

September 29, 2010

Mr. Russell G. Golden
Director of Major Projects and Technical Activities
File Reference No. 1810-100
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, Connecticut 06856-5116

Re: Proposed Accounting Standards Update, "Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities (File Reference No. 1810-100)"

Dear Mr. Golden,

We are a multinational company with over \$7 billion in annual revenue. A large portion of our revenue is denominated in currencies other than USD. We use foreign currency derivatives as cash flow hedges which allows us to mitigate volatility to our earnings from currency movements.

In this comment letter, we would like to address two items; 1) intercompany cash flow hedging and 2) proposed changes to the de-designation rules for cash flow hedging.

## Intercompany Cash Flow Hedging

In 2008, the FASB issued "Proposed Statement of Financial Accounting Standards (File Reference No. 1590-100)." In this proposal, the changes to paragraph number 40 of FASB Statement No. 133 (now codified in Accounting Standards Codification section 815), would have eliminated the ability to defer hedging gains or losses on intercompany revenues in OCI. We are very happy to see that there were no changes in the "types of items and transactions that are eligible for hedge accounting" (111) in the current "Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities (File Reference No. 1810-100)." We strongly encourage the FASB to continue with this approach and allow this type of cash flow hedging.

As some background, our company sells our products through our subsidiaries in a number of different countries throughout the world. Our sales subsidiaries are primarily

local currency functional. The international sales occur in the local currency of the subsidiary. Our sales subsidiaries buy these products from our manufacturing plants in local currency. Our manufacturing plants are in companies that have a functional currency of USD. These intercompany transactions are arms length transactions under tax laws. To protect the manufacturing companies' margins from currency risk, we enter into cash flow hedges by buying USD and selling local currency. We designate the forecasted intercompany sales by the manufacturing company (to the sales subsidiary) as the hedged exposure. The intercompany transactions are the only non-functional currency (and therefore the only hedge-able) transactions between our manufacturer in USD and our sale in foreign currency.

As a result, we are able to protect the manufacturing entities' as well as the consolidated forecasted revenue from changes in currency rates. In essence we are protecting our margin. Again, we encourage the FASB to allow this type of cash flow hedge designation. As such, it is a pragmatic and operationally efficient manner in which corporations mitigate currency fluctuations.

## De-designation Rules

In the proposed update titled, "Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities (File Reference No. 1810-100)," there is a significant change in the rules around de-designating cash flow hedges.

Specifically, paragraph number 119 on page 60 of the proposed update, will disallow the de-designation of a cash flow hedge. However, please confirm that this does not supersede ASC 815-20-25 in section 25-34, 25-35, and 25-36, as it relates to a contract that acts as both a cash flow and later a remeasurement (fair value or in our case non-designated) hedge.

At Gilead, we enter into forward contracts (for periods up to 18 months) to sell local currency and buy USD. The forward contracts are designated as cash flow hedges for the first 17 months (in the case of an 18 month contract). When revenue is recognized the cash flow relationship is terminated through de-designation and the derivative is handed over to our balance sheet hedging program. In other words, it becomes a hedge of the receivable remeasurement. As a result, we incur less trading costs as we do not have to enter into an additional hedge for balance sheet purposes. Please affirm that under the proposed update, that the new language does not supersede the automatic de-designation associated with the currency derivative hedging an anticipated transaction that becomes realized (ASC 815-20-25-35 and 36). We strongly encourage the FASB to keep the ability to hedge an anticipated transaction and the related payable/receivable with the same derivative instrument. If this capability is removed, we will see more transactions and incur higher costs with no benefit.

We would be happy to discuss this issue in further detail. Please feel free to call either of us (Brad Vollmer at 650.522.2331 or Martin Ebert at 650.522.1988).

Thank you for reviewing our comments.

Sincerely,

Martin Ebert

Vice President and Controller

Brad Vollmer Treasurer