

March 1, 2004

MP&T Director – File Reference 1200-100
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Letter of Comment No: 1
File Reference: 1200-100
Date Received: 03/10/04

RE: Proposed statement of Financial Accounting Standards, Inventory Costs, an Amendment of ARB No. 43, Chapter 4

We are pleased to have the opportunity to respond to the FASB's Amendment of ARB No. 43, Chapter 4, Inventory Costs. We commend the Board on its efforts to promote the international convergence of accounting standards with the goal of improving the quality of financial reporting. We understand that this project was undertaken because of the IASB's recent standard on accounting for inventory. However, the FASB's proposed modifications to inventory capitalization appear to be a step backward for US GAAP.

ARB 43 currently provides two clear principles:

- Inventories should be stated at cost; and
- Some acquisition or production costs may be so abnormal as to require a current period charge rather than being handled as a portion of the inventory cost.

We disagree with the proposed revisions to second bullet point that would result in both inconsistent handling of production costs and prescriptive rules requiring certain activities be treated as current period charges without any consideration as to the nature of the purchasing and production process.

More specifically, we disagree with the proposed handling of capacity-related variances from different production levels. We object to the requirement that unfavorable variances resulting from production below normal levels be released immediately to earnings, whereas favorable variances are generally inventoried and only adjusted via an immediate release to earnings for "abnormally" high levels of production. We believe the standard should result in consistent treatment of all variances. The proposal's inconsistent treatment of production-level variances will also result in significant added complexity. The need to account for variances differently based on direction and magnitude will lead to the need for additional systems, logic and tracking requirements. These complexities are exacerbated for large multinational entities due to the need to implement the changes across many different regions, plants, and product lines. Given our belief that the results of the proposed change will not significantly improve the overall quality of our financial statements, we do not believe the costs or complexities of implementing the proposal are justified.

We also believe the proposal goes beyond mere convergence. The proposed changes to ARB 43 identify and require expensing of very specific items, including double freight and rehandling costs whereas IAS 2 describes more general captions such as abnormal amounts of wasted materials, labor, or other production costs. We believe that the convergence effort would be better accomplished in this area if the IAS 2 terminology were used.

If you have any questions on this comment letter or would like to discuss any of our views further, please feel free to contact me at 513-983-3874.

Regards,



Teri L. List
Vice President, Corporate Accounting