, if any, arise from amortizing goodwill at the individual acquired goodwill level while testing for goodwill impairment at the entity-wide level?

As noted above, we believe a simpler alternative would be to write-off goodwill immediately through net income. Under this alternative, there would be no need for an impairment test.

Under the Board's alternative accounting for goodwill, an impairment of goodwill would be less likely to occur as time passes since the acquisition because the goodwill balance will have been reduced by amortization. However, if the Board adopts the proposal, it should provide guidance on how an entity that has a goodwill impairment at the entity level and has several different goodwill assets recorded with different remaining lives, should apply the impairment to goodwill (e.g., reduce each goodwill asset in proportion to current book value, FIFO, relative fair value).

Question 8: Do you agree that goodwill accounted for under this alternative should be tested for impairment only upon the occurrence of a triggering event that would indicate that the fair value of the entity may be below its carrying amount? If not, when should goodwill be tested for impairment? Should there be an annual requirement to test goodwill?

Under the Board's alternative accounting for goodwill, an impairment of goodwill would be less likely to occur as time passes since the acquisition because the goodwill balance will have been reduced by amortization. Due to this fact, we believe testing goodwill for impairment only upon the occurrence of a triggering event would be an acceptable approach. However, the Board should consider further clarifying the differences between triggering events and the example of events and circumstances used in the qualitative assessment when testing for impairment of goodwill. A simpler alternative would be to write-off goodwill immediately through net income. Under this alternative, there would be no need for an impairment test.

Question 9: In the proposed amendments, an entity would consider the same examples of events and circumstances for the assessment of triggering events as those considered for the qualitative assessment. However, the PCC intends the nature and extent of those two assessments to be different. The assessment of triggering events would be similar to the current practice of how an entity evaluates goodwill impairment between annual tests. In contrast, the optional qualitative assessment would be part of an entity's goodwill impairment test, requiring a positive assertion, consistent with current practice, about its conclusion reached and the events and circumstances taken into consideration. Should the assessment of triggering events be performed consistently with how entities currently assess for goodwill impairment between annual tests? If not, how should an entity assess for triggering events? Do you agree that there should be a difference in how an entity would perform its assessment of triggering events and how it would perform the qualitative assessment?

Under the Board's proposal, the assessment of triggering events should be performed consistently with how entities currently assess goodwill for impairment between annual tests. We agree that there should be a difference in how an entity would perform its assessment of triggering events and the qualitative assessment, however, in practice, those assessments would occur in conjunction with each other if a triggering event was identified.

Question 10: Do you agree with the alternative one-step method of calculating goodwill impairment loss as the excess of the carrying amount of the entity over its fair value? Why or why not?

Under the Board's proposal, we agree with the alternative one-step method of calculating goodwill impairment loss for private companies. However, we believe the final ASU will need to provide application guidance on how that impairment should be allocated to different goodwill accounts with different remaining lives. As noted above, a simpler alternative would be to write-off goodwill immediately through net income.

Question 11: Do you agree with the disclosure requirements of the proposed Update, which largely are consistent with the current disclosure requirements in Topic 350? Do you agree that an entity within the scope of the proposed amendments should provide a rollforward schedule of the aggregate goodwill amount between periods? If not, what disclosures should be required or not required, and please explain why?

Under the Board's proposal, we agree with the disclosure requirements. A simpler alternative would be to write-off goodwill immediately through net income. Under this alternative, preparers of private company financial statements would not be required to provide a rollforward schedule of the aggregate goodwill amount between periods.

Whenever a private company applies alternatives allowed only for private companies, we believe that the financial statements should include prominent disclosure of the fact that the financial statements are prepared in accordance with generally accepted accounting principles for private companies. That disclosure should include a description of the accounting alternatives allowed for private companies that the entity has elected to apply. Those disclosures would be incremental to the specific disclosure requirements of the proposed ASU.

Question 12: Do you agree that the proposed Update should be applied on a prospective basis for all existing goodwill and for all new goodwill generated in business combinations after the effective date? Should retrospective application be permitted?

If users of private company financial statements do not need information about goodwill, there should be no need for retrospective application. Therefore, we believe retrospective application should be prohibited. Under our suggested alternative, the immediate write off of all remaining goodwill amounts at the effective date through a cumulative effect adjustment to retained earnings would be appropriate. This approach would be consistent with the Board's and PCC's belief that users of private company financial statements do not need or use information about goodwill and goodwill impairments.

It is not clear if private companies would be required to make the election to account for goodwill using the alternative in the proposed ASU on the effective date or if the election could be made at some point in the future. If the election could be made in subsequent periods, the Board should clarify whether the assessment of preferability and the general transition requirements for accounting changes as discussed in ASC Topic 250 would apply. Also, the Board should clarify that, if the election is made, all goodwill acquired in future business acquisitions be accounted for under the alternative.

Question 13: Do you agree that goodwill existing as of the effective date should be amortized on a straight-line basis prospectively over its remaining useful life not to exceed 10 years (as determined on the basis of the useful life of the primary asset of the reporting unit to which goodwill is assigned) or 10 years if the remaining useful life cannot be reliably estimated? Why or why not?

See discussion above. We believe reflecting a cumulative effect adjustment to retained earnings as of the date of adoption would be a more appropriate transition approach than amortizing the remaining goodwill balance over 10 years. We do not believe the calculation of the cumulative effect would be difficult.

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Question 17: If an entity elects the accounting alternative in the amendments in this proposed Update, do you think that entity should be required to apply the PCC's proposed accounting alternative for recognition, measurement, and disclosure of identifiable intangible assets acquired in a business combination (in Topic 805)? Alternatively, if an entity elects the accounting alternative in Topic 805, should that entity also be required to adopt the proposed accounting alternative? (No decisions have been reached by the Board and the PCC about this question.)

Under our suggested alternative to immediately write-off goodwill as described above, immediate write-off of identifiable intangible assets would not be appropriate. Therefore, we believe a private company should not be allowed to elect the proposed accounting alternative for the recognition, measurement, and disclosure of identifiable intangible assets acquired in a business combination as those assets subject to the proposed accounting alternative would be included in goodwill and otherwise could be immediately written off.

However, if the Board proceeds with the goodwill ASU as proposed, we believe that the Board should require private companies to adopt the proposed alternative of accounting for goodwill if a private company elects to apply the alternative of not recognizing certain identifiable intangible assets and measuring other identifiable intangible assets at other than fair value in a business combination.

Question 18: 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 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 question whether it would be appropriate for a subsidiary of a public company that issues stand-alone financial statements to be allowed to elect the alternative in this proposed ASU. A subsidiary of a public company that elected the alternative would have to reverse the effects of

this election and report the intangible assets in accordance with current U.S. GAAP, including all required disclosures, in consolidation. We believe that this would increase the cost and complexity for the preparers of those financial statements.

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Appendix C

Proposed Accounting Standards Update, "Accounting for Certain Receive Variable, Pay Fixed Interest Rate Swaps" (File Reference No. PCC-13-03)

Responses to Selected Questions for Respondents

Introduction and Suggestions to Reduce Complexity

In our experience, entities often choose not to apply hedge accounting because of two reasons. The first is that practice has developed under the requirements of ASC 815, *Derivatives and Hedging,* such that its documentation requirements are interpreted as a checklist and if one item is not clearly documented then hedge accounting may be subsequently disallowed. The second reason is that if hedge accounting is subsequently disallowed, the resultant financial statement correction often is the difference between hedge accounting as applied and no hedge accounting. The development of this "all or nothing" interpretation has resulted in major practice issues related to hedging activities. The introduction of the combined instruments and simplified hedge accounting approaches by the proposed ASU may lead to additional checklist-type approaches to hedge accounting and would not address these issues. We suggest that the Board consider replacing the prescriptive documentation requirements within ASC 815 with a more objectives oriented approach. The objectives oriented approach would call for entities to demonstrate compliance with hedge accounting based on indicators similar to the types of items already described in ASC 815. We also suggest that the current effectiveness testing requirements of hedging be simplified by requiring, without dictating the level or form of documentation, that an assessment of effectiveness be completed at the inception of the hedging relationship and only thereafter when facts and circumstances suggest that the hedging relationship would no longer be highly effective. Additionally, if hedge documentation subsequently is deemed to be flawed, we suggest that the financial statement correction would be to record the difference between hedge accounting as applied and what the correct hedge accounting would have been, rather than to record a correction to disallow hedge accounting in its entirety. We believe these suggestions would more effectively address many of the current challenges associated with hedge accounting and should apply to both public and 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.

If the FASB proceeds with the proposed ASU, we suggest the following issues be addressed:

- The terms "typical" and "plain-vanilla" swap are not defined. Omitting these definitions could result in an inconsistent application of the proposal because entities could have different interpretations of what is "typical" and "plain vanilla."

- It is not clear what the difference is intended to be by the use of the terms "inception" of a swap and the swap "effective" date in the criteria to apply the combined instruments approach.
- The requirement that the combined instruments or simplified hedge accounting approaches be applied at the inception of the swap should be made explicit if this is the FASB's intent. The criteria for the use of the approaches imply it.
- The criteria do not address the types of variable rate borrowings that would be hedged under the proposal. Certain borrowings with complex or uncommon features may not be suitable as hedged items under the proposal.

In addition, please refer to our response to Question 7 which relates to the implications of adverse developments in the risk of default by the swap counterparty.

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 different criteria for applying the combined instruments and the simplified hedge accounting approaches if the FASB proceeds with the proposed ASU. However, practice has developed such that the documentation requirements of ASC 815 are interpreted as a checklist and if one item is not clearly documented then hedge accounting may be subsequently disallowed. We believe that the criteria introduced under the combined instruments and simplified hedging approaches may lead to additional checklist-type approaches to hedge accounting.

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 believe that an additional requirement that management have the intent to hold the swap to maturity is warranted because under the combined instruments approach the two instruments are recorded as a synthetic fixed rate borrowing. If the swap is settled before maturity, there would be a gain or loss on the settlement and the borrowing would change from fixed to variable. This may be confusing to users of financial statements.

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 that there should 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 hedging a variable rate borrowing for both the combined instruments and simplified hedge accounting approaches. Without this requirement, neither approach would reflect counterparty credit risk or hedge ineffectiveness even if the swap is not expected to be effective in economically hedging the borrowing.

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.

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.

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

We agree that the primary difference between settlement and fair value is nonperformance risk. That difference can be significant.

Disclosure of the swap's settlement value may not adequately provide an indication to financial statement users of the future cash flows of the interest rate swap. For example, if the swap counterparty suffers a significant credit deterioration it may not be able to transact at settlement value. Fair value is an important consideration for entities that enter into derivatives, whether for trading or hedging purposes, because it is important to understanding the particular risks of the instrument, such as credit, liquidity, and interest rate risks. If settlement value is used to measure the derivatives, there is a risk that entities will not understand the fair value measurements of their derivatives and the corresponding risks associated with those transactions. In addition, the use of settlement value to measure interest rate swaps under the simplified hedge accounting method could mislead users of financial statements due to the potentially significant risks (credit of both parties and liquidity risks) associated with interest rate swaps that would not be considered in that value. The proposed ASU also suggests that cost and complexity concerns with regard to estimating fair value may be reduced because the settlement value is generally provided by the swap counterparty. However, there could be inherent internal control issues arising from obtaining settlement values from the swap counterparty because it is not independent from the swap transaction.

We do not believe the cost of obtaining the settlement value would be significantly less than the costs associated with obtaining the fair value because the swaps in the scope of the proposal are relatively simple and calculating the fair value would not be difficult. For the same reasons the cost of auditing the settlement value of the swaps would not be significantly less than the cost associated with auditing the fair value.

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.***

If the FASB proceeds with the proposed ASU, we agree with the above disclosures. As noted in our response to Questions 8, 9 and 10, we believe that the swap's fair value is relevant for financial statement users and therefore should be disclosed at a minimum, along with the difference and the reasons for the difference between the fair and settlement value of the swap, if material. This additional disclosure would provide financial statement users with information relating to the risks affecting the fair value of the derivative that are not considered in the settlement value, such as credit of both parties and liquidity risks.

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.

Yes, we agree that the current U.S. GAAP disclosures in Topics 815 and 820 should apply for a swap accounted for under the simplified hedge accounting approach. If settlement value is used, then we believe the fair value and differences between fair and settlement value should be disclosed, if material. Fair value would provide financial statement users with information relating to the risks of the derivative that are not considered in the settlement value, such as credit of both parties and liquidity risk.

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.

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 agree with providing an entity-wide accounting policy election to apply the combined instruments approach. Additionally, we agree that if the policy is elected it should be applied to all qualifying interest rate swaps, whether entered into on or after the date of adoption or existing at that date.

We also agree that an entity-wide election be made upon adoption of the amendments in this proposal or, for entities that do not have existing eligible interest rate swaps, within a few weeks after the entity enters into its first transaction that is eligible for the accounting policy election as a means to address administrative or other practicability concerns.

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.

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 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. Therefore, we agree that this is not an entity-wide election.

We agree that the election to apply the simplified hedge accounting approach to qualifying swaps that existed at that date of adoption must be made upon adoption of the amendments in the proposed ASU.

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 agree that formal documentation required by paragraph 815-20-25-3 to qualify for hedge accounting should be completed within a few weeks of hedge designation under the simplified hedge accounting approach as a means to address administrative or other practicability concerns.

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 that entities within the scope of the proposed ASU should be provided with an option to apply the amendments using either a modified retrospective approach or a full retrospective approach. However, as stated in our responses to Questions 4 and 7, an additional criterion should be included that there have been no adverse developments regarding default risk of the swap counterparty.

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 within the scope of the proposed ASU should be permitted to early adopt the proposed amendments.

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

We believe this question is best answered by preparers of financial statements. However, we do not anticipate implementation would require significant time.

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