

6110 Stoneridge Mall Road Suite 590 Pleasanton, CA 94588-3772 925/460-3600 Fax: 925/460-3649 coo

August 14, 2008

Financial Accounting Standards Board (FASB)
Technical Application & Implementation Activities
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116



File Reference No. 1590-100

To Whom It May Concern:

It has come to my attention that under the proposed exposure draft a company's ability to hedge using intercompany transactions may be revoked. This concerns me greatly. In addition, I understand that a company's ability to dedesignate hedges may also be revoked. This also concerns me.

I am the Assistant Treasurer of a \$1 billion public company, The Cooper Companies. Over 50% of our revenues are derived from outside the United States in numerous foreign currencies. Moreover, the bulk of our manufacturing is done in the U.K. and is GBP based. As a result our margins and profitability are enormously sensitive to foreign exchange rate movements.

We've set up an international holding company ("IHCo") based in Barbados that serves to transact with all of our subsidiaries in the buying and selling of goods. So, rather than there being direct relationships existing between Cooper and its subsidiaries, most transactions are conducted between IHCo and Cooper's subs. The subs are all local currency functional and IHCo is USD functional so there is FX risk created between these trading partners.

Taken a step further, the real economic risk is not necessarily between IHCo and its trading partner subsidiaries, but rather the real economic risk stems from the consolidated company's sales to its customers in numerous currencies and GBP manufacturing expenses. Unfortunately, since we are local currency functional, the sale between our subsidiary in Germany and its Euro customers is not a hedgeable exposure because it's a Euro functional seller that is receiving Euros. The same goes for our purchases of materials used to manufacture our U.K. product – the GBP subsidiary purchases in GBP and thus nothing is hedgeable.

Fortunately, FAS33 allows companies like Cooper to hedge these unhedgeable exposures by allowing us to use the non-functional currency intercompany sale of product to the subsidiary as a *proxy* for the sale to its third party customer. For example, by linking the sale of product

between IHCo and Germany to the sale of product from Germany to its customer, we can achieve hedge accounting treatment and hedge an otherwise unhedgeable item.

We execute forward contracts to lock in the USD costs and USD value of revenue for periods up to XX giving us time to react and adjust our business before being impacted by currency changes. By taking this right away from us, we will have no way to protect the 50% of our business that is sensitive to FX rate movement. In my opinion, this would be a reckless and careless decision that would not make any business sense at all. For those businesses like ours which operate by heavily using intercompany transactions, a decision to rescind this allowance would put us in a competitive disadvantage to our peers who sell directly or have dollar functional subsidiaries.

I do hope that you will reconsider this element of your proposition.

My second point of contention is the notion that dedesignating hedges should not be allowed. This year, we hedged an aggregate of \$600 million to protect our sales and expenses generated overseas. As rules become tighter and the microscope on hedging becomes even more acute, the documentation related to hedges is becoming more and more onerous and inclusive.

When we enter into hedges, we may transact a large amount at once, all in one day. If we were to enter into 75 (X currencies for Y different months) hedges, I then would have 75 trade designation tickets that need to be completed contemporaneously, within 24 hours (according to KPMG, our independent auditors). Although we exclude time value and only test spot changes for effectiveness, we are currently required to run regressions to show that GBP exposures and GBP hedged items are highly correlated. Fortunately this element of testing will be eliminated under the proposed changes.

Since everything related to how one plans to take hedge accounting treatment must be provided at the time of inception, it is entirely possible that an error or ill-advised decision could be made due to lack of understanding or lack of facts by a company's FX committee or management team. One would hope it never happens, but in this ever changing world of FX hedging, staying on top of all the changes and truly understanding the implications to the business can be challenging.

If the situation presented above were to occur then a decision may be made to make a change prospectively to what was stated at the inception on the initial trade designation tickets. Fortunately, FAS33 allows for a company to dedesignate and redesignate hedges if any changes in method or accounting need to be made to improve effectiveness or reporting. FAS33 is clear in stating that one cannot make those changes retroactive to inception of the hedges. The company must live with what it decided at the onset by abiding by those conditions and then from dedesignation point onwards, it may abide by the new set of stated conditions. I believe this is a very fair allowance.

However, if this allowance were to be revoked and the company had to actually close out all the affected hedges and then re-hedge all the exposures again due to a minor pronouncement change

or for a prospective change in the measure of ineffectiveness, this would be impractical, costly and time consuming.

Say those 75 hedges amounted to \$400 million. Would it really be practical to close out \$400 million of hedges and re-enter into another set of 75 hedges totaling \$400 million? Instead of paying the implied or built in cost to the banks for executing \$400 million in hedges, one would have to pay the implied cost of paying \$1.2 billion in hedges (\$400 million x 3) to execute, close and re-enter into new hedges. I'm surprised at the notion that this is *really* being considered.

I know the Board has good intentions. I am very supportive of its efforts to simplify hedge accounting. But revoking a company's ability to hedge using intercompany transactions and revoking the ability to dedesignate hedges doesn't make good business sense nor is it practical. It would have perhaps unintended but very detrimental effects on any affected businesses. And my guess is that many more businesses than you think would be affected.

Sincerely,

Brian Andrews