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Letter of Comment No: 35

File Reference: EITF03-1

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September 29, 2004

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

RE: Proposed FSP EITF Issue 03-1-b, *Effective Date of Paragraph 16 of EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments"*

The Edison Electric Institute (EEI) appreciates the opportunity to comment on *Proposed FSP EITF Issue 03-1-b*, which proposes to delay the effective date of EITF 03-1 for debt securities that are impaired because of interest rate and/or sector spread increases.

EEI is the association of the United States investor owned electric utilities and industry affiliates and associates worldwide. Its U.S. members serve over 90 percent of all customers served by the investor-owned segment of the industry. They generate approximately three-quarters of all the electricity generated by electric utilities in the country and serve approximately 70 percent of all ultimate customers in the nation. EEI members own a majority of the transmission and generation facilities in the nation.

We support delaying the application of EITF 03-1 paragraph 16 to debt securities that are impaired solely because of interest rate and/or sector spread increases, pending the final issuance of FSP EITF Issue 03-1-a. Moreover, we do not believe that the delay should be limited to "paragraph 16 debt securities," but rather should be applied to all equity and debt securities. We would recommend an effective date no earlier than March 15, 2005.

Presented below are our considerations for delaying the effective date of EITF 03-1 for both debt and equity securities:

- In our comment letter of September 2, 2004, regarding EITF 03-1, we shared our concerns regarding the application of the intent and ability criteria to investments held in nuclear decommissioning trusts and a request for further deliberation of those concerns. We appreciate the opportunity you gave us to further discuss those concerns with the FASB staff on September 28, 2004. As this was near the end of the quarter in which EITF 03-1 is required to be applied, we believe that a delay is warranted in order to allow for further deliberation of our concerns.

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- We believe that the consistency provided by continued application of current impairment policies (e.g., SEC approach), pending final resolution of all EITF 03-1 implementation issues is superior to the "partial" adoption of EITF 03-1 for equity securities and delayed adoption for debt securities.
- In the event that no modification is made to EITF 03-1 pursuant to our concerns, we expect a significant increase in both the population of securities subject to impairment recognition and the frequency of impairments recognized by our member companies. In general, we do not believe that this occurrence would reflect a deterioration in the quality of investments, but rather the fact that the companies cannot assert the "ability and intent" to hold the securities through the expected recovery period. For most of our member companies, current systems and reports (both internal and trustee) that track the cost and fair value bases and purchase and sale activities for securities held in decommissioning trusts were designed for existing impairment policies and procedures. Currently, the review for impairment, applicable revision of cost bases and determination of realized and unrealized gains or losses for impaired securities is largely a manual process, especially in quarter-end periods (prior to relaying such data to trustee records). We are concerned about the practicality and burden associated with applying this manual process to the potentially higher number of securities subject to the impairment review and recognition as of the current effective date and for the fourth quarter of 2004. A delay for the reasons described in the bullets above would also provide additional time to make necessary system and procedural changes as well as to address any Sarbanes-Oxley Section 404 requirements. For example, the affected companies may need to obtain timely SAS 70 reports from the service provider trustees that reflect any new systems and processes that would be put into effect to reflect the EITF 03-1 consensus.

Again, we appreciate the opportunity to share our views regarding delaying the effective date of EITF 03-1 for both debt and equity securities, and again express thanks for the meeting on September 28, 2004 where we discussed our concerns regarding the application of EITF 03-1 impairment model to nuclear decommissioning trust investments.

Sincerely,

/ s /

David K. Owens  
Executive Vice President  
Business Operations

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