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August 23, 2013

Technical Director File Reference No. PCC-13-03 Financial Accounting Standards Board 401 Merritt 7, P.O. Box 5116 Norwalk, CT 06856-5116

via e-mail to director@fasb.org

Re: File Reference No. PCC-13-03

Thank you for allowing us to provide our views on the Private Company Council's (PCC) July 1, 2013 Proposed Accounting Standards Update to *Derivatives and Hedging (Topic 815):*Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps (the "Update").

We appreciate the PCC's efforts to reduce income statement volatility related to receive-variable, pay-fixed interest swaps for private companies, as such companies often enter into these swaps merely as an alternative when fixed rate debt is not available. Thus, the economic substance is a compound transaction that provides these companies with fixed rate debt. Requiring these companies to follow Topic 815 by marking the swap to fair value through earnings each period does not reflect the true economic substance of the transaction, thus the options offered in the Update are welcomed.

Following are our responses to each of the questions posed.

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

Response: We are a professional service organization specializing in accounting, auditing, tax, and business consulting services. We have offices in Manhattan and Long Island and are ranked among the Top 100 largest firms in the U.S. by both INSIDE Public Accounting and Accounting Today. Our client base includes both public and private entities, as well as not-for-profit organizations.

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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.)

Response: We have no objection to the exclusion of these entities, and note no others that we think 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.

Response: We believe the scope should be expanded to not-for-profit entities, as they often face the same challenges as private entities in obtaining fixed rate debt. We do not see a need to change the approaches specifically for such organizations.

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.

Response: We have no objection to the required criteria as proposed.

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.

Response: We have no objection to the differences in criteria as proposed.

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.

Response: We do not see this as being necessary or helpful, as we see no empirical evidence that companies are settling swaps other than if the debt is repaid. Presumably, if this criterion was added, evaluation guidelines and ramifications similar to those in Section 320-10-35 regarding tainting held to maturity investments would have to be added as well. Not only would this add to the complexity this Update is attempting to help reduce, but it would also defeat the intention of limiting income statement volatility if the result was that future swaps would have to be marked to market through earnings.

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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.

Response: We suggest instead that the risk of counterparty default in such a circumstance be handled via a Topic 450 contingent disclosure item, and not by making it a criterion for using the combined instruments approach. This would achieve the goal of alerting financial statement readers to the potential risk of loss without introducing income statement volatility unless the risk of loss was probable.

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.

Response: We agree that nonperformance risk is the primary difference.

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.

Response: We agree that disclosing the swap's settlement value would provide adequate information regarding potential future cash flows.

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

Response: As entities obtain the settlement value from the counterparty, the cost of obtaining such information is minimal, and is less than if performing a fair value analysis. The differences in auditing costs are minimal, as inputs and calculations must be tested for both values.

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

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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.

Response: We believe the proposed disclosures appear adequate, and have no further suggestions.

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.

Response: We believe the disclosures in Topic 815 and 820 would be adequate for the simplified hedge accounting approach, and that settlement value could be substituted for fair value.

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.

Response: We agree with this approach as it would help to reduce complexity in accounting and disclosures.

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.

Response: We have no objection to this approach.

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.

Response: We have no objection to this approach.

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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.

Response: We agree with this requirement.

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.

Response: We can envision this as creating issues in the interpretation of "few weeks" as well as in companies with smaller accounting departments given the complexities of the documentation rules. We suggest instead that the requirement be "prior to the issuance of financial statements covering the period in which the company entered into the swap."

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.

Response: We view this choice as creating potential issues in comparability, especially if the PCC goes forward with both the combined instruments and simplified hedge accounting approaches. We suggest instead that one approach be required for all companies, and recommend the modified retrospective approach as the one that we believe would provide sufficient transparency to financial statement readers while respecting the cost-benefit equation of obtaining and compiling the information.

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.

Response: We have no objection to early adoption.

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

Response: We believe the effective date should be as early as practicable as the time required to implement the proposed amendments should be minimal.

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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-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.

Response: We will defer our comments on this question to the response we will submit to the FASB's proposed ASU Definition of a Public Business Entity.

Thank you for kind consideration of our responses.

Sincerely,

CPAs, P.C.

Grassi, CPA, CFE

Managing Partner