



LETTER OF COMMENT NO. 7

## SILVER WHEATON

SILVER WHEATON CORP.  
Park Place  
Suite 3400 - 666 Burrard St.  
Vancouver, BC  
Canada V6C 2X8

T: 604. 684.9648  
F: 604. 684.3123

[www.silverwheaton.com](http://www.silverwheaton.com)

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Mr. Larry Smith  
Director of Technical Application & Implementation Activities  
FASB, 401 Merritt 7,  
P.O. Box 5116  
Norwalk, CT  
06856-5116

Dear Mr. Smith,

We thank you for the opportunity to respond to the Proposed Statement 133 Implementation Issue C21 "*Scope Exceptions: Whether Options (Including Embedded Conversion Options) Are Indexed to both an Entity's Own Stock and Currency Exchange Rates*". Our Company is affected significantly by this Implementation Issue and therefore we felt it necessary to outline our position regarding the proposed accounting. The accounting treatment provided in Question 1 of the Implementation Issue does not, in our opinion, result in financial disclosure which is representative of the underlying transaction. The current guidance that is being relied on by the Board to make a conclusion was written without contemplating the current situation and therefore should not be relied upon to determine the appropriate accounting in this situation.

### **Background**

Goldcorp ("the Company") is one of the world's largest gold mining companies and is listed on both the Toronto Stock Exchange ("TSX") and the New York Stock Exchange (NYSE). The issue specifically considered for the Company is the accounting of freestanding warrants issued in a currency other than the Company's functional currency. The Company's Canadian dollar warrants were issued as part of equity offerings priced in Canadian dollars and offered under Canadian prospectuses. The exercise price of the Canadian warrants is fixed and denominated in Canadian dollars, and the Company will receive Canadian dollars when exercised. The Company's functional currency is US dollars. According to the implementation issue these warrants have a foreign currency component which will require the warrants to be valued at fair value and recorded as a liability.

### **Discussion of Current Literature**

#### **DIG C8 and FAS 133 P. 286**

During the Board meeting and in the Proposed Implementation Issue C21, reference is made to Implementation Issue C8 for evidence that a foreign exchange component of a warrant or a convertible should require classification of the derivative as a liability. Although the issue seems to

be discussed in DIG C8 the fact is the issue is quite different. Implementation Issue C8 is not specifically on point for the warrants in question as it applies to a derivative that has two elements, an exchange component and a stock-indexed component. The warrants in question only have a stock-indexed component as they have a fixed exercise price which will be settled by the Company delivering a fixed number of shares in exchange for a fixed amount of cash.

The response in Implementation Issue C8 references paragraph 286 of FAS 133 for the rationale behind the decision to classify the forward contract as a liability. The language in paragraph 286 again discusses a company issuing stock that is *indexed* to something other than the fair value of the Company's stock. From the discussion in Implementation Issue C8 and paragraph 286 it is evident that the meaning of *indexed* implies the Company will issue a variable number of shares based on the final value of the index. It is important to realize that the amount of shares to be issued by the Company based on the outstanding warrants is not contingent on anything, including a foreign exchange rate; the number of shares to be issued is fixed.

Paragraph 286 also discusses the fact that the Board had a project on its agenda to discuss what constitutes certain instruments as being classified as liabilities or equity. The FASB completed this project with the release of FAS 150 – Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. FAS 150 paragraph 13 explicitly states that the statement applies to freestanding financial instruments in their entirety which would include the warrants issued by the Company. FAS 150 lists the situations in which financial instruments that have characteristics of both liabilities and equity should be recorded as a liability in paragraphs 9 – 12. Paragraph 12(b) is very important as it outlines what is discussed in Implementation Issue C8 (except with an index to the S&P 500 rather than a foreign exchange rate) and in paragraph 286 of FAS 133 in which the shares to be issued are indexed to something other than the fair value of the issuer's shares. The paragraph specifies that the number of shares to be delivered must be variable in order to treat the instrument as a liability which is the same as the conclusion in Implementation issue C8 but is not relevant in the situation where the number of shares to be delivered is fixed.

We would also contend that the functional currency of the Company is not relevant to an investor's determination of value of the warrants. It is a determinant in the measurement of the Company's financial results, but does not directly contribute to the relationship of the warrant contract and the equity instrument deliverable upon exercise of the warrant. In our view, the only factor that impacts the value of the warrant to the holder is the share price. The warrant holders paid Canadian dollars for the warrant and when they exercise the warrant, they will pay Canadian dollars and receive a share that they can immediately trade on the TSX in Canadian dollars. Investors would attribute the value of their warrant to the value of the underlying equity price, not exchange rates. This in conjunction with the fact that the number of shares to be delivered is fixed reinforces the fact that literature contemplated is not reflective of the situation with respect to the Company's warrants.

From this analysis we urge the Board to look at this issue independently of previously written literature because it is an issue that doesn't seem to have been contemplated while writing FAS 133 and thus the Statement should not be relied upon for a conclusion.

### **Conclusion and Recommendations**

From the analysis provided above we believe the Board needs to contemplate the issue further than what is included in the Proposed Implementation Issue. The guidance used by the Board for the basis of their conclusions does not contemplate the situation affecting our Company. This issue was

not contemplated while writing of FAS 133 including Implementation Issue C8 and paragraph 286 and therefore the Board must analyze the issue from a new perspective.

We provide two proposed solutions as follows:

1. Warrants issued by a company that gives the holder the right to acquire a fixed number of shares in a currency that is not the company's functional currency should fall under the scope exception included in 11(a), so long as a material portion of the Company's shares are traded in that currency. This provides consistency among reporting entity's and does not penalize companies that use the US dollar as their functional currency but raise capital in the local markets and their local currency. The exception included in paragraph 11 for contracts that are indexed to something other than its own stock should be clarified either by reference to FAS 150 or by an amendment included in the paragraph which verifies the number of shares to be issued must be variable for this exception to apply. This is our Company's preferred solution as it seems to reflect the original intent of the exception included in paragraph 11 for a company that issued warrants as part of an equity financing.
2. FAS 133 paragraph 15 provides exceptions to accounting for foreign currency embedded derivatives in a non financial instrument host contract. Under part (c) of paragraph 15 a non financial instrument host contract does not have to account for a foreign currency derivative if the contract requires payment in the local currency of a substantial party to a contract. We suggest including an exception for companies that raise money in the local capital markets in their local currency. Generally, both parties involved in the financing (including the holder of the warrants and the Company) are transacting in their local currency. The Board has realized this should be an exception for non financial instrument contracts because businesses may choose a functional currency different from a local currency for many different reasons but the company should not then be penalized for transacting in the local currency if necessary. We believe this exception should be extended to financial instruments that are in the local currency if the purpose of the financial instrument was to raise capital in the local markets.

Finally, we believe the economics underlying this issue is very important when determining how to account for the warrants.

#### *Underlying Value*

In paragraph 18 of the Financial Accounting Standards Boards ("FASB") meeting minutes dated March 27, 2007 for the meeting that took place regarding this issue on March 14, 2007 (the Board Minutes"), Mr. Stevens made the comment "*the issuer of a freestanding option is effectively short on their own stock, that is, they have a loss if their share price goes up. The issuer is also long on their currency, so the issuer could have a gain or loss regardless of the stock price, due to changes in currency.*" Our Company agrees with this assessment. The issue is, the Board recognizes a scope exception for freestanding warrants that do not have a foreign exchange component but is not recognizing this exception for warrants that do have a foreign exchange component which creates significant inconsistency in the accounting treatment of warrants issued by different companies without the same inconsistency in the underlying economics of the situation. Regardless of the functional currency used by the Company, the economic outcome will be the same as the settlement of the warrant exercise is the delivery of a fixed number of shares for a fixed amount of cash. Listing on multiple exchanges affords companies a degree of flexibility required for financing purposes. We

believe that adoption of the proposed approach would create significant financing challenges for non-US domiciled entities who have determined that the US dollar is their functional currency but have historically raised, or continue to raise, financing in their local currency to satisfy the local country investor demands. Accounting guidance and the reporting outcome of the financings undertaken should not be the driver in the decision making process.

The majority of the value the Board is suggesting be classified as a liability is based on the fair value of the warrants not the foreign exchange component. In order to be consistent with the above statement, it would seem that all warrants should be held as a liability at fair value whether or not they had a foreign exchange component as this is the true economic substance of all warrants. The Board evidently thought accounting for warrants should not be this way because they included the scope exception in paragraph 11(a) when FAS 133 was originally written. It seems inconsistent then to have warrants that have a small foreign exchange component included in them to be recorded at fair value as a liability merely because of the foreign exchange. The only economic difference between the warrants is the foreign exchange component and therefore to be consistent it would seem the only way to properly reflect this situation is to bifurcate the foreign exchange component and account for the warrants consistently with the remainder of the warrants that meet the scope exception provided for in paragraph 11(a). We also note that this accounting treatment results in extreme volatility to the Company's earnings and creates a liability which, upon the exercise of the warrants, would be extinguished and reclassified to shareholder's equity. We believe this does not reflect the true economic impact of these instruments.

Regards,

**SILVER WHEATON CORP.**

A handwritten signature in black ink, appearing to read "Nolan Watson", written in a cursive style.

Nolan Watson  
Chief Financial Officer