



LETTER OF COMMENT NO. 20

June 16, 2008

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

Re: Proposed FSP ARB 43-a

Dear Mr. Golden:

The Dealer Accounting Committee (“the Committee”) of the Securities Industry and Financial Markets Association (“Securities Industry and Financial Markets Association”)¹ appreciates the opportunity to comment on the Financial Accounting Standards Board’s (“FASB”) proposed FASB Staff Position ARB 43, *Restatement and Revision of Accounting Research Bulletins* (the “FSP”). The FSP would 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.

Overview

While the Committee generally supports the concept underlying the FSP, we are disappointed that the scope of the FSP was not extended to trading activities as a whole rather than limited to inventories within the scope of ARB 43. There seems an increasing consensus among observers that fair value information is the most relevant information in making financial decisions about trading activities, but as it stands, the

¹ SIFMA brings together the shared interests of more than 650 securities firms, banks and asset managers. SIFMA’s mission is to promote policies and practices that work to expand and perfect markets, foster the development of new products and services and create efficiencies for member firms, while preserving and enhancing the public’s trust and confidence in the markets and the industry. SIFMA works to represent its members’ interests locally and globally. It has offices in New York, Washington D.C., and London and its associated firm, the Asia Securities Industry and Financial Markets Association, is based in Hong Kong.

FSP is only a limited improvement in the flow of such information to users of financial statements, as significant portfolios of trading inventory will continue to be outside of the fair value accounting model. The Committee regrets FASB's lost opportunity to substantially improve financial reporting by a more comprehensive application of the FSP to all trading activities.

Below are the Committee's responses to a number of the issues raised in the FSP.

Issue 1: Commodity Inventory

We agree that the FSP correctly rejected the alternative approach that would have limited its scope "to commodity inventories that are not used in production, wholesale, retail, or distribution activities." The Committee supports the movement towards an activity-based, rather than a legal entity-based, approach to accounting, as that better aligns with the economic realities of our firms. Typically in the commodities trading industry, trading activities are managed on a fair value basis, whether the entity in question is engaged solely in trading or may also engage in production or other activities

Issue 2: Readily Determinable Fair Value

The Committee agrees that limiting the FSP to trading activities that have readily determinable fair values would be absolutely inconsistent with FAS 157, *Fair Value Measurements*. Both FAS 157 and FAS 133, *Derivative and Hedging Activities*, require the application of fair value to instruments whether or not the fair value is readily determinable. In this connection, we note that some users of financial statements have stressed the *relevance* of fair value even in those cases where fair value measurement may involve some difficulty and the exercise of judgment. Additionally, FAS 157 requires a preparer to make additional disclosures when an instrument does not have a readily determinable fair value.

Issue 3: Trading Items Other Than Physical Inventory

As indicated above, the Committee is of the view that the scope of the FSP should be extended to include trading activities as a whole. We acknowledge that the FSP as written will assist those dealers that account for physical commodities at the lower of cost-or-market under ARB 43, or that achieve fair value accounting by applying a hedge accounting framework to their trading activities. However, its application to a broader range of activities would have provided dealers that risk-manage and value their trading activities on a fair value basis with the opportunity to account for those activities in their financial statements in a manner that more accurately reflects the underlying economics. In our view, that would be the right outcome of this project, and we do not understand why achieving that end would necessarily "result in significantly delaying the issuance of final guidance."

Issue 4: Accounting Policy Election

The FSP notes that the Board rejected a proposal to allow an entity to make an irrevocable election for all commodity inventories to be valued at either fair value or the lower of cost or market. It also poses the question of whether “the measurement attribute for inventories should be subject to an entity-wide accounting policy election?” The Committee agrees with the Board’s decision, as we do not see the necessity of providing such an option. We also agree with the observation that “the Board believes that fair value is always the appropriate measurement attribute for inventories included in trading activities,” though as noted above, we believe that it is the appropriate attribute for trading activities generally, not merely for physical inventories.

Issue 5: Implementation Issues

The FSP poses a set of questions relating to implementation, specifically:

- a) What costs would be incurred to implement this proposed FSP?
- b) Are the transition provisions of this proposed FSP appropriate?
- c) 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 within those fiscal years) beginning after November 15, 2008?

From the perspective of the Committee’s member firms, as the firms risk manage and value their inventories on a fair value basis, we believe that the costs associated with the FSP would be fairly minor, and the transitional provisions and proposed implementation date do not present any major difficulties.

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Should you have any questions about the Committee’s letter or wish to discuss the subject at greater length, please feel free to contact me at 212-357-8437.

Sincerely,



Matthew L. Schroeder
Chairman
Dealer Accounting Committee