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Mr. Lawrence W. Smith
Director, TA&I - FSP
Financial Accounting Standards Board
401 Merritt 7
P. O. Box 5116
Norwalk, CT 06856-5116

Re: Proposed Statement 133 Implementation Issue No. H17, "Foreign Currency Hedges: Hedging Functional-Currency-Equivalent Proceeds to Be Received From a Forecasted Foreign-Currency-Denominated Debt Issuance"

Dear Mr. Smith:

Deloitte & Touche is pleased to comment on proposed Statement 133 Implementation Issue No. H17, "Foreign Currency Hedges: Hedging Functional-Currency-Equivalent Proceeds to Be Received From a Forecasted Foreign-Currency-Denominated Debt Issuance" (the "proposed Implementation Issue"). We support the issuance of the proposed Implementation Issue as a final Implementation Issue, as explained below.

Proposed Implementation Issue H17 concludes that the variability in functional-currency-equivalent proceeds attributable to foreign exchange risk that is to be received from the forecasted issuance of debt denominated in a currency other than the reporting entity's functional currency is not eligible for designation as the hedged transaction in a cash flow hedge. This conclusion appears inconsistent with paragraph 36 of FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." That paragraph states, in part:

> The recognition in earnings of the foreign currency transaction gain or loss on a foreign-currency-denominated asset or liability based on changes in the foreign currency spot rate is not considered to be the remeasurement of that asset or liability with changes in fair value attributable to foreign exchange risk recognized in earnings, which is discussed in the criteria in paragraphs 21(c)(1) and 29(d). Thus, those criteria are not impediments to either a foreign currency fair value or cash flow hedge of such a foreign-currency-denominated asset or liability *or a foreign currency cash flow hedge of the forecasted acquisition or incurrence of a foreign-currency-denominated asset or liability whose carrying amount will be remeasured at spot exchange rates under paragraph 15 of Statement 52.* [Emphasis added]

The words highlighted above imply that it is possible to use a foreign currency cash flow hedge to hedge the forecasted issuance of foreign-currency-denominated debt (incurrence of a liability) that will be remeasured at spot exchange rates in accordance with FASB Statement No. 52, *Foreign Currency Translation*. The proposed Implementation Issue should reconcile this inconsistency and the Board should consider issuing a technical Staff Position to amend Statement 133 to correct the language in paragraph 36.

The proposed Implementation Issue concludes that a cash flow hedge of the proceeds to be received in a forecasted functional-currency debt issuance is eligible for cash flow hedge accounting when the rate on the debt is fixed. Readers might benefit from a reference to Statement 133 Implementation Issue No. H4, "Hedging Foreign-Currency-Denominated Interest Payments," which permits foreign-currency-denominated fixed-rate interest payments to be designated as the hedged transaction in a cash flow hedge.

The topic of Effect of Earnings also provides a discussion on the concept of a direct impact versus an indirect impact on earnings. We question whether this discussion is necessary and whether it helps readers understand the basis for the conclusions reached.

Rather than presenting a discussion on the concept of a direct versus indirect impact on earnings, the proposed Implementation Issue might benefit readers more by including a simple example explaining how interest expense does not change, even in an environment of fluctuating exchange rates. For example, assume that on January 1 a company forecasts that it will issue €1 million debt on February 1 with a fixed 10 percent interest rate. If the exchange rate changes from $1: €1 at January 1 to $1: €1.5 at February 1, the interest to be paid remains the same in U.S. dollars. At the January 1 exchange rate, the annual interest in U.S. dollars would be $100,000. At the rate of exchange prevailing at February 1, the amount of euro proceeds necessary to raise $1million would be €666,667. The related annual interest, assuming constant interest rates, would be €66,667. However, translating euros into U.S. dollars, the annual interest is still $100,000 (where €66,667 ÷ 1.5 = $100,000). Therefore, the annual interest expense in functional currency terms is unaffected by a change in exchange rates between the hedge date and date the debt is issued.

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We appreciate the opportunity to comment on the proposed Implementation Issue. If you have any questions concerning our comments, please contact Jim Johnson at 203-761-3709.

Yours truly,

Deloitte & Touche LLP