



August 16, 2013

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

RE: File Reference No. PCC-13-03; Derivatives and Hedging (Topic 815): *Accounting for Certain Receive – Variable, Pay – Fixed Interest Rate Swaps*

To Whom It May Concern:

One of the expressed goals of the Texas Society of Certified Public Accountants (TSCPA) is to speak on behalf of its members when such action is in the best interest of its members and serves the cause of Certified Public Accountants in Texas, as well as the public interest. The TSCPA has established a Professional Standards Committee (PSC) to represent those interests on accounting and auditing matters. The views expressed herein are written on behalf of the PSC, which has been authorized by the TSCPA Board of Directors to submit comments on matters of interest to the committee membership. The views expressed in this letter have not been approved by the TSCPA Board of Directors or Executive Board and, therefore, should not be construed as representing the views or policy of the TSCPA.

We are happy to have the opportunity to respond to the above-referenced exposure draft (ED) of the Private Company Council.

Question 1: Please describe the entity or individual responding to this proposed Update. For example:

- 1. Please indicate whether you primarily are a preparer, user, public accountant, or other (if other, please specify).**
- 2. If you are a preparer of financial statements, please indicate whether your entity is privately held or publicly held and describe your primary business and its size (in terms of annual revenue, the number of employees, or other relevant metric).**
- 3. If you are a public accountant, please describe the size of your firm (in terms of number of partners or other relevant metric) and indicate whether your practice focuses primarily on public entities, private entities, or both.**
- 4. If you are a user of financial statements, please indicate in what capacity (for example, lender, investor, analyst, or rating agency) and whether you primarily use financial statements of private entities or those of both private entities and public entities.**

The Texas Society of CPAs is a nonprofit professional association with over 27,000 members. All members of the TSCPA Professional Standards Committee are Certified Public Accountants. The PSC includes members who, as public accountants, assist in the preparation of financial statements for private company clients. Committee membership also includes members who are employed by private companies, nonprofit organizations, and governmental entities, and many of these members are

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responsible for preparing financial statements for their employers. Members in public practice include sole practitioners, partners in small and large firms, and individuals involved in financial consulting. All members of the PSC are involved in the preparation or use of financial statements, whether for clients, an employer, or as an expert witness/consultant.

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.)

Based on the reasons given on page 24 (BC 10), which state: (1) confusion due to a number of different types of derivative transactions that financial institutions and similar entities typically enter into, and (2) unintended regulatory consequences, we are in favor of this scope exclusion. We have no recommendations regarding other entities that should be excluded.

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.

The overwhelming use of derivatives for not-for-profit entities is the plain vanilla swap noted in this ED. For that reason, we are in favor of expanding the scope of this ED to include not-for-profit entities.

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 are in agreement with the required criteria.

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 have no problem 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 believe management's intent to hold the swap or buy out of it at a future date is irrelevant. It is management's responsibility to explain why they chose one of two options to account for their interest rate swap using the combined or simplified hedging approach. Additionally, any comment with the footnotes and disclosures about intent may lead to assumptions and conclusions by the reader of the financial statements that are not justified or foreseeable. Thus, we are opposed to any additional criteria regarding management's intent.

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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 are opposed to this requirement. Such a requirement would force management to resort to speculation which could result in confusion and misinterpretation by the users of the financial statements.

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 are in agreement with this statement. Nonperformance risk of the swap counterparties should not be considered in the settlement value as it would be highly speculative and subject to manipulation and would also require additional standards to control how nonperformance risk can be measured and valued.

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 agree, as we believe settlement value is most relevant as of the reporting date and most easily understood by non-technical users of financial statements.

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

We believe the costs are less because settlement value is easier to obtain as it is arrived at by the counterparty.

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.

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We agree with the disclosure and believe it to be adequate.

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 agree with the disclosure and that settlement value may be substituted for fair value, whenever applicable.

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 are generally in agreement that a reasonable time frame should be adhered to for completion of the formal documentation. However, we believe the Board should provide a more definitive time period than "within a few weeks." Such a nebulous time frame often leads to self-serving interpretation and delays that could cause problems.

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 are in agreement with the option provided as this would enable entities to present consistent and comparable information for similar transactions that have occurred in the previous period/periods.

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 are in favor of early adoption of the proposed amendments.

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

We find it difficult to determine the exact time needed for implementation as each entity would have its own set of constraints and challenges. However, we believe that a time frame of four to eight months would appear to represent a reasonable amount of time for implementation.

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 within the scope of the Private Company Decision-

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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 are in agreement with the Board's tentative decisions regarding the definition of a public business entity.

We appreciate the opportunity to provide our input into the standard-setting process.

Sincerely,



Sandra K. Brown, CPA
Chair, Professional Standards Committee
Texas Society of Certified Public Accountants