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June 16, 2008

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



LETTER OF COMMENT NO. 21

Submitted via email to: director a fasb.org

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

Dear Mr. Golden:

We are pleased to comment on the Financial Accounting Standards Board's (FASB or the Board) Exposure Draft. FSP ARB 43-a, "Accounting for Trading Inventory". We applied the Board's efforts to move toward a fair value measurement model for all components of commodity trading positions and away from a mixed attribute measurement model. We understand that the Board's objective in undertaking this project was to resolve the inconsistency between the guidance in ARB 43 and that in the AICPA Broker and Dealers in Securities and Investment Companies Audit Guides.

Archer Daniels Midland is in the business of procuring, transporting, storing, processing, and merchandising agricultural commodities and products. We are one of the world's largest processors of oilseeds, corn, wheat and cocoa, and we are a leading manufacturer of biodiesel, ethanol, soybean oil and meal, corn sweeteners, flour and other value-added food and feed ingredients. We also have an extensive grain elevator and transportation network to buy, store, clean, and transport agricultural commodities, such as oilseeds, corn, wheat, milo, oats, and barley.

We have concerns that the proposed amendment would have the effect of *introducing* a mixed attribute measurement model where it does not exist today for commodity positions in the agricultural processing industry, and that the proposed amendment would therefore result in financial statements for our industry that do not reflect underlying economic performance and would not be meaningful to users. We strongly support the alternative described in Issue 4 to allow entities to make an irrevocable, entity-wide accounting policy election to measure commodity inventories at either fair value or the lower of cost or market. This fair value approach is similar to the fair value option approach in SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. As stated by the Board in summarizing SFAS 159, the Board's objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently, without having to apply complex hedge accounting provisions. We believe these same objectives should also apply to the

accounting for commodity positions. The price risks we manage for our commodity positions are the same as the price risks being managed by broker-dealers and investment companies investing in the very same commodities, and we believe the accounting treatment should be the same. However, if the Issue 4 alternative approach is not adopted, we would then support restoring Statement 9 of ARB 43. Chapter 4, as that statement has been relied on by our industry. We believe the Board can accomplish its objective to resolve inconsistent guidance with respect to commodity trading activities without changing the measurement guidance in Statement 9.

General Comments

Fair value measurement best reflects the economics of our commodity position management activities. Commodity position management is a critical component of our business model. To meet customer requirements and to facilitate logistics, our industry typically enters into a significant volume of forward purchase and sales contracts that precede production. We generally follow a policy of using exchange-traded futures and options contracts to minimize our net risk position of merchandisable agricultural commodity inventories and forward cash purchase and sales contracts. As any one component of our position changes, we typically adjust one or more offsetting components in order to maintain a generally hedged position. Commodity contracts and inventories are typically risk-managed on a fair value basis using cash-settled and physically-settled contracts interchangeably.

When a commodity position is consistently managed in the manner described above, our current accounting practices result in changes in the market value of inventories of merchandisable agricultural commodities, forward cash purchase and sales contracts, and exchange-traded futures contracts being recognized in earnings immediately, resulting in cost of goods sold approximating first-in, first-out cost.

If this amendment is adopted as it has been drafted, our accounting for our commodity positions would reflect a mixed measurement model, resulting in earnings volatility that would not reflect the underlying economic performance of our business and would be misleading to users. Additional footnote and Management's Discussion and Analysis disclosure would be required to ensure that users of our financial statements had sufficient information to properly evaluate our financial results. We would almost certainly maintain a system of internal management recordkeeping and reporting based on fair value measurement for all components of our commodity positions, in order to reflect the true economic results of our business for proper internal management and performance measurement. A simplified example illustrating the potential earnings volatility resulting from the proposed accounting measurement model is attached as Appendix B to this letter.

Our commodity position risk management activities relating to non-trading and trading activities are intertwined and the number of transactions is very large. It would be extremely difficult to separate and apply different accounting to these two types of activities.

Our commodity position risk management activities are intertwined with trading activities, occur at multiple points of our value chain, including grain origination, distribution, and processing, and are carried out across literally hundreds of individual business locations, worldwide geographic regions, and commodities. In some cases, the products we produce are also merchandisable agricultural commodities, and both the processing inputs and outputs are considered when managing the risk of our net position. We enter into well over a million commodity risk management and trading transactions annually. It would be very difficult for us to determine what the intended use of inventory is at any time, to separately account for similar types of inventory using different accounting methods, and to determine when the intended use is modified.

Establishing a fair value accounting policy election for commodity inventories would be more transparent to financial statement users and would result in more comparable, relevant, and understandable financial statements than implementing accounting based on a definition of trading inventories that relies on management intent.

We support an accounting policy election that would allow us to account for commodity inventories at either fair value or the lower of cost or market. We believe fair value measurement for a commodity position provides the most relevant accounting information to the users of our financial statements and best reflects the performance of our business. The fair value election described in Issue 4 would provide companies with the option to adopt the measurement model that best reflects their business model. We believe the fair value approach described in Issue 4 is similar to the fair value option approach adopted by the Board in SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities. As stated by the Board in summarizing SFAS 159, its objective was to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions.

In the absence of a clear definition, we believe that significant management judgment will need to be used to determine if a particular activity is trading or not. We also believe that the introduction of differing judgments into entities' financial results would reduce comparability and relevance of financial statements for users. Establishing a fair value policy election for commodities with appropriate disclosures would be more transparent and would result in more comparable, relevant, and understandable financial statements for users.

If Issue 4 is not adopted, we would then support restoring Statement 9 of ARB 43, Chapter 4, as that statement has been relied upon by our industry. Standard industry purchase contract terms can cause an inability to determine appropriate approximate cost in a timely manner for commodity inventory purchase transactions. The Board's objective can be achieved without deleting Statement 9.

Certain of our commodity inventories are measured at market value under the provisions of ARB 43, and, under certain market conditions, the differences between cost and market value could be significant. For example, it is common in our industry to enter into deferred pricing arrangements with agricultural producers under which the producer has the right to delay determination of the transaction price until after the commodity is delivered, and in many cases, after it is processed or even sold in the form of a processed good. Pricing often occurs up to six months after the inventory is delivered. Because of these pricing arrangements, the acquiring company is unable to determine approximate cost for its inventories on a timely basis. In these cases in which the acquiring company is unable to determine appropriate approximate cost, and the commodity has immediate marketability at quoted market prices, and the commodity consists of interchangeable units, the industry has relied on the guidance in Chapter 4. Statement 9 of ARB 43 to support its accounting for inventories at market, specifically:

"Only in exceptional cases may inventories properly be stated above cost. For example, precious metals having a fixed monetary value with no substantial cost of marketing may be stated at such monetary value; any other exceptions must be justifiable by inability to determine appropriate approximate costs, immediate marketability at quoted market price, and the characteristic of unit interchangeability."

The FSP Summary states that it would not change current practice for measurement of non-trading inventories. We disagree with this statement, as discussed above and illustrated in the example shown in Appendix B to this letter. In addition, for non-trading inventories, the proposed FSP provides no measurement guidance for circumstances in which appropriate approximate cost cannot be determined. We

believe that market value is the most appropriate measurement for commodity inventories in these circumstances. The limited-scope objective of this project is to address inconsistency between the guidance in ARB 43 Chapter 4 "Inventory Pricing" and that in the AICPA Audit and Accounting Guides, Brokers and Dealers in Securities, and Investment Companies. This inconsistency can be resolved without deleting the above-cited provisions of ARB 43, Chapter 4 Statement 9. As previously stated, we strongly support a fair value option similar to the Issue 4 alternative. However, if the Board proceeds with its current proposal, we would urge the Board to restore the above-cited provision because it best represents an appropriate measurement in situations with the specific characteristics we have described above.

Both our current and our proposed accounting achieve similar results as fair value hedge accounting without the increased burdens. In some cases, fair value hedge accounting may not be feasible. The proposed amendment would introduce accounting asymmetry and increased earnings volatility into our financial statements. In many cases, the non-inventory elements of our commodity positions, consisting of forward purchase and sales contracts, and, in all cases, our futures and options contracts are measured at fair value and accounted for under SFAS 133 as derivatives. Accounting for the inventory element of a commodity position at cost while the other elements of the position are measured at fair value would introduce increased earnings volatility into our financial statements and would not be representative of the true change in our economic position. Refer to the illustrative example in Appendix B of this letter.

We employ cash flow hedge accounting for only a small number of categories of anticipated commodity purchases, and we do not currently utilize fair value hedge accounting. If the proposed amendment is adopted, fair value hedge accounting could theoretically be employed to mitigate the accounting asymmetry and earnings volatility effects of the resulting mixed measurement attribute model. Under such an approach, commodity inventories could be designated as hedged items and measured at fair value. However, the cost and complexity of implementing fair value hedge accounting processes in the business model of our industry would be significant and potentially prohibitive, requiring a large investment of time and money in information technology systems and administrative processes. In some cases, fair value hedge accounting may not even be feasible in our industry's risk management model. Our current accounting practices, or introduction of a fair value election for commodity inventories such as we support, each achieve similar results without the cost and administrative burden of fair value hedge accounting.

Detailed responses to Issues 1-5 are attached as Appendix A, and an illustrative example is attached as Appendix B.

We appreciate the opportunity to provide our comments, which we would be pleased to discuss with the Board members or the FASB staff at your convenience.

Very truly yours.

John P. Stott

Vice President and Controller Archer Daniels Midland Company

Appendix A Responses to Issues 1-5

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 do not prefer this approach. We disagree with different accounting treatment being applied to the same inventory items in different situations, which could happen within one entity. We believe this approach would be confusing to users of financial statements and would reduce comparability between companies with similar inventories.

Issue 2: 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? Why or Why not?

We do not prefer this approach, and agree with the Board's conclusions on this issue.

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?

We do not support broadening the scope of this project to include all contracts, assets and liabilities within an entity's trading activities because we believe these questions would be better addressed in the context of Phase 2 of the Board's Fair Value project.

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?

We strongly support this alternative because it would allow an agricultural processor to appropriately measure and report the results of its operations in a manner that best reflects its underlying economic performance and is consistent with the way in which financial results are internally managed and measured. As a result, this alternative would provide financial statement users with information that is useful, reliable, and consistent with underlying economic results. It would allow a company to employ the same accounting measurement model for all elements of its commodity position, including commodity inventory and derivative contracts, without the administrative burden and cost of employing fair value hedge accounting.

Issue 5: Implementation Issues

a. What costs would be incurred to implement this proposed FSP?

The cost of implementing accounting process and information technology changes to support the proposed amendment in our industry would be very significant and potentially prohibitive. We would almost certainly develop and maintain two sets of accounting records for certain commodity inventories currently carried at market value for both management and GAAP reporting purposes: one set for internal management use, based on fair value measurement, and another for external reporting, based on a mixed measurement model. In addition, we believe the users of our financial statements would incur a significant cost in reduced utility of information.

b. Are the transition provisions of this proposed FSP appropriate?

We are not opposed to a cumulative effect adjustment to the opening balance of retained earnings at the date of adoption as proposed.

c. Does this expected issuance date (third quarter 2008) provide sufficient time for entities to understand and apply the requirement of the proposed FSP?

Our fiscal year begins on July 1; therefore, the proposed amendment would be effective for our company on July 1, 2009, likely less than one year from issuance of a final FSP. We are concerned that the significant accounting process and information technology changes that we would be required to implement would be extremely difficult to accomplish in a period of one year or less without prohibitive cost.

Appendix B

Illustrative Example of Mixed Measurement Accounting for Non-Trading Commodity Inventory*

Assumptions

Company A enters into a purchase contract to buy 100 million bushels of grain at an average price of \$9.97 per bushel to be delivered in Month 2. The price risk of this purchase is hedged by selling 100 million bushels of exchange-traded futures contracts at \$10.50 per bushel. At the end of Month 1, both of these contracts are unfulfilled. The grain is delivered in Month 2. In Month 3, the commodity inventory is sold and the exchange-traded futures contracts sold in Month 1 as a hedge are bought back. Prices during the period are as follows:

	Transaction date	Month 1	Month 2	Month 3
Futures price	\$10.50	\$11.00	\$13.00	\$13.00
Cash market price	\$ 9.97	\$10.47	\$12.47	\$12.47
Difference (basis)	\$ 0.53	\$ 0.53	\$ 0.53	\$ 0.53

Month 1

Both the purchase contract and the exchange-traded futures contracts are accounted for as derivatives under SFAS 133. Company A would record a gain on its purchase contract of \$50 million ((\$10.47 - \$9.97)* 100 million bushels). Company A would also record a loss of \$50 million on its futures sales contracts ((\$11.00 - \$10.50)* 100 million bushels). These two accounting entries would be the same under both the FSP and our current accounting practices.

No net gain or loss is reported, which accurately reflects the economics of the commodity position, because the position is fully hedged and the basis has not changed.

Month 2

Company A would record an additional loss on its exchange-traded futures contracts of \$200 million ((\$13.00 - \$11.00)*100 million bushels). The \$50 million Month 1 gain on the purchase contract is reversed because the inventory has been delivered. Under the accounting proposed in this FSP, inventory would be recorded at cost, and Company A would record a net loss of \$250 million for Month 2. These two accounting entries would be the same under both the FSP and our current accounting practices.

Under our current accounting practices*, we would record a third entry in Month 2: a \$250 million gain ((\$12.47 - \$9.97)* 100 million bushels) to recognize the change in fair value of our commodity inventory. Under our current accounting practices the total of the three Month 2 entries results in no net gain or loss.

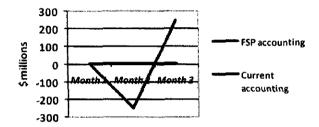
Economically, this commodity position's value was unchanged during Month 2. However, under the FSP proposed accounting for non-trading inventory, Company A's financial statements would not reflect the underlying economics because the physical commodity inventory has not been adjusted to its fair value.

Month 3

Under the accounting for non-trading inventory proposed in this FSP, Company A would recognize a \$250 million gain on the sale of inventory ((\$12.47 cash sale price - \$9.97 cost) * 100 million bushels). Our current accounting practices would result in no gain or loss being recognized in Month 3 because the market value has not changed since the end of Month 2. Both methods would result in no cumulative recognized net gain or loss over the three months.

Economically, there is no change in the value of the commodity position in Month 3. The value of the position, whether it is sold as unprocessed commodity or as processed goods with equivalent values (which is common in our industry), would be the same. The cumulative zero net income recognized for the three months is the same under both our current accounting practices and the accounting model proposed in the FSP. However, the mixed measurement model proposed in the FSP results in large earnings volatility between Month 2 (\$250 million loss) and Month 3 (\$250 million gain) which does not accurately reflect the underlying economics of the position.

Illustrative Example - Comparison of Reported Monthly Net Income



^{*}Current accounting in this example assumes that the commodity has met the three criteria in ARB 43, Chapter 4, Statement 9.