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Via Electronic Mail and Standard Post

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Russell G. Golden
Director of Technical Application & Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

Re: Proposed FASB Staff Position FSP ARB 43-a, "Accounting for Trading Inventory"

Dear Mr. Golden,

The Commodity Markets Council (CMC, formerly National Grain Trade Council) welcomes the opportunity to comment on the Financial Accounting Standards Board's (FASB) Exposure Draft, FSP ARB 43-1, "*Accounting for Trading Inventory*." CMC strongly supports FASB's efforts to move toward a fair value measurement model as it applies to trading inventories and understand it is part of the Board's long-term measurement objective to expand the use of fair value measurement for accounting for financial instruments; however, we believe the proposed amendment, if adopted, will introduce accounting asymmetry and earnings volatility and result in financial statements that do not appropriately reflect underlying economic results.

CMC is a trade association that represents commodity futures exchanges, regional boards of trade, and numerous industry counterparts in the agriculture and energy businesses, including domestic and multinational commodity merchandisers, processors, millers, refiners, commercial and merchant energy companies, precious and base metal trading firms, and bioenergy producers; US and internationally-based futures commission merchants; food and beverage manufacturers; major transportation companies; and financial institutions. The businesses of many of our member-firms depend on the ability to manage risk arising from commodity contracts and trading inventories.

Resolving Inconsistencies In Generally Accepted Accounting Principles

The stated purpose of the proposed FSP is to resolve the discrepancies between the guidance in ARB 43 and AICPA Audit and Accounting Guides. While the proposed FSP resolves those inconsistencies, we believe it introduces new ones for agricultural companies where the predominant historical industry practice for a broad range of commodities enterprises has been marking to market all market-traded commodity inventories along with forward purchase and sale contractual commitments and related futures hedges. The industry has long relied upon guidance in Chapter 4, Paragraph 9 of ARB 43 to support this accounting, which was further corroborated by the similarities of the activities of commodity merchandisers and processors with other commodity-related activities that were that are not within the scope of the Agricultural Producers and Cooperatives Audit Guide. This accounting process is identical to the manner in which managers of such enterprises manage and evaluate the business and, as a result, permeates both the commercial and accounting systems and provides for a key internal accounting control through the reconciliation between commercial and accounting results.

If implemented, the proposed amendment would introduce a mixed attribute measurement model for commodity positions. Because this model would measure inventories differently than the other components of agricultural commodity positions, we believe it will result in distorted financial statements that do not accurately reflect the underlying economics. For the agricultural processing industry, this distortion will dramatically reduce the relevance of the information conveyed in financial reporting to the general public.

Specifically, our industry and others have relied on FASB guidance in Chapter 4, Paragraph 9 of ARB 43 and Paragraph 16 of the Discussion to support its accounting for inventories at market:

9. Only in exceptional cases may inventories properly be stated above cost. For example, precious metals having a fixed monetary value with no substantial cost of marketing may be stated at such monetary value; any other exceptions must be justifiable by inability to determine appropriate approximate costs, immediate marketability at quoted market price, and the characteristic of unit interchangeability.

16. It is generally recognized that income accrues only at the time of sale, and that gains may not be anticipated by reflecting assets at their current sales prices. For certain articles, however, exceptions are permissible. Inventories of gold and silver, when there is an effective government-controlled market at a fixed monetary value, are ordinarily reflected at selling prices. A similar treatment is not uncommon for inventories representing agricultural, mineral, and other products, units of which are interchangeable and have an immediate marketability at quoted prices and for which appropriate costs may be difficult to obtain. Where such inventories are stated as sales prices, they should of course be reduced by expenditures to be incurred in disposal, and the use of such basis should be fully disclosed in the financial statements

The proposed FSP does not address this issue and it is common in our industry for a situation to arise where a firm is unable to determine the appropriate cost of its inventory. For example, this situation may arise from a deferred pricing arrangement with an agricultural producer. As a result, firms must measure select commodity inventories at estimated market value and under certain market conditions the difference between cost and estimated market values can be significant.

We believe FASB can reconcile the inconsistencies between ARB 43 and the AICPA without deleting the above-referenced ARB 43 paragraph.

Issue 4: Accounting Policy Election

We understand that FASB considered but rejected an alternative that would allow an entity to make an irrevocable, entity-wide accounting policy election for all commodity inventories to be measured at either fair value or the lower of cost or market; however, we continue to strongly support this alternative with some modification.

Financial statements that provide meaningful, reliable, timely, and accurate information are critical to maintaining the trust of the general public. We believe the alternative proposal would allow the financial statements of agricultural processors, and other firms, to better meet this objective. It would also result in reports that mirror the way operations are internally managed and measured, thus providing more meaningful financial statements that allow users of such statements to more accurately evaluate the performance of a business operation.

To further advance this objective, we support modifying the alternative to allow a firm to make a fair value election by type of commodity at any stage of production. Permitting this election allows firms to adopt the measurement model that best represents the economic management and performance of

each component of its business. Many firms, including but not limited to agricultural processors, have products that come out of production that are marketed and traded on futures exchanges just like the raw materials. Requiring firms to disclose the selected method would improve the understanding of the company's financial statements and allow the public to more accurately compare financial results between companies. Moreover, this modification is similar to the fair value option approach adopted by FASB in the SFAS 159, *The Fair Value Option For Financial Assets and Financial Liabilities*.

In SFAS 159, the stated objective of the Board is to "improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions."

Issue 5: Implementation Issues

Our industry, like many others, operates in a 24-7 environment where transactions are constantly changing. To implement the proposal will require firms to commit significant staffing resources as well as major investments in technology changes. With many firms subject to this change in less than a year, we believe the cost to individual firms would be onerous, if not cost prohibitive.

One alternative we encourage you to consider is shifting the effective date for this proposal to the first quarter of 2010. This would coincide with the effective date of the revised FAS 133, which deals directly with hedge accounting.

Thank you for the opportunity to comment. We look forward to working with you on this important issue. If you have any questions or would like to discuss our comments, please contact me at (202) 842-0400 or mwalter@cmcmarkets.org.

Sincerely,

A handwritten signature in cursive script, appearing to read "Michael D. Walter".

MICHAEL D. WALTER
President