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Proposed FASB Staff Position FSP ARB 43-a

We appreciate the opportunity to comment on the proposed FASB Staff Position (FSP) ARB 43-a, Amendment of ARB No. 43. We support the FASB's efforts to clarify how entities subject to the scope of the AICPA Audit and Accounting Guides Brokers and Dealers in Securities and Investment Companies (collectively, the "Audit Guides"), and others that engage in trading activities should account for physical inventories they hold for trading purposes.

However, we do not support the proposed FSP's requirement that only those inventories included in an entity's trading activities be initially and subsequently measured at fair value, with changes in fair value recognized in earnings. In reaching this conclusion, we have considered the following:

- Many entities maintain inventories that are used in trading activities as well as
 production, wholesale, retail, distribution, and other nontrading activities. The
 proposed FSP requires selection of a measurement attribute for similar assets held by
 an entity based on management's intent for the inventory (i.e., it requires companies
 to measure inventories that are potentially "available for trading" using a different
 measurement attribute than those inventories currently designated for trading). We
 believe that similar assets held by the same entity should not be measured differently
 based on management intent.
- Different entities may decide that similar activities are trading or nontrading, which
 may result in decreased comparability among reporting enterprises for similar
 activities.
- As discussed in the proposed FSP, certain entities maintain inventories for both trading and nontrading activities. Such entities may transfer inventories between trading activities and production or other nontrading activities as needs and market opportunities arise. Determining which inventories are held for trading purposes and which are held for other purposes for such entities at any point in time may be difficult. It also may be difficult for such entities to operationalize controls and procedures to determine what the intended use of the inventory is at any time, to



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determine when the intended use is modified, and to separately account for similar inventory items using dissimilar measurement methods.

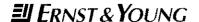
Companies that value inventories using LIFO for U.S. income tax purposes must also
account for such inventories using LIFO for financial reporting purposes. Certain
entities that maintain inventories for both trading and nontrading activities currently
value all such inventories using LIFO. The FSP's proposed requirement to measure a
portion of such inventories at fair value could potentially invalidate the ability of such
entities to use LIFO for US income tax reporting purposes for either a portion or all of
such inventories. This could result in significant current income tax expense for such
entities.

We believe that if delivery of physical inventory held by an entity would meet the criteria in paragraph 9.c of FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities (Statement 133), as delivery of an asset readily convertible to cash (as defined by reference to paragraph 83(a) of FASB Concept Statement No. 5, Recognition and Measurement in Financial Statements of Business Enterprises, as having "(i) interchangeable (fungible) units and (ii) quoted prices available in an active market that can rapidly absorb the quantity held by the entity without significantly affecting the price"), the entity should be able to irrevocably elect to measure all positions held in that inventory at fair value (regardless of the intended use for the inventory), with changes in fair value recognized in earnings, in a manner similar to the irrevocable election to fair value financial assets and liabilities pursuant to FASB Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (Statement 159). Further, we believe that measurement of such inventories at fair value should cease when the entity begins to utilize the inventory in a production process (i.e., once the inventory is used as a raw material for or an input in production processes carried out by the entity). Alternatively, entities could continue to account for such inventories at the lower of cost or market pursuant to the provisions of ARB 43. Entities should be allowed to make this decision by type of inventory.

We believe that this is preferable to the accounting described in the proposed FSP due to the following:

- The market prices for many inventories meeting the above-described criteria are volatile. Because of this volatility, we believe that measuring such inventories at fair value can provide more relevant and understandable information to users of financial statements than cost-based measures, because fair value reflects the current cash equivalent of the inventory.
- The use of the above referenced criteria from Statement 133 would provide a principles-based (rather than intent-based) means of identifying inventories that can

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be measured at fair value that is consistent with other existing GAAP, without requiring measurement at fair value.

- Allowing entities to elect to measure positions in types of inventories that meet the above-described criteria at fair value would result in all positions held by an entity in that type of inventory being measured in a consistent manner, instead of requiring differing measurements based on potentially ambiguous trading or nontrading designations.
- This approach would eliminate any need to define what types of inventories are commodities.
- An entity holding a position in a physical inventory that meets the above-stated criteria has similar, if not identical, potential risks and rewards associated with the position as those of an entity holding a derivative financial instrument for which the same physical inventory is an underlying (other than physical loss risk and counterparty credit risk, respectively). Accordingly, we believe that entities should be able to measure such inventories at fair value, if they so choose, in a manner similar to the accounting afforded the financial instrument.
- Because the market prices for many inventories meeting the above-described criteria are volatile, many entities holding such inventories for purposes other than trading often enter into derivative contracts as a means of hedging against price risk. Many times, these derivative financial instruments are designated as either fair value or cash flow hedges pursuant to Statement 133. An election to measure inventories meeting the above-described criteria at fair value would enable entities to achieve an offsetting effect for the changes in the fair values of derivative financial instruments used to hedge price risk associated with those inventories without having to apply the complex hedge accounting provisions of Statement 133, thereby providing greater simplicity in the application of accounting guidance. This would enable entities to avoid the time, effort, and systems needed to document hedging relationships and demonstrate their effectiveness to qualify for continued hedge accounting.

We also note that the proposed FSP will eliminate the existing exception within ARB 43 to the general rule that inventories be carried at the lower of cost or market when an entity lacks the ability to determine approximate costs, the inventory is immediately marketable at quoted market prices, and has the characteristic of unit interchangeability. We agree that the use of this exception is rare today because sophisticated cost accounting techniques supported by robust cost accounting software permit most companies to determine the approximate cost of their inventory. However, we are aware of certain companies engaged in businesses involving agricultural commodities and products that continue to avail themselves of this exception and that are not subject to the scope of the AICPA Audit and Accounting Guide, Agricultural

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Producers and Agricultural Cooperatives. Elimination of the existing ARB 43 exception would require a change in current practice for such companies. This change would be inconsistent with the Board's assertion in the Summary of the proposed FSP that the FSP "would not change current practice for inventories included in production, retail, wholesale, or other nontrading activities."

If such companies are provided the option to account for inventories at fair value as discussed above, they could elect to measure the inventories currently recorded at current sales prices at fair value, which we believe would not represent a significant change in practice or difference in measurement for those companies. Additionally, allowing companies the option to fair value inventories meeting the Statement 133 paragraph 9(c) criteria would obviate the need for the existing exception within ARB 43 to the general rule that inventories be carried at the lower of cost or market when an entity lacks the ability to determine approximate costs. Accordingly, this exception could be eliminated as proposed in the FSP.

If the Board agrees that entities should be allowed to make such an accounting policy election, we believe that measurement at fair value should cease once the inventories are placed into any production process, and that disclosures similar to those required by the proposed FSP for transfers of inventories between trading and nontrading activities should be required. We believe such disclosures would address, in large part, the Board's concerns around the effect on revenue recognition for a manufacturer of allowing such an election. Additionally, we believe that disclosures similar to those required by paragraphs 18-22 of Statement 159 should be required of any company that elects to measure inventories meeting the above-described criteria at fair value.

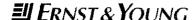
We also have comments relating to the issues on which the Board specifically requested written comments. These are discussed in the Appendix to this letter

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We would be pleased to discuss any of these specific comments with you, the Board members, or other staff at your convenience.

Very truly yours,

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Appendix Responses to Board's Requests for Comments on Specific Issues

Issue 1: Commodity Inventories

We do not favor limiting the scope of the proposed FSP to commodity inventories that are not used in production, wholesale, retail or distribution activities. As discussed in the attached letter, we do not believe that similar assets held by the same entity should be measured differently for financial reporting purposes based on the activity in which management intends to use them. Rather, we believe that entities should be allowed to account for all inventories meeting certain criteria at fair value if they so choose, regardless of whether the inventories are held for the purpose of trading or other activities.

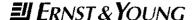
Issue 2: Readily Determinable Fair Value

Because we believe that entities should be allowed to make an irrevocable election to measure inventories meeting certain criteria at fair value, we do not support an alternative approach to limit the scope of the proposed FSP to inventories included in an entity's trading activities that have readily determinable fair values. Additionally, we agree with the Board's conclusion that such a threshold is inconsistent with the fair value framework established in Statement 157.

Issue 3: Trading Items Other Than Physical Inventories

We do not believe that the Board should pursue a broader-scope project that would include all contracts and assets or liabilities within an entity's trading activities if such a project would result in significantly delaying the issuance of the proposed FSP in final form. We agree with the Board's reasoning that the objective of the FSP is to address the inconsistency between ARB 43 and the Audit Guides with respect to accounting for inventory, and believe that the issuance of guidance addressing this inconsistency would be an improvement in financial accounting and reporting. However, we believe that the easiest way to resolve this inconsistency is to allow entities that hold inventories that are consistent with paragraph 9 (c) of Statement 133 to elect to fair value such inventories in a manner consistent with an election to fair value financial assets and liabilities pursuant to Statement 159.

If, however, the Board were to conclude that a broader-scope project relating to the accounting for all contracts and assets or liabilities associated with an entity's trading activities should be undertaken, we believe that this FSP should be finalized and issued to address the above noted inconsistency, and the broader-scope project pursued separately.



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Issue 4: Accounting Policy Election

As discussed previously, we believe entities should be allowed to make an irrevocable accounting policy election to measure all inventories meeting certain criteria at either fair value or the lower of cost or market.

Issue 5: Implementation Issues

The third quarter issuance of a final FSP that would be effective for fiscal years (and interim periods within those fiscal years) beginning after November 15, 2008 may not allow sufficient time for entities to understand and apply the requirements of the FSP. Accordingly, the Board should reconsider the date at which the provisions of a final FSP will become effective.

If the Board determines that the proposed FSP should be finalized without significant revision, we suggest that the FSP include a requirement that gains or losses (realized and unrealized) arising from remeasurement and the disposition of inventory held for use in trading activities be presented net in the income statement, with disclosure of gross quantities traded, in a manner similar to the disclosure requirements in paragraph 8 of EITF Issue 02-3, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities."