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PricewaterhouseCoopers LLP
400 Campus Drive
P. O. Box 988
Florham Park NJ 07932
Telephone (973) 236 4000
Facsimile (973) 236 5000

Mr. Lawrence W. Smith
Director of Technical Application & Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference: Proposed Issue H17

Dear Mr. Smith:

PricewaterhouseCoopers LLP appreciates the opportunity to respond to the Financial Accounting Standards Board's ("FASB" or the "Board") proposed Statement 133 Implementation Issue No. H17, *Hedging Functional-Currency-Equivalent Proceeds to Be Received from a Forecasted Foreign-Currency-Denominated Debt Issuance* ("H17").

We agree with the conclusion proposed in H17 because the variation in functional-currency-equivalent proceeds that an entity will receive from a forecasted issuance of debt denominated in a currency other than the reporting entity's functional currency does not expose the entity to a risk that will impact reported earnings as required by paragraph 29(c) of FASB Statement 133, *Accounting for Derivative Instruments and Hedging Activities* (FAS 133). The functional-currency-equivalent proceeds received from the forecasted issuance of foreign-currency-denominated debt will only expose the borrower to foreign currency risk that will impact reported earnings to the extent that there are changes in exchange rates that occur after the debt is recognized in the statement of financial position. Changes in foreign currency exchange rates from the inception of the hedging relationship to the issuance date of the foreign-currency-denominated debt will not result in an earnings impact.

While we agree with the proposed conclusion for the reasons described above, we do not agree with the statement in H17 that paragraph 29(c) " . . . requires that the effect on reported earnings be *directly related* to the forecasted transaction itself . . . as opposed to a *tangential relationship*" (emphasis added). We do not believe that FAS 133 includes such a requirement. Furthermore, by making that statement, the Board is creating a potential conflict with the guidance for hedging forecasted intercompany foreign currency transactions. Paragraphs 482 through 484 of FAS 133 explain that the Board initially considered but later rejected having a requirement that an entity could only hedge forecasted intercompany transactions in circumstances where there was a "direct, substantive relationship" between costs incurred in one currency and the third-party revenues for recovering those costs that are generated in another currency. We agree with the Board's final conclusion to permit hedge accounting for forecasted intercompany foreign currency transactions without requiring a "direct, substantive relationship" that was proposed earlier in the exposure draft for FAS 133.

We do not believe that the guidance in Issue H17 is intended to address hedges of forecasted intercompany foreign currency transactions. However, if the Board retains the discussion in H17 that FAS 133 requires a "direct" rather than a "tangential" relationship between the effect on reported earnings and the hedged forecasted transaction, we recommend that the

guidance be clarified to state that it is not intended to apply to hedges of forecasted intercompany foreign currency transactions.

If you have any questions about our comments, please contact John Althoff (973-236-7288) or Jeff Naumann (973-236-7182).

Sincerely,

PricewaterhouseCoopers LLP

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