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Mr. Robert Herz – File Reference 1200-100 Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

IBM appreciates the opportunity to respond to the FASB's Proposed Statement of Accounting Standards, *Inventory Costs, an amendment of ARB No. 43, Chapter 4.* While we continue to support the FASB's goal of convergence with the International Accounting Standards Board (IASB) to generate the highest quality accounting standards, we have certain concerns regarding this proposed statement.

Paragraph A4 of the basis for conclusions to the proposed statement states, "the FASB does not expect that convergence, in this instance, will substantially change practice". We believe, however, that the additional language added to ARB No. 43, requiring unallocated production overheads to be recognized as an expense in the period in which they are incurred, will be interpreted by most preparers in a way that indeed does result in a significant change in practice. This likely interpretation will result in all unfavorable production-level variances to be immediately recorded in the income statement (while disallowing such treatment of favorable variances).

If this result was not the FASB's intent, we strongly recommend that the FASB revise the detailed requirements in the proposed statement so that it does not require much of a practice change (consistent with paragraph A4).

If this result was the FASB's intent (contrary to paragraph A4), then we strongly disagree with introducing this new accounting treatment into the inventory costing model. Furthermore and given the sweeping change that these new rules would represent, we request that the Board (1) reexpose the document with illustrative examples of the impact that will result when companies have inventory production levels below "normal" and (2) consider the extensive systems' changes that will be necessary for companies to apply this new standard.

In summary, we truly hope that the apparent inconsistency between paragraph A4 and the detailed requirements in this proposed statement may be eliminated by revising the draft such that the detailed requirements support the thought in paragraph A4. We remain committed and supportive of the FASB in its efforts to work with the IASB on convergence.

You may reach me at 914-499-5260 or David Colistra at 914-766-0850.

Sincerely,

Richard Carroll