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LETTER OF COMMENT NO.

February 2, 2007

Mr. Larry Smith
Director of Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 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:

We appreciate the opportunity to comment on the abovementioned Proposed Statement 133 Implementation Issue ("Proposed Issue H17").

We agree with the conclusion reached in Proposed Issue H17 and support its issuance. The rationale supporting the conclusion is consistent with the analysis our firm has performed when presented with this issue in practice.

We recognize that the risk described in the Background section—that of a company seeking to mitigate its economic exposure to movements in foreign exchange rates prior to the issuance of foreign-currency-denominated debt—is a real one from a treasury, cash-flow, and opportunity-cost perspective. However, we agree with the analysis in the Response that concludes that the risk a company would be economically hedging in this situation is not one that directly affects reported earnings, as governed by FASB Statement No. 52, Foreign Currency Translation.

We have the following additional comments regarding the draft language of Proposed Issue H17:

• We recommend that the second sentence in the "Example" be changed to say, "The forward exchange rate on January 15 for July 15 delivery is 1 USD: 1.5 EUR." The term "spot forward exchange rate" is unclear when the maturity or delivery date is not identified, so a reader may not understand whether this sentence references the spot rate or a forward rate. By the fourth sentence, it is clear that the example must mean that 1



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USD: 1.5 EUR is a *forward* rate observed on January 15. Our understanding is that the spot exchange rate on January 15 is not relevant to the example and is not mentioned.

- The final paragraph of the Response states that "this is also an issue of specifying the forecasted transaction." While we agree with this paragraph, we are concerned that some readers may think that this paragraph is suggesting that there is some other way to describe the hedged transaction (such as emphasizing the coupon payments of the debt rather than the proceeds), which would allow hedge accounting. We cannot conceive of another way to designate the hedged risk that would allow the derivative described in the Example to qualify for hedge accounting, so we suggest that the language in the final Issue H17 be made clearer on this point.
- The Board may want to consider advising the reader that the conclusion in Issue H17 would not prohibit a company from seeking to hedge interest-rate risk associated with this forecasted transaction, as permitted by paragraph 29(h)(2) of Statement 133.

We would be pleased to discuss these issues in more detail with the Board or staff at your convenience.

Sincerely,

Ernst + Young LLP