

McGladrey & Pullen

Certified Public Accountants



LETTER OF COMMENT NO. 34

McGladrey & Pullen LLP
Third Floor
3600 American Blvd West
Bloomington, MN 55431

June 27, 2008

Mr. Russell G. Golden
Director of Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

File Reference: Proposed FSP ARB 43-a

Dear Mr. Golden:

We are pleased to comment on the proposed FASB Staff Position (FSP) No. ARB 43-a, *Amendment of the Inventory Provisions of Chapter 4 of ARB No. 43*.

We support the decision by the FASB to address the inconsistency in GAAP regarding the accounting for inventory under ARB No. 43, *Restatement and Revision of Accounting Research Bulletins*, Chapter 4, "Inventory Pricing" and the AICPA Audit and Accounting Guides, *Brokers and Dealers in Securities*, and *Investment Companies*. However, because the determination of which inventories should be included in an entity's trading activities is critical and the proposed FSP does not include a definition of trading activities or provide factors or indicators to help make that determination, we are concerned that the FSP as proposed will not be successful in accomplishing the Board's objective.

We will first address the five issues on which specific comment is sought. Thereafter, we will comment on other matters.

Comments on Specific Issues

Issue 1: 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? Why or why not?

We agree with the current scope of the proposed FSP being applicable to all inventories included in an entity's trading activities.

Issue 2: Would you prefer the alternative approach to limit the scope of the proposed FSP to inventories included in an entity's trading activities that have a readily determinable fair value? Why or why not?

We agree with the current scope of the proposed FSP being applicable to all inventories included in an entity's trading activities regardless of whether they have a readily determinable fair value. The notion that fair value is not a reliable measurement for items that do not have a readily determinable fair value is inconsistent with both FASB Statement Nos. 133, *Accounting for Derivative Instruments and Hedging Activities*, and 157, *Fair Value Measurements*.

Issue 3: 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? Why or why not?

Given the current inconsistency in GAAP between ARB No. 43 and the AICPA Audit and Accounting Guides, *Brokers and Dealers in Securities*, and *Investment Companies* that this FSP will resolve, we would not support a significant delay in the issuance of this proposed FSP.

Issue 4: Do you believe that the measurement attribute for inventories should be subject to an entity-wide accounting policy election? Why or why not?

Due to the other accounting ramifications that an entity-wide accounting policy election for the measurement attribute of inventories may have, such as those mentioned in the Notice to Recipients, we do not believe this should be allowed.

Issue 5a: What costs would be incurred to implement this proposed FSP?

The costs incurred could vary significantly depending on the types of trading inventories held by entities. For those inventories that have readily determinable fair values we would not expect a significant amount of costs would be incurred to implement this proposed FSP. However, for those inventories that do not have readily determinable fair values, significant costs may be incurred in order to determine fair values.

Issue 5b: Are the transition provisions of this proposed FSP appropriate?

We agree with the transition as a cumulative effect of a change in accounting principle due to the potential difficulties that could arise from a retrospective application to prior periods relating to determining fair values and classifying inventories as trading or nontrading.

Issue 5c: Given this proposed FSP's comment period, the Board expects to issue a final FSP in the third quarter of 2008. Does this expected issuance date provide sufficient time to understand and apply the requirements of this proposed FSP, which could be effective for fiscal years (and interim periods within those fiscal years) beginning after November 15, 2008?

Calendar year-end entities with quarterly financial statement requirements may not have adequate time to implement this proposed FSP by the end of the first quarter of 2009. Therefore, we recommend that this FSP be effective for fiscal years (and interim periods within those fiscal years) beginning after November 15, 2009.

Other Comments

Trading Activities

Paragraph 7 of the proposed FSP states: "**This FSP specifies accounting for inventories included in an entity's trading activities.** An entity shall determine trading inventories based on its specific facts and circumstances and guidance in current GAAP that describes or defines trading activities." We do not believe this guidance is substantive enough to enable an entity to identify inventories that are considered part of its trading activities. While we agree that this guidance should be principles-based and not include many detailed rules, we don't believe that a principle describing or defining trading activities has been included in this proposed FSP.

We recommend that the FASB either define trading activities in the context of inventories or identify presumptive factors or indicators to determine which inventories should (or should not) be classified as trading inventories. We believe that without this additional guidance, there is likely to be an inconsistency in the application of the proposed FSP which would reduce comparability of the financial statement information reported by entities.

If the FASB chooses not to further clarify trading activities, one area of GAAP where trading activities are described or defined in the context of debt and equity securities is FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, paragraph 12, which states:

"...*Trading securities.* Securities that are bought and held principally for the purpose of selling them in the near term (thus held for only a short period of time) shall be classified as *trading securities*. Trading generally reflects active and frequent buying and selling, and trading securities are generally used with the objective of generating profits on short-term differences in price."

Trading securities are further discussed in the FASB Staff Implementation Guidance, *A Guide to Implementation of Statement 115 on Accounting for Certain Investments in Debt and Equity Securities: Questions and Answers*, Questions 34 and 35 as follows:

"**34. Q** -- How often must sales occur to consider an activity "trading"?

A -- The phrases *selling them in the near term* and *held for only a short period of time* in the description of trading securities contemplate a holding period generally measured in hours and days rather than months or years. Thus, if a security is acquired with the intent of selling it within hours or days, the security must be classified as trading. However, at acquisition an enterprise is not precluded from classifying as trading a security it plans to hold for a longer period. Refer to Question 35. Also, see paragraph 3 of FASB Statement No. 134, *Accounting for Mortgage-Backed Securities Retained after the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise*, for clarification of the term *trading* for a mortgage banking enterprise. [Revised 12/98.]

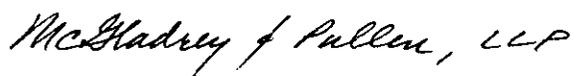
35. Q -- If an enterprise acquires a security without the intent to sell it in the near term, may it classify the security in the trading category?

A -- Yes. Classification of a security as trading is not precluded simply because the enterprise does not intend to sell it in the near term. The Board deliberately used the terms *generally* and *principally* in describing the trading category in paragraph 12(a). However, the decision to classify a security as trading should occur *at acquisition*; transfers into or from the trading category should be rare (refer to paragraph 15)."

If this is the current GAAP to which the proposed FSP refers, given the broad definition of trading in Statement 115 and the related Q&A which allows securities to be classified as trading even if an entity does not intend to sell them in the near term, it may result in more inventories being classified as trading than the FASB may have intended. Furthermore, if there is other current GAAP on point that describes or defines trading activities, we recommend that it be identified directly in this FSP to avoid analogies to the wrong GAAP as well as inconsistent treatment by entities which may result in financial statements that are not comparable.

We would be pleased to respond to any questions the Board or its staff may have about any of the preceding comments. Please direct any questions to either Jay D. Hanson (952-921-7785) or Brian H. Marshall (203-905-5035).

Sincerely,

A handwritten signature in cursive script that reads "McGladrey & Pullen, LLP".

McGladrey & Pullen, LLP