August 23, 2013

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

Sent via e-mail to director@fasb.org

Sensiba San Filippo LLP is pleased to have the opportunity to respond to the FASB’s Invitation to Comment on Proposed Accounting Standards Update: Derivatives and Hedging (Topic 815), issued July 1, 2013.

Below is our response to the questions in your invitation to comment.

**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).

   **Response:** Public accounting firm

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).

   **Response:** Not applicable.

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.

   **Response:** Sensiba San Filippo LLP ("SSF") has 14 Partners and approximately 90 accountants with a focus on private entities.

d. 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.

   **Response:** Not applicable.
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: Yes, SSF concurs with the scope exception.

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: In regard to not-for-profit entities, SSF feels that the Board should expand the scope to allow not-for-profit entities to adopt both of the proposed approaches. Not-for-profit borrowers often rely on interest rate swaps because the swaps alleviate the interest rate risk associated with variable rate demand obligations. These entities, like private companies, often lack the resources to comply with the existing reporting requirements and would benefit from the proposed approaches.

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: Yes, we generally agree with the criteria, as the criteria encompasses typical swap agreements utilized by private companies. Further criteria could limit the use of these approaches. We recommend two changes to the criteria to expand the definition of instruments that would qualify. (1) We believe that criteria item b should allow for a “low” floor (rather than limiting to “no” floor) even if the borrowing does not have a comparable floor. The definition of a “low” floor could be at the discretion of the preparer. (2) Additionally, regarding criteria item d, we recommend that if a swap’s fair value at inception was determined to be “immaterial” rather than “at or near zero”, that swap should qualify for the 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.

Response: Yes, refer to the response given for Question 4 above.

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: Though circumstances can change and vary, SSF does agree that it would be appropriate that management represent their intent to hold the swap agreement to maturity in order to meet the criteria for the combined instrument approach. As the combined instrument approach relies on settlement value instead of fair value and because of inherent objectives of the approach, it is relevant to the presentation of the financial statements that management’s intent for a swap is that it be held through maturity.
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: Based on our interpretation of the above question, we assume that there were no adverse developments known or anticipated at the inception of the swap agreement. If an adverse development occurs after inception that increases the risk of default and deems the swap ineffective, SSF agrees that this would change the nature of the agreement such that it would no longer be appropriate to use the settlement value for financial statement reporting purposes.

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: Yes, we agree that the primary difference between settlement value and fair value is generally the nonperformance risk of the swap counterparties.

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 disclosure of the swap’s settlement value would adequately provide users of the financial statements with an adequate indication of potential future cash flows. In practice and in part because of the limited information available to private companies regarding the non-performance risk of interest rate swap instruments, it has been our observation that settlement value is commonly used in reporting the fair value of interest rate swap instruments.

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

Response: Yes, costs to obtain settlement value are significantly less than fair value. Settlement values have generally been readily provided by the lending institutions brokering or facilitating interest rate swap transactions, whereas fair value requires specific valuation and financial instrument market expertise that many private companies lack access to.

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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)

   Response: Yes, we agree.

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.

   Response: Yes, we agree.

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.

   Response: Yes, we agree.

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: Yes, we agree.

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: Yes, we agree.

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: Yes, we agree.
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: SSF agrees that the policy election must be made after the adoption of the amendments; however, we believe that companies should be allowed to complete the documentation requirements at any time during the current reporting period rather than requiring that they be completed within a few weeks of entering into the transaction. Private companies are frequently unaware of the accounting implications of interest rate swap transactions entered into until after consultation with their outside auditors or accountants which may occur more than a few weeks after the transaction.

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: Yes, we agree.

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: SSF believes that entities should have the option to choose one of the two methods.

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: SSF agrees that formal documentation as required by 815-20-25-3 should be required under the simplified hedge accounting approach; however, we believe that companies should be allowed to complete the documentation requirements at any time during the current reporting period rather than requiring that they be completed within a few weeks of entering into the transaction. Private companies are frequently unaware of the accounting implications of interest rate swap transactions entered into until after consultation with their outside auditors or accountants, which may occur more than a few weeks after the transaction.
**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 agree that either method would be considered an acceptable approach, however given that one of the objectives of the Private Company Council is to simplify reporting, we request that the Board consider potentially limiting the proposed update to allow for only the use of the modified retrospective approach.

**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 agree that early adoption should be permitted.

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

**Response:** SSF recommends that the Accounting Standard Update would allow at least a period of one year between the date of issuance and the effective date of the standard. This would provide both private company preparers and financial statement users’ adequate time to understand the implications of these changes given that there will not be access to public company financial statements for reference examples of disclosures and adoption presentation.
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: Yes, we agree.

Thank you for your consideration of our comments. You may contact Karen Burns at 925-271-8700 or kburns@ssfilp.com for any clarification or questions you may have regarding the above comments.

Sensiba San Filippo LLP

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