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Letter of Comment No: 191  
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Director, Technical Application and Implementation Activities  
Financial Accounting Standards Board  
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**Re: Proposed FASB Staff Position, EITF Issue No. 03-1-a**

PPL Corporation (PPL) appreciates the opportunity to comment on the Financial Accounting Standards Board's (FASB or Board) Proposed Staff Position EITF Issue No. 03-1-a, *Implementation Guidance for the Application of Paragraph 16 of EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments"* (FSP EITF Issue 03-1-a).

PPL is an energy and utility holding company that, through its subsidiaries, is primarily engaged in the generation and marketing of electricity in the northeastern and western United States and in the delivery of electricity in Pennsylvania, the United Kingdom, and Latin America.

We have reviewed FSP EITF Issue 03-1-a and are submitting the following comments for the Board's consideration.

**Issue 1-- Minor Impairments:** The Board generally supported the notion that minor impairments can be considered temporary and did not support including either additional guidance or a numerical threshold to be used in determining whether an impairment is minor. Do you believe that financial statement preparers and auditors will be able to apply the notion of "minor impairment" without any additional guidance from the FASB? If not, do you believe that the Board should specify a numerical rule or threshold and, if so, what would that rule or threshold be?

We agree with the concept of "minor impairments" and the fact that minor impairments can and should be considered temporary without any further analysis due to the expectation that normal interest rate and/or sector spread volatility would be expected to eliminate such minor impairments. If set at an appropriate level, we can see how a numerical threshold would provide value to companies with large investment portfolios, similar to our nuclear decommissioning trust funds (NDT), in easing the administrative burden associated with preparing unnecessary impairment reviews for

changes in investment values merely due to normal volatility. Without the establishment of an appropriate threshold, we believe that companies with large investment portfolios, similar to our NDT, will expend significant amounts of time and resources in tracking, identifying and performing unnecessary impairment reviews for changes due to normal volatility. In addition, without these defined limits, we also believe that it is probable that there will be discussions between the financial statement preparers and the auditors around what constitutes a minor impairment and in the end both parties may still disagree. However, we believe a numerical threshold is only worthwhile if it is set at an appropriately high level such that large volumes of small dollar impairment reviews are avoided. We would recommend that the Board consider defining "minor impairments" as an impairment of 10% or less. We believe that the 5% level suggested in FSP EITF 03-1-a is too low of a percentage and would require companies to frequently record "other-than-temporary" impairments even though the fluctuation in the value of the investment was solely due to normal interest rate and/or sector spread volatility due to changing market positions.

**Issue 2—Limiting the Notion of Minor Impairments to Debt Securities Evaluated for Impairment Pursuant to Paragraph 16 of Issue 03-1:** The Board generally does not support extending the "minor impairments" exclusion to investments analyzed for impairment under paragraphs 10-15 of Issue 03-1. However, some Board member support expanding the notion of "minor impairments" to all investments analyzed under Issue 03-1 because they acknowledge that normal price volatility may eliminate an impairment. Do you support the Board's conclusion to limit the notion of "minor impairments" to debt securities analyzed for impairment under paragraph 16 that are impaired because of interest rate and/or sector spread increases? If not, why?

We believe the Board should expand the notion of "minor impairments" to all investments. As we are all aware, equity securities are more volatile on a short-term basis than debt securities and market losses are expected. In addition, history has shown that market losses are most often followed by offsetting gains. Therefore, a market downturn does not generally indicate an impairment. Market recoveries are especially relevant in the case of investments in a NDT. Because of there long-term strategic goal of having sufficient funds available to decommission nuclear power plants in the future (20 to 40 years from now), monies invested in NDT funds are managed from an overall portfolio concept, not on a security by security basis. It is not uncommon at any point in time for NDT portfolios to have 40% of their equity securities in a loss position, even though the overall portfolio is in a net gain position. As such, without an established "minor impairment" threshold, the result could be hundreds of unnecessary individual security impairment reviews triggered solely by a temporary market decline. Historically, a standard deviation of 22% is appropriate for a basket of large cap stocks, however the individual stock volatility is much higher (in excess of 30%), especially in small cap stock. Therefore we believe an appropriate conservative

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numeric definition of "minor impairment" for equity securities to be somewhere in the range of 20% to 25%. Again, we believe that a numerical threshold is only worthwhile if it is set at an appropriately high level such that large volumes of small dollar impairment reviews are avoided.

In addition to the comments addressed above, we would request that the FASB provide additional guidance related to the "ability" and "intent" criteria. As discussed in our previous letter to you dated September 7, 2004, previous EEI comment letters and at the EEI meeting with you on September 28, 2004, certain accounting firms have adopted a strict interpretation of the language in EITF 03-1 which has led to the conclusion that due to third party management of assets held in nuclear decommissioning trust funds, companies are unable to satisfy the "ability" criteria. We request that the final guidance clarify that sufficient control does not necessitate day-to-day management over the investments in order to demonstrate ability.

We are also concerned with an unreasonable interpretation of the guidance by some of the accounting firms related to "a pattern of selling investments prior to the forecasted recovery of fair value". We believe it would be appropriate to add to the circumstances that would not call into question the investor's ability or intent to hold other securities to recovery. Specifically, we believe that sales of temporarily impaired assets, which are made to offset gains on other asset sales to minimize the income tax liability of an investment portfolio, should be permitted.

As always, we would like to thank the Board for the opportunity to share with you our views and concerns on proposed FSP EITF Issue 03-1-a.

Very truly yours,



Paul Farr

cc: Mr. J. R. Biggar  
Mr. M. A. Cunningham  
Mr. M. D. Woods