



The Association of
Accountants and
Financial Professionals
in Business

August 23, 2013

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

File Reference No. PCC-13-03

Dear Ms. Cosper:

The Small Business Financial and Regulatory Affairs Committee (SBFRC) of the Institute of Management Accountants (IMA) appreciates the opportunity to provide its view on the FASB's and the PCC's proposed standards update, Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps.

The IMA is a global association representing more than 65,000 accountants and finance team professionals. Our members work inside organizations of various sizes, industries and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, government entities and multinational corporations. The SBFRC addresses issues that impact small and medium-sized organizations. On behalf of IMA's members, the SBFRC engages and suggests solutions to standard-setters and regulatory agencies such as the Financial Accounting Standards Board, Securities and Exchange Commission, International Accounting Standards Board, Small Business Administration, American Bankers Association, Internal Revenue Services and others. Information on the committee can be found at http://www.imanet.org/about_ima/advocacy_activity/small_business_financial_and_regulatory_affairs_co.aspx.

The SBFRC worked a parallel process in collecting our feedback and preparation of this comment letter with another group within IMA, the Financial Reporting Committee (FRC). While we represent different constituencies within the overall membership, we have much common ground in our points of view on accounting standards. We both believe that as a whole GAAP is too complex and that there are places where standards could be simplified and still be relevant to users; both recording/measurement and disclosures. We both acknowledge that in most cases private companies don't have to use GAAP. They can use an OCBOA if they wish while public companies cannot. We both see and acknowledge that alternative methods of recording and measurement add systemic complexity. We have much of the same values about what represents high quality standards.

In that light the SBFRC would suggest that any proposal by the PCC 1) attempt to provide a bright line separating those covered by the scope, 2) require an accounting treatment change for those in scope (as opposed to elective alternatives), where practical, and 3) require a FASB review of post implementation feedback or other outreach to determine if the guidance for public companies should be changed.

10 Paragon Drive
Suite 1
Montvale, NJ 07645
www.imanet.org



The Association of
Accountants and
Financial Professionals
in Business

We want to show support for the proposals and the work of the PCC, FASB and the FAF to improve private company accounting and recommend improvements so that the process gains momentum while improving the pronouncements along the way. We feel that some compromise will aid us directionally to stay headed toward standard simplification, high quality accounting and improving disclosures.

Our point of view

- Private small to medium sized entities are not a special segment but are in fact the majority of the accounting and financial reporting base (preparers, public accountants and users.)
- Accounting standards have sometimes been too complex and too theoretical to be of benefit to the owners and managers of those entities.
- Accounting standards have been driven by the capital markets to reduce investor risk and to reduce the volatility in those capital markets. Both of those goals can and have produced accounting guidance that is not always helpful to private companies' owners and management.
- We see the ultimate prize, at the end of the rainbow, to be a standalone set of guidance (US GAAP), which will be used by choice as the predominant method of accounting and reporting for private SMEs with additional disclosure for public companies, focused accounting treatment for specialized industry practice and for significant complex transactions.
- An accounting alternative proposed for private companies only is a principle change in the primary (most broadly used) accounting treatment thereby creating a leave behind alternative required for public companies and other justifiable segments.
- Or, if the proposed accounting is not meant to be the primary generally accepted accounting, but an exception from complexity for the size of entity, by providing computational relief, then it conversely adds systemic complexity by adding alternative methods and potential comparability issues.

We generally support the proposals by the PCC, its efforts and the overall plan to improve private company accounting.

We believe that the proposal on simple variable to fixed interest rate swaps identified an overall accounting improvement. Our sense is that companies that enter into supplemental agreements which meet the proposal criteria do so primarily as a requirement of the lender or the guarantor of the related debt instrument or a management philosophy to mitigate anticipated volatility in the interest rates. As such, we believe the combined approach correctly identifies the cost of financing.

Our experience indicates that where a small to medium sized entity enters into a simple variable to fixed interest rate swap it is nearly always the only swap on their books. There are larger companies (both public and private) or trading organizations which deal with many swaps of many kinds. However, even in those cases, should they have a swap in place that meets the specific criteria



The Association of
Accountants and
Financial Professionals
in Business

outlined in the proposal, we do not feel that it would be misrepresentative to have them account for that transaction using the combined approach as well. We believe the economic realities are the same regardless of the size or type of company.

We do not believe that the simplified hedge accounting approach should be considered as we generally view alternatives as creating systemic complexity. The feedback we received from smaller private companies that have had a qualifying swap on their books indicated that the calculations necessary to record the periodic entries for their swaps were provided by the banks or the vendor of the swap instruments. Any change from existing guidance to the simplified approach would not make any measurable reduction in the time or cost to the company.

We believe that the combined approach should not be an alternative; we believe that it should be required of all companies that hold a financial instrument which meets the specific criteria outlined in the proposal.

We would challenge the FASB to review the residual accounting for public companies, solicit feedback from market participants and consider adjusting the guidance to remove alternative treatments for transactions with the same economic facts unless there is a clear justification such as specialized industry practice (for a particular industry) or transactional complexity.

Our responses to the questions included in the proposed guidance can be found in the attached appendix. We appreciate the consideration of these comments. We are available to discuss our views at your convenience.

Respectfully,

A handwritten signature in blue ink, appearing to read "J. Exline", with a long horizontal flourish extending to the right.

John K. Exline, CMA, CPA
Chair, Small Business Finance and Regulatory Committee
Institute of Management Accountants
(316) 299-9104



The Association of
Accountants and
Financial Professionals
in Business

Appendix

Question 1

Please describe the individual or organization responding to this Invitation to Comment.

The SBFRC represents a constituency within our membership. The SBFRC's current members include preparers in manufacturing and service industries, mostly private but some public filers, public accounting, academia and the analyst community.

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?

We believe that the combined instruments approach is the correct accounting treatment for the majority of variable to fixed interest rate swaps which meet the criteria in the proposal. It is our sense that the FASB should verify through its own broad based outreach and determine the applicability to entities of all types.

It would appear that if a financial institution is a seller of the qualifying swap, then it is a fixed to variable swap and does not qualify. If that same financial institution is a purchaser of a qualifying swap then it must be purchasing the instrument in association with a debt instrument for the same reasons a nonfinancial institution would be entering into the transaction. The same economics of a transaction should lead to the same accounting treatment.

We do not believe that the simplified hedge accounting should be offered as an alternative for any entity.

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.

It is our sense that companies which enter into this specific transaction regardless of whether the company is public, private or not-for-profit, the combined instrument approach is the



The Association of
Accountants and
Financial Professionals
in Business

most representative method of recording and measurement and therefore those entities should be considered for inclusion in the scope.

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.

We agree with the criteria for applying the combined instruments approach, but recommend eliminating the simplified hedge accounting approach. In our opinion this proposal increases the complexity of one of the most exhaustive areas of the guidance in its current form. It would be better served to remove complexity and simplify where possible.

We generally support removing the required recording, measurement, display and disclosure burden on private, small business. We are cautious in our acceptance of optional treatment as those alternatives can add systemic complexity to the broader base of guidance. We did not do significant outreach but those we did receive feedback from indicated that the calculations necessary to comply with existing guidance were not costly or burdensome as the swap vendor supplies the information necessary and that there would be no reduction realized by the simplified hedge accounting approach.

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.

Since we don't see the need for the simplified hedge accounting approach, we don't think there is a need for different criteria.

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.

No, that actually would add procedural complexity making the accounting guidance more rules based and it would be subject to manipulation as intent is either query based or determined by transactional actions. It would seem that the other tests are sufficient to derive the intent to fix the interest rate of a debt instrument.



The Association of
Accountants and
Financial Professionals
in Business

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.

This is too complex of a question for such a simple solution. If the PCC or the board has discovered by significant outreach, that the occurrence of counterparty default is probable and estimable, then the current guidance should be the only alternative and we shouldn't be wasting time looking for a simplified solution. No, there shouldn't be any impact on the accounting treatment.

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.

Yes, agreed.

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.

From a disclosure perspective, we agree.

Question 10

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

Yes because of the level of estimation that must occur with evaluating and quantifying uncertainty and probability.



The Association of
Accountants and
Financial Professionals
in Business

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.*

Yes these seem reasonable and readily available.

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 do not believe that the simplified approach should be an option.

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 recommend that it be required to make the change for all existing qualifying swaps, not an elective alternative.



The Association of
Accountants and
Financial Professionals
in Business

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.

Yes as we believe that it should not be an alternative, for qualifying swaps, it should be the only treatment.

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 do not support the simplified approach as an alternative.

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 do not support the simplified approach but if it were adopted, then it does not seem significant when the election is made as long as it is made for all qualifying swaps existing at the time.

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 have no significant feedback or comments.



The Association of
Accountants and
Financial Professionals
in Business

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.

Yes we agree that the complexity of applying a full retrospective restatement could be onerous as these types of swaps are commonly for long periods of time so depending on their age, could impact many periods of reporting. However, the full retrospective application should also be allowed should an entity or its users feel that it is significant enough to restate prior periods. Our general sense is that the majority of entities within the proposed scope may only have one swap in place and find the retrospective restatement simple with information provided from the swap issuer.

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.

Early adoption should be allowed provided it is adequately disclosed.

Question 20

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

Private, small to medium sized companies should always need a year to learn of the guidance change and determine how they will be impacted should there be any actions which they would need to take before implementation. The actual calculations, recording and measurement are simpler than existing guidance so it should not increase the burden on preparers.

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



The Association of
Accountants and
Financial Professionals
in Business

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.

Yes we are in general agreement, but will comment on the FASB's separate proposal at a later date.