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Director of Technical Application and Implementation Activities Financial Accounting Standards Board 401 Merritt 7 Norwalk, CT 06856-5116

Re: Invitation to Comment on Proposed FASB Staff Position FSP ARB 43-a, "Accounting for Trading Inventory"

## Dear Director:

We appreciate the opportunity to comment on the Proposed FSP on Accounting for Trading Inventory. We understand the Board's concern with the inconsistency in accounting guidance under ARB 43 versus that of the AICPA Audit and Accounting Guides, Brokers and Dealers in Securities, and Investment Companies. We strongly agree with the Board's conclusion that fair value is more representative of both the current financial position and the expected future cash flows than the lower of cost or market value for trading inventories. However, we disagree with the Board's statement that the proposed FSP would not change current practice for inventories included in production, retail, wholesale or other nontrading activities, specifically as it relates to the accounting practices of certain agribusiness industries, such as the grain merchandising and milling industries. Within such industries, there has been a long-standing practice of recording all commodity inventories at fair value with changes in fair value recognized in earnings, as allowed in appropriate circumstances in the original language of ARB 43.

We believe that fair value is more representative of both the current financial position and the expected future cash flows than the lower of cost or market value for the "nontrading" inventories of these businesses, just as it is for trading inventories. We are concerned that the change in accounting that would be required by this proposed FSP would result in financial statements that would be irrelevant and misleading to financial statement users of affected agribusinesses. Agribusinesses typically maintain an economically hedged book of business wherein they hold futures contracts and are parties to forward contracts that must be recorded at fair value in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities and physical inventory balances which are also recorded at fair market value in accordance with ARB 43. The net economic exposure for all outstanding positions, including physical inventories and derivatives, is near zero. By recording commodity inventories as well as the related derivative instruments at fair value, the financial statements accurately reflect the economic condition and activities of these businesses. If agribusinesses are required to record commodity inventories at lower of cost or market value (and the related derivatives at fair value), the financial statements would reflect volatility in the results of operations which is not

indicative of the economics of the business. We believe that, in order to ensure financial statement users are not misled by the financial statements, it would be necessary to provide disclosures in the notes to the financial statements and/or within Management's Discussion and Analysis which would effectively explain the discrepancy between the underlying economics of the business and the required presentation in the financial statements.

We are also concerned that the determination of cost of certain commodity inventories, as required by the proposed FSP, would be impracticable. It is common practice in certain agribusiness industries to purchase "unpriced" commodity inventories. In these instances, legal title to the inventory passes from one party to another (and in some instances, the inventory is subsequently sold to yet another party) without previously reaching agreement on the original purchase price for the inventory. This clearly results in a circumstance in which determination of cost of inventory as of a balance sheet date is not practicable.

We note that the provisions of the proposed FSP which allow for reclassification of inventory from trading to nontrading activities would create a mechanism by which arbitrary manipulation of earnings could be easily accomplished by simple changes in the stated intent of management as to the expected use of particular quantities of a given commodity in those instances where an entity maintains both trading and nontrading operations. We believe the creation of this "intent-based" accounting will result in less comparability of the financial statements of similar businesses.

We further note the exception provided in paragraph 8 relating AICPA Audit and Accounting Guide, Agricultural Producers and Agricultural Cooperatives, and AICPA Statement of Position 85-3, Accounting by Agricultural Producers and Agricultural Cooperatives. However, we believe such exception is too narrow to avoid the, perhaps unintended, consequence of requiring other agribusiness industries to move from accounting for inventory at fair value to the lower of cost or market value. The aforementioned industries currently prepare financial statements which reflect inventories at fair value. These financial statements 1) are based on the information and processes used to operate the business, 2) are prepared in a manner that is efficient, and 3) reflect economic performance in a manner that is more useful to users. The impact of the FSP, as drafted, would de detrimental to preparers and users alike.

We believe a viable solution to the Board's concern regarding the inconsistency in generally accepted accounting principles for accounting for trading inventory would be to issue the FSP largely as written without striking the language in ARB 43 regarding the exceptions to the requirement for lower of cost or market value for inventory in circumstances in which there is an inability to determine approximate costs, immediate marketability at quoted market price, and the characteristic of unit interchangeability, and the related language regarding the existence of such common industry practices. However, this solution would not address the issue of the introduction of "intent-based" accounting for those entities that reclassify inventories between trading and nontrading operations.

As an alternative, we would support the alternative cited in Issue No. 4, an accounting policy election. However, we believe it would be appropriate to allow the application of this election on a commodity-by-commodity basis in a manner similar to that applied to individual financial

instruments under SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. This would allow an entity which is engaged in both agribusiness and other traditional manufacturing operations to apply fair value accounting and lower of cost or market value accounting to the inventory balances of each of its businesses in the manner that is most appropriate to reflect the underlying economics of that business in the financial statements.

In regards to the Board's inquiries on implementation issues, we note that the costs of implementing systems to estimate cost for agricultural commodities and to provide the information required for disclosure by the proposed FSP would be very high and would require considerable time to implement. Inventory information systems for the agribusiness industry do not contain functionality which would support estimation of acquisition cost of commodity inventories due to both the circumstances previously discussed in which determination of cost can occur after a balance sheet date and the irrelevance of such information to the operations of these businesses. We do not believe that changes to existing systems could be reasonably accomplished within the proposed timeframe.

Thank you.

Sincerely,

John Gehring

Senior Vice President, Controller and Chief Accounting Officer