



California
Society
Certified
Public
Accountants

Via email <director@fasb.org>

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File Reference: Proposed FSP ARB 43-a

The Accounting Principles & Auditing Standards Committee of the California Society of Certified Public Accountants (the AP&AS "Committee") submits the following comments on the Proposed FSP 43-a to amend ARB 43, Chapter 4, "Inventory Pricing."

The AP&AS Committee is the senior technical committee of the California State Society of CPAs. The Committee is comprised of 54 members; 76 percent from local or regional firms, 13 percent sole practitioners in public practice, 4 percent from industry and 7 percent from academia.

The AP&AS Committee supports the Board's effort to achieve consistency among all entities in valuing inventories included in an entity's trading activities. However, the AP&AS Committee does not believe the desired consistency will be achieved unless the FASB provides a definition of and useful guidance on what should be considered "trading activities" for entities engaged in production activities who also may be involved in trading activities.

Existing literature for valuing inventories at fair value was not written for application to producers. It bases classification on an entity's intent, and requires classification as trading if intent is to hold only for a short period of time, but then goes on to state that classification as trading is not precluded simply because an entity does not intend to sell in the near term. This provision has been useful for financial institutions, but commodity producers tend to work in longer timeframes and frequently do not have a "bright line" between trading and non-trading activities.

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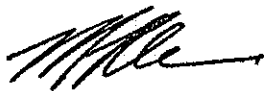
It is likely that different entities conducting what could be considered both production and trading activities will define "trading activities" differently. The examples in the proposed FSP are simplistic and do not reflect the complexity common in commodity production and sale. For example, a company may extract oil in the western United States and contract to sell and deliver crude oil to another entity's refinery on the Gulf Coast. It does not transport the crude oil it extracts, but sells it to a local western refinery and purchases oil on the Gulf Coast for delivery. It hedges oil prior to extraction, and hedges purchases on the Gulf Coast, in both cases only if considered advantageous. At any point in time, it may be in a balanced, net long or net short position in crude oil. Some might conclude that all activities after extraction are trading; some might say none of transactions are trading, but a normal part of producing and delivering oil. Others might say some post-extraction activities are trading, but not all. The proposed FSP allows different designations in similar circumstances of what is "trading" differently based solely on an entity's judgment as to its intent.

The AP&AS Committee has no specific comment on the five issues on which comment was requested.

In conclusion, the AP&AS Committee does not believe that the proposed FSP should be issued unless it includes a definition of and useful guidance on what should be considered "trading activities" for entities engaged in production activities who also may be involved in trading activities.

We thank you for the opportunity to comment on this matter. We would be glad to discuss our opinions with you further should you have any questions or require additional information.

Sincerely,

A handwritten signature in black ink, appearing to read 'M. Wille', with a horizontal line extending to the right.

Mark F. Wille, Chair
Accounting Principles and Auditing Standards Committee
California Society of Certified Public Accountants