

June 16, 2008

Mr. Russell G. Golden
Technical Director of the Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116



LETTER OF COMMENT NO. 18

Re: Proposed FSP ARB 43-a

Dear Mr. Golden:

Deloitte is pleased to comment on the proposed FASB Staff Position No. ARB 43-a, which would amend ARB No. 43, Chapter 4, "Inventory Pricing," to require that inventories included in an entity's trading activities be initially and subsequently measured at fair value with changes in fair value recognized in earnings.

We support the Board's efforts to address the inconsistency between the guidance in ARB 43 and that in certain AICPA Audit and Accounting Guides with respect to accounting for inventory. We support measuring inventories involved in trading activities at fair value. However, we believe the Board should provide additional guidance for identifying trading activities in order to foster consistency in application.

Responses to the Board's specific issues regarding the proposed FSP are provided below. We have also provided additional comments in certain areas that were not specifically requested in the invitation to comment.

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?

No. We believe the scope should not be limited to commodity inventories that are not used in production, wholesale, retail, or distribution activities. We agree that the focus should not be on the nature of the inventory but the nature of the activity of which the inventory is involved. However, the nature of the inventory may be a factor in determining whether an entity is involved in a trading activity. For example, a factor to consider in determining whether or not inventory is considered to be included in an entity's trading activities could be whether or not that inventory is a commodity that is readily convertible to cash. While such factor, in and of itself, would not be determinable, it would seem more likely that trading activities would involve inventories that could be easily sold in liquid markets than inventories that were not so readily convertible to cash. As indicated, we believe the Board should consider providing guidance to consider in identifying trading activities.

Issue 2: Readily Determinable Fair Value

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?

We agree that limiting the scope of the proposed FSP to inventories included in an entity's trading activities that have readily determinable fair values is not warranted. As indicated above, the accounting, including measurement of inventory, should be based on the activities of the entity and not the nature of the inventory. However, the reliability of the fair value measure may be a factor to consider in determining whether or not an entity is involved in trading activities for such inventory. To the extent an inventory's fair value is not readily determinable, or at least reliably measured, it would seem unlikely an entity would be involved in trading activities involving such inventories.

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?

We believe the Board should consider a near-term project that would address the measurement of all assets or liabilities within an entity's trading activities, such as storage and transportation contracts. However, in order to avoid any delay in addressing the inconsistency between the guidance in ARB 43 and that in certain AICPA Audit and Accounting Guides, we believe the scope of this project should not be broadened.

Issue 4: Accounting Policy Election

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

No. We agree with the Board's conclusion that allowing commodity inventories to be measured at either fair value or cost based on an accounting policy election would create unintended results including potentially impacting the manner in which revenue is recognized and also creating diversity in practice for similar activities.

Issue 5: Implementation Issues

What costs would be incurred to implement this proposed FSP?

We encourage the Board to seek and consider the views of preparers regarding costs that would be incurred to implement this proposed FSP.

Are the transition provisions of this proposed FSP appropriate?

The effective date of the FSP would significantly delay the implementation for entities with fiscal year-ends just prior to November 15, 2008. While this delay may not be of concern for some entities, it could create a potential competitive disadvantage for an entity depending on the timing of that entity's year-end. As such, we recommend the Board allow for early adoption.

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 for entities to understand and apply the requirements of this proposed FSP, which could be effective for fiscal years (and interim periods with those fiscal years) beginning after November 15, 2008?

We encourage the Board to seek and consider the views of preparers when considering the timing and related implementation concerns with the proposed FSP.

Guidance for Determining Inventories Included in an Entity's Trading Activities

As noted above, we believe guidance should be provided in the FSP to assist entities in determining trading activities. The proposed FSP states that an entity "shall determine trading inventories based on its specific facts and circumstances," but then continues with "and guidance in current GAAP that describes or defines trading activities." By referring to facts and circumstances and unspecified other guidance in GAAP, it is unclear whether entities can use professional judgment in determining which facts, circumstances, or other guidance in GAAP to be used in determining inventories included in trading activities. For example, would an entity first look to guidance in GAAP (using the GAAP hierarchy) and then apply judgment where GAAP is not clear based on its specific facts and circumstances or would an entity make a professional judgment based on its specific facts and circumstances using GAAP to support such judgment as applicable.

*If the intent in drafting the FSP was for entities to use the guidance in current GAAP in determining which activities constitute trading activities, then the specific guidance in GAAP should be identified in the FSP. However, if the intent was to allow entities to apply professional judgment to its specific facts and circumstances in determining which activities constitute trading activities, then the reference to the guidance in current GAAP that describes or defines trading activities should be replaced with guidance to assist entities in applying such judgment. For example, the Board may consider the guidance that was provided in appendix A of EITF Issue No. 98-10, *Accounting for Contracts Involved in Energy Trading and Risk Management Activities*, to assist in determining trading activities. To this end, we would suggest modifying paragraph 7 of the FSP to remove the reference to the unspecified guidance in GAAP and providing factors to consider in identifying trading activities. The following example of such a modification is provided for consideration:*

Inventory Included in an Entity's Trading Activities

7. 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. The following factors are provided for consideration in applying professional judgment in identifying trading activities at each identifiable operation (activity) that would include inventory subject to this FSP:

- 1) The operation engages in active and frequent buying and selling of inventory with the objective of generating profits on short-term differences in price.
- 2) The operation is internally managed in terms of "trading strategy" (that is, management reports identify trading positions, fair values, hedging activities, risk exposure, and so forth).
- 3) The operation generally offers products as a broker/dealer, not as a user/producer of the inventory.
- 4) Quantities of purchases and sales exceed normal production, wholesale, retail or distribution needs.
- 5) The operation's primary business is not the production, retail, or distribution of inventory.
- 6) The operation has little or no production, wholesale, retail, or distribution capabilities.

These factors are not meant to be all inclusive. The absence of any one factor, by itself, would not preclude the operation's activities from being considered trading and neither would the presence of any one factor, *by itself*, be conclusive evidence that the operation's activities are trading. Determining

whether or not inventory is included in an entity's trading activities requires professional judgment based on all available evidence.

Further, we would suggest the Board consider providing examples, or implementation guidance, for determining inventories included in an entity's trading activities.

Use of the AICPA Audit and Accounting Guides

An intent of the proposed FSP is to address the inconsistency between the guidance in ARB 43 and that in the AICPA Audit and Accounting Guides, *Brokers and Dealers in Securities*, and *Investment Companies* ("AICPA Accounting Guides"); however the proposed FSP does not address the impact of the new requirements on entities currently in the scope of the AICPA Accounting Guides. We believe the proposed FSP should either explicitly scope out the AICPA Accounting Guides, or amend the AICPA Accounting Guides and FSP to indicate that all inventory held by entities in the scope of the AICPA Accounting Guides are considered inventories included in the entity's trading activities (that is, not considered nontrading) and that the disclosure requirements of the proposed FSP, as it relates to trading activities, would apply.

Profit Margin Disclosure on Transfers from Trading to Nontrading

For inventory transfers from the trading to nontrading category, the FSP requires an entity to disclose the profit margin that would have resulted had the inventory been in the production category since its inception (paragraph 11(d)(2) of the FSP). As inventory is often fungible, without tracking the costs of inventory included in an entity's trading activities as if it were in the production category from inception, how an entity should determine such profit margin is unclear. Determining the profit margin that would have resulted had the inventory been in production will require an entity to identify the acquisition date of inventory subject to the disclosure requirements and then determine the method of costing such inventory (e.g. LIFO, FIFO, average cost) from inception. This may have an unintended burden of requiring entities to track the cost of trading inventory as if it were in the production category from inception just in case this disclosure is required. Others may not track the costs from inception and have to deal with determining such profit margin if the disclosure is required. Without further guidance, such disclosure may not be meaningful to the financial statement users. As such, we believe the disclosure requirement in paragraph 11(d)(2) should be eliminated or further guidance on determining such profit margin should be provided in the FSP.

Scope of FASB Statement No. 157, Fair Value Measurements

Paragraph 3 of Statement 157 specifically refers to ARB 43, Chapter 4, Inventory Pricing, as an accounting pronouncement for which Statement 157 does not apply as it requires measurements that are similar to fair value but are not intended to measure fair value. While the intent of paragraph 3(b) of Statement 157 was to refer to the term "market" as discussed in ARB 43, some may believe this exception would extend to the fair value measurement of ARB 43 inventory included in an entity's trading activities as proposed by this FSP. We believe the FSP should clarify that inventory included in an entity's trading activities should be measured at fair value in accordance with the guidance in Statement 157. Alternatively, paragraph 3 of Statement 157 could be amended to specifically indicate the measures in ARB 43 for which Statement 157 does not apply.

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Mr. Russell G. Golden
May 23, 2008
Page 5

We appreciate the opportunity to comment on the proposed FSP. If you have any questions concerning our comments, please contact Mark Crowley at (203) 563-2518.

Yours truly,

Deloitte & Touche LLP

cc: Bob Uhl