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June 23, 2008



Mr. Russell G. Golden Director of Technical Application and Implementation Activities Financial Accounting Standard Board 401 Merritt 7 P.O. Box 5116

LETTER OF COMMENT NO. 33

Proposed FSP ARB 43-a "Amendment of the Inventory Provisions of Chapter 4 of Re:

Dear Technical Director:

ARB No. 43"

Norwalk, CT 06856-5116

We appreciate the opportunity to comment on the proposed FASB Staff Position No. ARB 43-a "Amendment of the Inventory Provisions of Chapter 4 of ARB No. 43".

The Board's proposal to require inventories included in an entity's trading activities be initially and subsequently measured at fair value with changes in fair value recognized in earnings would address the issues regarding the use of fair value for commodity inventories by brokers and dealers, investment companies, and others with trading inventories as described in paragraphs 3 and 4 of the proposed FSP. The Board's proposal would not, however, resolve broader issues regarding the scopes of the AICPA Audit and Accounting Guides for Brokers and Dealers in Securities and Investment Companies or issues related to the use of fair value by brokers and dealers and investment companies for assets other than inventories.

The proposal also raises other concerns related to the definition of trading activities, the application of an accounting model based on management intent, transfers of inventories between trading and non-trading categories, and the interaction of this proposal with the Board's ongoing Fair Value Option project.

Inventory Included in an Entity's Trading Activities

As proposed, the FSP states entities should determine trading inventories by reference to current GAAP that describes or defines trading activities. As noted by the dissenting Board member, without a clear definition of trading activities, the proposed FSP may allow for the selection of a measurement attribute based on management intent. Accordingly, if the Board retains its proposed approach in the final FSP, we believe the FSP should describe indicators that entities should consider in identifying their trading activities.



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Initial and Subsequent Measurement of Inventory Included in an Entity's Trading Activities

As currently proposed, the FSP requires trading inventories to be accounted for at fair value and nontrading inventories be accounted for at lower of cost or market. The FSP appears to assume that trading and non-trading inventories can be readily separable for accounting purposes. Based on our understanding of how some entities in the commodities industries operate, such a separation is not always clear. For example, for some entities in the agricultural and oil refining industries that have both trading and manufacturing (refining) activities, commodity purchases may be made without designation of how the commodity inventory will be used.

The proposed FSP also specifies that transfers between trading and non-trading categories be recorded at fair value and requires new disclosures about those transfers. As cited in the previous paragraph, in some instances it may not be known at the date of purchase what will be used in an entity's trading activities versus in its nontrading activities. And although we would not propose a restriction on transfers and we agree that transfers should be accounted for at fair value under the Board's proposed model, the ability to transfer inventory between categories and the resulting change in accounting based on a change in management's intent raises concerns about the appropriateness of the Board's model. In addition, by requiring the disclosures in paragraph 11(d) of the proposed FSP, entities that have both trading and nontrading activities may be required to maintain two sets of accounting records, cost and fair value, for their inventory items. We believe this will be difficult to do and may create an excessive burden on the commodity-based industries.

Suggested Change to Proposed FSP

Due to these concerns, we do not agree with the intent-based approach in the proposed FSP and we believe the proposed FSP should be revised to allow companies that have trading activities for commodity inventories a company-wide election to account for all purchased commodity inventories (including those that may be used in non-trading activities) at fair value, until the point the commodities enter into the entity's production (or refining) process. Once the commodities enter the production process (or retail, wholesale, distribution or other nontrading activity), we believe such inventories, as well as work in process and finished goods, should be accounted for at the lower of cost or market, with the reclassification recorded at fair value. If such an election is made, the disclosures in paragraph 11(c) and 11(d) should not be required.



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For commodities that result *from* an entity's production process (e.g. oil and natural gas production), we believe the proposed FSP should clarify what accounting model would be applicable in circumstances where the produced inventory may enter into the entity's trading activity if the FSP is not modified as we suggest.

We also encourage the Board to consider the interaction between the proposed FSP and its Fair Value Option project. If the Board believes that it may conclude in the Fair Value Option project that entities should have the option to account for all commodity inventories at fair value, the Board should consider whether the FSP may require some entities to discontinue use of fair value for commodity inventories, which may be reinstated upon completion of the Fair Value Option project.

Readily Determinable Fair Value

We believe that an approach that would limit the scope of this FSP only to inventories that have readily determinable fair values is inconsistent with Statement 157. Therefore, we agree with the Board's rejection of this alternative.

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If you have any questions about our comments or wish to discuss any of the matters addressed in our comments, please contact Mark Bielstein at (212)-909-5419.

Sincerely,

