



LETTER OF COMMENT NO. 23

Technical Director
Financial Accounting Standards Board
401 Merrit 7
PO Box 5116
Norwalk, Connecticut 06856-5116

Dear Technical Director:

# Proposed FASB Staff Position (FSP) ARB No. 43, Restatement and Revision of Accounting Research Bulletins

We appreciate the opportunity to comment on the Financial Accounting Standards Board's (FASB or the Board) Proposed FASB Staff Position (FSP) – ARB No. 43, Restatement and Revision of Accounting Research Bulletin. We support the issuance of guidance in this area in the attempt to eliminate inconsistencies in U.S. GAAP resulting from industry specific guidance. However, as discussed further below, we do not believe that the proposed FSP as it is currently written appropriately addresses the potential inconsistencies the FSP was issued to address. We believe it may create additional inconsistencies in financial reporting and would significantly change current practice for inventories included in production, wholesale, retail or distribution and other non-trading business activities.

We believe that the measurement of commodity inventories at fair value better reflects the economic reality of our business activities similar to the accounting for our related forward commodity purchase and sales contracts and other derivatives that are currently required to be recorded at fair value. As part of our price risk management practices we typically offset the risk of changes in fair value of the commodity inventories with forward contracts and other derivatives in equal notional amounts. We have historically accounted for the majority of our commodity inventories at fair value, and if these inventories were subsequently required to be recorded at cost it would result in a significant mismatch in earnings.

Therefore, the alternative view described in Issue 4, but adjusted to allow for a fair value election by type of commodity, results in the most appropriate accounting for commodity inventories.

If the adjusted Issue 4 approach is not allowed, we would suggest that the original language of ARB 43 is retained to continue to allow for exceptions to recording non-trading inventories at the lower of cost or market if the specified criteria are met.

Otherwise, allowing specific exceptions only for inventories of Agricultural Producers and Agricultural Cooperatives continues to result in retaining industry specific accounting.

Large multi-national commodity processors such as ourselves are vertically integrated across the global agricultural supply chain. Our operations include commodity procurement, distribution, production, as well as trading aspects within different business activities, legal entities, and varied geographies across the world. These commodity inventories are interchangeable (fungible) in nature and have a readily determinable fair value in widely available international markets. Similar to financial instruments, a majority of the commodity inventories are actively traded and are able to be immediately sold in their current state without further processing or incurrence of significant costs to dispose through exchanges or other market mechanisms.

Similar to SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities, if the proposed FSP were to allow an election on an individual commodity inventory type to be measured at fair value it would bring the FASB closer to achieving its long-term objective of the overall use of fair value in financial reporting. We believe the use of fair value would also reflect the economic events in the periods in which they occur and in a consistent manner with the conceptual framework. The resulting financial statements would be more relevant and understandable to financial statement users.

The classification of commodity inventories into trading or non-trading categories may change rapidly due to price, demand, and other market forces while the nature of the commodity inventory does not change. We have not historically segregated or differentiated commodity inventories based on trading and non-trading categories, but focused on the type of the commodity used in the various business activities of the organization. In addition, the same commodity is often utilized in these different business activities at the same point in time during the period the entity purchases, processes, and sells the commodity inventory. A commodity produced by one business activity as a finished good is often considered a raw material to another business activity. Therefore, transfers between business activities occur continuously, and consistent with the economic reality of the transaction we believe that fair value is the most appropriate measurement of the transfer.

The proposed FSP also does not adequately define trading activity, which would be subject to significant entity judgment. Existing US GAAP guidance in FAS 115 defines trading as "Securities that are bought and held principally for the purposes 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." A limited definition of trading activity could cause not only inconsistent application of fair value and possible abuse, by the same commodity inventory being recorded at either cost or market merely based on the intention of the entity at a point in time.

By excluding inventory held for production, wholesale, retail or distribution, the FSP definition of trading activity also does not provide sufficient clarification as it relates to the nature of the inventory, versus the judgmental determination of inventory utilized in a trading activity.

We appreciate the opportunity to provide our comments in response to the FSP and have also included responses to Issues 1-5 in the attached appendix.

Sincerely,

Galen G. Johnson
Cargill, Incorporated

Corporate Vice President and Controller

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# Appendix

## Responses to Specific Issues in the Proposed FSP

# **Issue 1: Commodity Inventories**

We concur that the proposed FSP as currently written places undue emphasis on whether an entity has activity which is deemed to be trading, and not enough emphasis on the nature of the inventory.

Therefore, we believe that the proposed FSP scope should include an assessment of commodity inventories that are subject to trading as well as those used in production, wholesale, retail, or distribution activities. Limiting the proposed FSP scope merely to the activity of trading does not provide sufficient clarification or resolve the inconsistencies within current GAAP guidance.

#### Issue 2: Readily Determinable Fair Value

We believe that the scope of the proposed FSP should not be limited solely to trading inventories that have readily determinable fair values based on estimates only utilizing Level 1 or Level 2 inputs as described in Statement 157. We concur with the Board's decision that such a threshold would be inconsistent with the framework in Statement 157 and the overall move to fair value. The arbitrary limitation imposed through this proposed FSP would not be considered necessary, as the majority of commodity inventories have a readily determinable fair value consistent with the description of Statement 157.

## Issue 3: Trading Items Other Than Physical Inventories

We do not believe the scope of the proposed FSP should be expanded to consider all items included in an entity's trading activities. We believe the existing guidance in U.S. GAAP, along with the clarification included in this FSP related to "day one" gains, provides sufficient guidance for the majority of the items included in an entity's trading activities based on the nature of the item. We concur with the Board's conclusion that the expansion of the scope would likely lead to unnecessary delays. Expansion of the scope could possibly contradict existing U.S. GAAP guidance in other statements resulting in more complex accounting than necessary.

## **Issue 4: Accounting Policy Election**

We support the alternative that would allow an entity to make an irrevocable accounting policy election for all commodity inventories to be measured at either fair value or the lower of cost or market. However, we believe it is more appropriate to allow an election by type of commodity versus an entity-wide election for all commodity inventories.

An irrevocable election of fair value would be consistent with the fair value option approach of SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities.* We believe additional disclosures regarding the types of commodities recorded at fair value would be sufficient for the users of the financial statements.

# **Issue 5: Implementation Issues**

We believe the cost to be incurred to implement the proposed FSP would be very significant for others and ourselves within our industry. The costs would be incurred not only in the initial implementation, but also on an ongoing basis. We would likely continue to maintain our existing reporting structure based on fair value, and be required to develop a reporting structure and technology system to comply with the external reporting requirement.

We do not object to the transition provisions of the proposed FSP to require a cumulative effect of the change in accounting principle to the opening balance of retained earnings.

The proposed amendment would be effective for our company beginning on June 1, 2009. We have concerns that if the proposed amendment is implemented as originally issued, there are significant initial and ongoing costs to be incurred. Our existing accounting policies and practices as well as information technology systems would need updating within less than one year from the issuance of the Final FSP.