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August 23, 2013

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

Via email to director@fasb.org

Re: File Reference No. PCC-13-03

Dear Technical Director:

We are pleased to comment on the Financial Accounting Standards Board's (FASB) Proposed Accounting Standards Update, Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps – a proposal of the Private Company Council.

We appreciate the efforts being made by the FASB and the Private Company Council (PCC) to develop alternatives to U.S. generally accepted accounting principles for certain nonpublic entities. We believe there is high demand for these alternatives among private company financial reporting stakeholders.

We agree that the proposed accounting alternative would reduce the overall costs and complexity associated with the current required accounting for the hedging of variable rate debt, while still yielding sufficient relevant decision-useful information to users of private company financial statements. Though, as discussed in more detail below, we do not agree with the combined instrument approach for any entity as it is not representationally faithful of the instruments in question. While we support simplification for non-public companies, we do not believe the Proposal's alternatives should result in the addition of two different methods when one would suffice.

We understand the Board and PCC have decided not to address the assessment of preferability for private companies in the Private Company Decision-Making Framework as noted in the Summary of Board Decisions for the July 16, 2013 FASB meeting. ASC Topic 250, Accounting Changes and Error Corrections, paragraph 250-10-45-12 states "An entity may change an accounting principle only if it justifies the use of an allowable alternative accounting principle on the basis that it is preferable." It is unclear how the FASB intends for preparers to address preferability as it relates to adopting one of the PCC alternatives either initially or at some later date, given that the PCC proposals were proposed to provide relief to private companies by providing accounting alternatives that are expected to reduce the costs and complexities associated with the accounting for certain accounting matters. ASC 250-10-45-13 states "The issuance of a Codification update that requires the use of a new accounting principle, interprets an existing principle, expresses a preference for and accounting principle, or rejects a specific principle may require and an entity to change an accounting principle. The issuance of such an update constitutes sufficient support for making such a change." We do not believe the issuance, and subsequent adoption of a private company accounting alternative, such as those contained in this proposed Update, would meet one of the aforementioned criteria.

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We strongly believe the Board should address this matter when issuing the final ASU on this topic. One option to address this matter could include proposing an amendment to ASC 250 that would provide that the issuance of private company alternatives, initiated by the PCC and subsequently issued as Codification updates by the FASB, are excluded from the scope of ASC 250 for purposes of preferability.

We will also be providing comment separately on the FASB's "Definition of a Public Business Entity-An Amendment to the Master Glossary" Exposure Draft.

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

Crowe Horwath LLP is one of the largest public accounting and consulting firms in the U.S. serving both private and public companies. We have approximately 2,600 personnel and over 250 partners. We are one of the nine U.S. firms currently inspected annually by the Public Company Accounting Oversight Board, and are an independent member of Crowe Horwath International which includes more than 150 independent accounting and management consulting firms with offices in more than 100 countries around the world. Our audit practice focuses on both private and public companies.

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.

We support the Board considering expanding the simplified hedge accounting approach to not-for-profit entities if the users of those financials statements find cash flow hedge accounting meaningful. Before commenting fully, however, we would like to better understand how the Board intends to address the presentation of derivative gains and losses in the not-for-profit's statement of financial performance.

There continues to be concerns regarding the difficulties in complying with complex hedge accounting rules, including the contemporaneous documentation requirements, even for publicly traded companies. All too often, companies who enter into similar hedging transactions may end up with very different accounting results because one of the companies may have a technical deficiency in their hedging documentation. We encourage the FASB to explore potential amendments, separate from this project, to existing hedge accounting requirements that could ease some of those difficulties for publicly traded 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.

We do not believe the combined instrument approach is representationally faithful of the instruments in question. A loan and interest rate swap are two separate instruments; may be entered and exited mutually exclusively; both instruments may not involve the same third party; and the existence of the interest rate swap results in an asset or liability that under the combined instruments approach would not be recorded. Similarly, if a fixed rate loan included a two-way breakage feature, it would generally be bifurcated and reported as a derivative. While we support simplification for non-public companies, we do not believe the Proposal's alternatives should result in the addition of two different methods when one would suffice.

We agree with the criteria for applying the simplified hedge accounting approach, but we believe terms such as: within a few weeks, plain-vanilla, by no more than a few days and near zero will result in inconsistent implementation. Further, while we recognize the challenges faced by some entities in

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preparing timely formal hedge accounting documentation, we don't believe that expanding the timeline by a few weeks will be helpful in reducing these challenges.

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.

If the combined instruments approach is retained, we do not see the benefit of adding a requirement to hold to maturity. This would introduce a "tainting" concept into an alternative that is meant to simplify the accounting for such hedging relationships. The proposed guidance in paragraph 815-50-35-2 provides appropriate accounting guidance for when the conditions for applying the combined instruments approach subsequently cease to be met.

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.

If the combined instruments approach is retained, we do not believe there should be a requirement regarding risk of counterparty default. We believe this would defeat the purpose of providing this accounting alternative as it would cause private companies to determine if there have been adverse developments regarding the risk of the financial institution counterparty (which is often times the lender) defaulting on the swap, which could be challenging for some private companies. In addition, it is not clear how such information would be analyzed or how it would impact the accounting for the hedging relationship.

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

Swap counterparties generally do not include a credit value adjustment when reporting derivative values. Additionally, entities with derivatives, particularly non-public entities, often do not adjust the counterparty value for credit. Thus, in those instances there may not be a cost savings to entities reporting derivative values, but it will likely reduce the effort to audit the credit component of a derivative value, or lack thereof. However, the value provided by derivative counterparties is not a settlement value, but rather an indicator of value. Settlement value in most cases can only be obtained through negotiating an actual settlement with the counterparty. Absent replacing settlement value with a different term or better defining the term settlement value for this purpose, there is risk that readers of the financial statements will interpret the reported settlement amount incorrectly (e.g. the reported amount being the amount for which the derivative could actually be settled).

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.

Notwithstanding our previous comments regarding settlement value, we agree that settlement value may be substituted for fair value disclosure purposes, provided that it is appropriately defined and not captioned as fair value.

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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 believe that in order to be operational and consistently applied among those private entities that elect the alternative, the Board could simply require that the formal documentation required by paragraph 815-20-25-3 be in place when the financial statements are available to be issued. Unlike publicly traded companies, who have regular periodic financial reporting subject to some level of assurance, private entities may only prepare formal financial statements once a year in connection with preparing for a year-end audit or review. It is during this time that many private entities would consider the documentation requirements of paragraph 815-20-25-3. In light of our previous comments, we do not believe that increasing the documentation completion date to a few weeks would provide the relief that that the Board intended from the existing requirement to have documentation in place contemporaneously with the hedging transaction.

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Should you have any questions, please contact Scott G. Lehman at (630)574-1605 or scott.lehman@crowehorwath.com.

Sincerely,

Crowe Horwath LLP

Crowe Horwath LLP