JPMorganChase 🗘



LETTER OF COMMENT NO. 16

Shannon S. Warren Managing Director Corporate Accounting Policies

June 16, 2008

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

Re: Accounting for Trading Inventory—Potential FSP to Amend ARB 43

Dear Mr. Golden:

JP Morgan Chase & Co. ("JPMorgan Chase" or "the Firm") appreciates the opportunity to comment on the Financial Accounting Standards Board's ("FASB" or "the Board") proposed FASB Staff Position ARB No. 43-a, Amendment of the Inventory Provisions of Chapter 4 of ARB No. 43 ("the Proposed FSP").

We appreciate the FASB's effort to address the diversity that exists in practice with respect to accounting for trading inventory. JPMC supports the issuance of Proposed FSP ARB 43-a as soon as possible. In addition, JPMC strongly encourages the FASB to add an additional project to its agenda to expeditiously address the complexity that exists in the accounting for commodities trading contracts that are not in the scope of the Proposed FSP. We hope you will find the comments below useful and would be pleased to discuss our comments with you at your convenience. If you have any questions, please contact me at 212-648-0906.

Very truly yours,

Thanan Darrer

J.P. Morgan Chase & Co. • 245 Park Avenue, Floor 10, New York, NY 10167

Scope

JPMC recognizes that the FASB's intent in relation to this project was to address the diversity in practice and the inconsistency that exists between the guidance in ARB 43 and that in certain AICPA Audit and Accounting Guides. In the interest of resolving the urgent need for a timely resolution to this inconsistency and diversity in practice by the proposed effective date, the Firm believes that the Proposed FSP should be issued as soon as possible. The Firm does not believe that the FASB should postpone the issuance of the Proposed FSP in order to expand the scope of the current project to consider trading items other than inventories, or to consider an entity-wide accounting policy election.

However, we strongly encourage the FASB to address the need for improved guidance for commodity and energy trading activities outside of the scope of the current project. The number of different accounting models and measurement bases for contracts that are risk managed together on a fair value basis has led to a level of complexity that requires timely resolution. For example, typical transactions in the commodities/energy trading business currently must be analyzed for accounting under the following different models:

- Inventory (addressed by the Proposed FSP)
- Derivative instrument
- Non-financial hybrid instrument (for which the host may be elected for the fair value option)
- Lease
- Intangible asset/liability
- Executory contract

The above framework for a single trading activity is extremely burdensome for preparers. We do not believe that this framework is capable of providing users of financial statements with even a basic understanding of the risks or returns of a commodities/energy trading business, or a means to effectively compare such risks and returns across competitors. JPMorgan Chase supports the view espoused by the SEC's Committee on Improving Financial Reporting ("the Committee") that GAAP should be based on activities. We believe that a principles-based standard for commodities/energy trading activities coupled with relevant disclosure would efficiently and effectively resolve this complexity. While we feel strongly that the Board issue the Proposed FSP as soon as possible, we do not believe that the decision to issue the Proposed FSP as final should preclude the Board from resolving the remaining issues on a timely basis in a separate project.

Readily Determinable Fair Value

JPMC supports the decision to not require that trading inventories must have readily determinable fair values in order to be marked to fair value with changes recognized in earnings. We believe that FASB Statement No. 157, Fair Value Measurements, provides for sufficient disclosures for items measured at fair value that may not have readily determinable fair values. As such, requiring trading inventories to have readily determinable fair values to be marked to fair value would be inconsistent with Statement 157.

Trading Activities and Disclosures

JPMC agrees with the decision to require entities to make the determination of what is trading inventory based on the specific facts and circumstances and other GAAP. JPMC supports the view of the SEC's Committee on Improving Financial Reporting ("the Committee") that GAAP should be based on activities and commends the FASB for aligning the accounting for ARB 43 inventory with the entity's respective

activity for such inventory. This creates a principles-based approach for accounting for ARB 43 inventory and the Firm believes it is a more relevant and representationally faithful measurement basis.

Transition & Effective Date

JPMC is supportive of the effective date of the Proposed FSP for fiscal years beginning after November 15, 2008 and interim periods within those fiscal years.