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LETTER OF COMMENT NO. 28

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Mr. Russell G. Golden  
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Financial Accounting Standards Board  
401 Merritt 7  
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**Re: Proposed FASB Staff Position No. ARB 43-a –*Amendment of the Inventory Provisions of Chapter 4 of ARB No. 43***

Sirius Solutions appreciates the opportunity to respond to the proposed FASB Staff Position No. ARB 43-a –*Amendment of the Inventory Provisions of Chapter 4 of ARB No. 43*. Sirius Solutions is a professional service firm headquartered in Houston, TX. The firm's technical accounting group provides advisory services to a variety of industries but primarily provides services to the energy sector. We and our energy/commodity clients appreciate the focus on the commodity sector in providing financial statement users the ability to understand the value of commodity inventory assets.

**Issue 1: Commodity Inventories**

*Would you prefer the alternative approach to limit the scope of the proposed FSP to commodity inventories that are not used in production, wholesale, retail, or distribution activities?*

We believe that the scope should not be limited based on a definition of trading versus non-trading. We also believe that the scope should not be limited to commodity inventories and should be an election for all inventory assets. The primary reason for the proposal was to resolve the conflicting guidance as to whether traded commodity

inventory can be accounted for at fair value. However, a broader scope and election will resolve other accounting issues and alleviate practice variance on the definition of trading versus non-trading. Non-financial assets lend to transactions that are complex and continually evolving. Applying a fair value model to all elected inventories will address current inventory accounting concerns and provide a framework for future transactions. For example, a market has recently developed for the active trade of emissions credits. Entities holding such credits largely account for them as inventory subject to lower of cost or market impairments under ARB 43. The credits are not considered commodity inventory, but they represent inventory that is actively traded.

## **Issue 2: Readily Determinable Fair Values**

*Would you prefer the alternative approach to limit the scope of this proposed FSP to inventories included in an entity's trading activities that have readily determinable fair values?*

The scope should not be limited to inventories that have readily determinable fair values (Level 1). The notion that fair value should only be used when reliable measurements can be obtained is inconsistent with framework of SFAS 157. In addition, such an approach would deviate from authoritative literature that prescribes fair value treatment without consideration of reliability.

We believe that an election would create consistent use of fair value for inventory. SFAS 157 hierarchy disclosures should discourage illiquid or model driven fair values thereby enforcing the suggestion of readily determinable fair value.

## **Issue 3: Trading Items Other Than Physical Inventories**

*Do you believe that the board should consider a broader scope project that would include all contracts and assets or liabilities within an entity's trading activities even if it would result in significantly delaying the issuance of final guidance?*

The board should not consider a broader scope project if it will significantly delay the issuance of final guidance. Many companies within the energy sector utilize non-derivative energy contracts including storage capacity, transportation, and emissions. Those companies desire a contract-by-contract fair value option for such contracts. A contract-by-contract fair value option would provide an alternative to the current hedge accounting rules under SFAS 133, which precludes hedge accounting for these types of risk management strategies. The contracts are typically long-term in nature, and accordingly, entities will frequently hedge only a portion of the contracts. Recording the fair value of all non-derivative energy contracts without offsetting hedges is not the desired accounting model.

## **Issue 4: Accounting Policy Election**

*Do you believe that the measurement attribute for inventories should be subject to an entity-wide accounting policy election?*

The measurement attribute for all inventories, not just trading inventories, should be subject to an irrevocable accounting policy election. Fair value is more representative of both the current financial position and expected future cash flows than the lower of cost or market value. Such an election would be consistent with the fair value option prescribed in SFAS 159.

Accounting guidance defining trading activities relies upon broad indicators and provides a vague definition. The proposed FSP will be adopted much like an election, as implementation will be based upon on management's description of business activities. An accounting policy election combined with in-depth disclosures, as prescribed in SFAS 159, will achieve similar results and provide users with the necessary information to fully appreciate the accounting election.

#### **Issue 5: Implementation Issues**

*What costs will be incurred?*

The primary implementation costs will be those associated with obtaining pricing data. Most entities with trading activities currently maintain such data for financial reporting purposes and risk management activities.

*Are the transition provisions appropriate?*

The transition provisions are appropriate.

*Does the expected issuance date provide sufficient time for entities to understand and apply the requirements of this proposed FSP?*

Valuation models for most inventories are relatively straightforward. If the Board issues a final FSP in the third quarter of 2008, entities should have sufficient time to understand and apply the requirements of the proposed FSP. If the Board elects to delay the effective date, early adoption should be permitted.

If you have any questions about our comments please contact Chandu Chilakapati at (713) 888-7232.

Sincerely,



Chandu Chilakapati