



LETTER OF COMMENT NO. 22



June 16, 2008

Russell G. Golden
Director of Technical Application and implementation Activities
Financial Accounting Standards Board (FASB)
401 Merritt 7
P. O. Box 5116
Norwalk, Connecticut 06856-5116

Email: director@fasb.org

File Reference: Proposed FSP ARB 43-a

Dear Mr. Golden:

Koch Industries, Inc. ("KII"), a privately-held company, is 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*. KII appreciates the opportunity to provide you with our comments on this FSP. KII and its subsidiaries ("the Company") are engaged in operations, trading and investments worldwide and in many industry sectors – including petroleum refining and chemical manufacturing, consumer products, building products, fibers and resins, nitrogen-based fertilizers, industrial combustion and pollution control equipment, commodity and financial trading, and other strategic investments. The Company has operations in over 60 countries and over 80,000 employees worldwide. KII is the largest privately-held company in the United States and its consolidated revenues of approximately \$95 billion would place it among the top Fortune 15 of publicly traded companies.

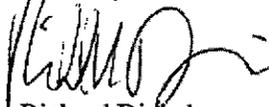
First and foremost, we have a significant concern with how the proposed FSP, taken in its entirety, appears to be 'defining' trading inventories. Our interpretation of the proposed approach is that the Company would be required to reclassify as "trading" certain physical commodity inventories purchased within our integrated refining operations which are presently accounted for under the LIFO method of valuation. The primary inventories at issue for the Company are those that are purchased and sold as part of the overall petroleum refining and chemical manufacturing operations. Refiners are constantly responding to changing operating and market conditions requiring them to evaluate and modify current inventory positions as part of an overall refinery optimization process. The examples provided in the FSP specifically refer to this optimization process as "trading" and, therefore, would require refiners to re-class inventory between the categories. For companies that have selected the LIFO method of accounting for the inventory included in the refinery optimization process, the FSP places that company's LIFO election at risk for income tax purposes, resulting in significant costs. In addition, as the FSP is currently written, there would be significant costs incurred by a company to appropriately track inventory movements between trading and non-trading activities.

Per the FSP, the scope is all inventories included in an entity's "trading" activities with trading defined by current GAAP. The only U.S. accounting standard that defines "trading" is Statement of Financial Accounting Standards No. 115 (FAS 115), *Accounting for Certain Investments in Debt and Equity Securities*. Emerging Issues Task Force No. 02-03 (EITF 02-03), *Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities*, references this definition as well. Under both FAS 115 and EITF 02-3, the determination of what constitutes "trading purposes" would be based on intent as well as activity (ironically, reclassifications into and out of trading are expected to be rare under FAS 115 but would be permissible and expected under this FSP). While the use and intent of the refinery optimization process for our Company and most refiners would not be considered "trading", the examples in the FSP would indicate that some of our inventory would be required to be designated as trading, placing our LIFO inventory elections at risk. We question whether the FASB staff realized that, in effect, they may be causing reporting companies to violate the LIFO conformity requirement under IRS regulations, thus eliminating the LIFO method of inventory valuation for US tax purposes on a significant portion of inventories. We believe that issue must first be addressed by Treasury and the IRS, prior to the adoption of International Financial Reporting Standards (IFRS) or other changes, such as the FSP, to inventory accounting standards.

We support a framework, similar to that which existed under EITF 98-10, that provides for management judgment of whether an entity is engaged in trading activities (based on each company's facts and circumstances). Alternatively, we support a fair value option (similar to FAS 159) on inventories with appropriate disclosures on which inventories are measured at fair value as required by FAS 157. This view eliminates the need to define trading activities and allows a company to designate which inventories should be economically reported at fair value. The intent of FASB on FAS 159 was to allow a company to designate fair value reporting on certain financial instruments where using mixed measurement attributes under GAAP may not be representative of the economics of the reporting entity's activities. In addition FAS 159 was issued to provide fair value accounting without having to apply complex hedge accounting provisions. Providing a similar fair value option for certain inventories could provide similar benefits but only where the company is allowed to choose which inventories should be measured at fair value after conducting a thorough and careful analysis.

We appreciate the opportunity to comment on this proposed FSP. We have responded to the issues presented in the FSP in an attached appendix (Appendix A). If you have any questions regarding our comments or wish to discuss any other matters discussed herein, please contact me at 316-828-6486.

Sincerely,



Richard Dinkel
Chief Accounting Officer
Koch Industries, Inc.

APPENDIX A

We provide the following responses to the issues presented in the proposed FSP:

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?*

Response: No, for the reason mentioned above regarding optimization activities that could still be considered trading despite a limited scope. We support a framework, similar to that which existed under EITF 98-10, that provides for management judgment of whether an entity is engaged in trading activities (based on each company's facts and circumstances). Alternatively, we support a Fair Value Option on inventories with appropriate disclosures on which inventories are held at fair value and as required by FAS 157. This view eliminates the need to define trading activities or inventories and allows a company to designate which inventories should economically be reported at fair value.

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?*

Response: No, we believe that such threshold would be inconsistent with the frameworks in Statement 157 and Statement 133.

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?*

Response: Perhaps. There may be additional application of fair value to assets and liabilities. However, the Board should evaluate these under the framework of providing alternative accounting guidance that may provide more economic accounting rather than mandating its application.

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?*

Response: No, we do not support an entity-wide election that is irrevocable and results in all commodity inventories being measured at fair value regardless of activity. Such an election could revoke a company's LIFO election on non trading commodity inventories resulting in a significant cost burden to the company.

ISSUE 5 – *A) What costs would be incurred to implement this proposed FSP? B) Are the transition provisions of this proposed FSP appropriate? C) Does the 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 within those fiscal years) beginning after November 15, 2008?*

Response:

- A) If the FSP is more principally based in that it allows more management judgment in determining which inventories should be measured at fair value, we believe implementation cost would be negligible. The FSP could result in significant cost to the Company as a result of LIFO election issues as well as to track inventory movements between categories where the company does not currently view fair value as the most economic method of accounting.
- B) If management of the company has the ability to define which inventories are allowed to be reported using fair value, similar to FAS 159, we would not object to the transition provision of a cumulative effect adjustment.
- C) If management of the company has the ability to define which inventories are allowed to be reported using fair value, similar to FAS 159, we could apply the requirements of this proposed FSP for our 2009 financials. Otherwise, the time would not be sufficient.