August 6, 2013

Ms. Susan M. Cosper, CPA  
Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, Connecticut 06856-5116

Re: Derivatives and Hedging Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps a proposal of the Private Company Council

Dear Ms. Cosper:

We appreciate the opportunity to offer comments on the above referenced Accounting Standards Update. The efforts of the FASB Private Company Council ("PCC") are of significant importance to the preparers, users and auditors of private company financial statements. We are pleased that the PCC has taken up the issue of derivatives and hedging as part of their initial portfolio of proposed changes for private companies.

ParenteBeard LLC is a large regional accounting firm headquartered in Philadelphia, Pennsylvania, with operations throughout the Mid-Atlantic Region. We are currently ranked in the top 25 of U.S. accounting firms, with approximately 1,000 team members including approximately 120 partners. Our practice is diverse; we have large concentrations in health care, higher education, manufacturing and distribution and construction. Our practice is primarily privately owned businesses and not for profit organizations, but we do have a public company practice and are a PCAOB triennially inspected firm.

In general we support the overall approach within the ASU. Our comments are limited to responses to the Board’s questions.

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

a. Please indicate whether you primarily are a preparer, user, public accountant, or other (if other, please specify).

b. 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).

c. 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.
d. If you are a user

We are a large regional public accounting firm with a diverse practice. Please see opening comments above for the statistics.

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.)

We agree that financial institutions as described should be scoped out of this simplified hedge accounting approach. These institutions deal with various financial assets and liabilities as a matter of course. The users and their regulators have an expectation with respect to accounting for financial instruments. The impact of changing accounting might have severe unintended consequences.

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 believe the combined instrument approach has a sound intellectual foundation and should be considered for publicly traded companies and for not for profit organizations, with robust disclosure of the potential for transfer of assets in the event of early termination of the related debt.

As to simplified hedge accounting, we would support this for not for profit organizations as many have limited accounting resources and the simplicity of this approach would be beneficial while still providing useful information to the users. As to public companies, we are less certain. The ability to defer hedge designation for "a few weeks" may create the opportunity for some earnings management on a quarter by quarter basis. We believe this may require more refinement to be applicable for public companies. We do believe, however, that the criteria could be applicable to public companies with perhaps more rigor placed around the hedging designation.

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 generally agree to the criteria, but offer the following, which applies to both approaches:

- We believe more transparency should be added to the requirement for matching interest rates. That is, it should be clear that the interest rate need not be a designated rate such as LIBOR, as used in the extant standard. As long as the same rate is used on each side of the swap, it should be permitted.
We believe that guidance should be provided with respect to the zero fair value at inception. Most swaps appear to have a zero fair value at inception, at least to the counterparty as there is no obvious payment for the swap. However, we understand that there is a transaction value for the swap which is not disclosed to the counterparty, but rather baked into the spread. We suggest instead of using the concept of zero fair value at inception, the requirement should be zero or near zero cost to counterparty at inception.

**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.

**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 do not believe there would be any benefit to require so called “management intent” with respect to applying this accounting. As a practical matter this would be impossible to operationalize from an audit perspective. It would be unlikely that management would engage in some sort of strategy involving entering into and exiting credits and thereby paying the exit costs.

**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.

As with all contingent losses, we believe the guidance provided in ASC 450 can effectively be applied to the above scenario. Management has the responsibility to monitor and manage all risks affecting the business. As such, if there is an indication of potential credit problems with its counterparty they would assess the need for disclosure or accrual of a loss. No additional requirements seem necessary.

**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 do agree with this assessment. The difference being that a settlement value is what the entity would pay to settle the liability but not necessarily the exit price as defined in ASC 820.
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.

Yes.

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

The costs are significantly less as they can usually be obtained from the counter party without cost, rather than employing a valuation specialist to derive a 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.

We would agree with the disclosures proposed, except for d. We believe that the loss exposure is self-evident unless and until there is a potential for loss (based on ASC 450 criteria), at which time the disclosure could be expanded.

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 believe the settlement value is a practical expedient substitute for purposes of the disclosures.
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 agree that at adoption of the standard an entity should have the opportunity to make this election and reset the accounting for all of its qualifying swaps.

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 this appears to be a reasonable 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.

We agree with this approach.

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.

Yes in connection with the period for which the ASU is first 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 agree that this is a reasonable approach and the documentation can be limited to the assessment of whether or not the swaps meet the criteria for either of the simplified approaches. There should be no requirement for discussing the risk being hedged, etc.
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 with providing the option but believe the full retrospective approach is preferred and do not believe it is that difficult to obtain 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.

Yes early adoption is beneficial.

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

We do not believe the time necessary to implement the proposed amendments is excessive. Generally for all but the very large private enterprises, the number of swaps to deal with is generally few and the information is readily available. These organizations are likely to early adopt. Others with numerous swaps may need a longer period to analyze the criteria against each swap.

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.

We agree with the criteria, but believe the final definition could benefit from some examples. In particular we note some confusion in practice with applying the conduit debt obligor definition.

In conclusion, we congratulate the Board, the Staff and the PCC in proposing this ASU related to hedge accounting. Adopting this Update will be a significant improvement in private company financial reporting and lead to reduced compliance costs and more understandable financial statements.

Sincerely yours,

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