



Letter of Comment No: 12
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MP&T Director – File Reference 1200-300
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**Subject: File Reference 1200-300, Exposure Draft Comments:
Exchanges of Productive Assets – an amendment of APB Opinion No. 29**

American Electric Power Company, Inc. (AEP) appreciates the opportunity to respond to the Financial Accounting Standards Board's (FASB) Exposure Draft on Exchanges of Productive Assets, an amendment of APB Opinion No. 29 dated December 15, 2003. AEP, a Columbus, Ohio based global energy company, is one of the largest investor-owned utilities operating in the United States of America with revenues of over \$14 billion and more than 22,000 employees. We provide energy to approximately 5 million customers in Arkansas, Indiana, Kentucky, Louisiana, Michigan, Ohio, Oklahoma, Tennessee, Texas, Virginia, and West Virginia.

AEP controls approximately \$22 billion of net long-lived productive assets and, from time to time, is involved in exchanges of assets in the normal course of business under the provisions of APB Opinion No. 29 (APBO 29).

Overall Comments

The proposed change would now require that an exchange of similar productive assets be based on the fair values of the assets involved *and with recognition of gain* if the exchange has "commercial substance" as defined in the proposed new paragraphs 20(c) and 21. "Commercial substance" is the proposed new test to replace the current similar productive assets test of APBO 29, paragraph 21(b).

We realize that this change is prompted primarily by the desire for convergency with the International Accounting Standards Board. Initially some constituents were concerned that the change would simply result in one-time gain recognition for exchanges of depreciable assets followed by subsequent depreciation of the increased basis. However, we believe that the commercial substance test could mark an improvement in the determination of when gain recognition is appropriate since the significant increase in expected cash flows should offset the increase in depreciation.

We also assume that the treatment of gain recognition remains unchanged in cases where the exchange includes a portion of monetary compensation ("boot") under APBO 29 paragraph 22

and as interpreted under Emerging Issues Task Force Issue 03-02(19).

We are in general agreement with the Exposure Draft position on Issues 2 through 4. However, we have comments to offer on Issue 1, relating to determination of commercial substance, as discussed below.

Issue 1: Is the commercial substance guidance operational?

Under the proposed new test, an exchange will have commercial substance (and gain recognized) if there is a difference in future cash flows attributable to the exchange and that difference is significant relative to the fair value of the exchange.

Although the proposal refers to the SFAS Concept Statement 7 definition of "expected future cash flows", it is not clear whether the all of the provisions of Statement 7 will govern the mechanics of cash flow calculations under the proposal. For example, it is not clear whether alternative and probability-weighted courses of action calculated on a discounted basis should be considered where applicable. In addition, we suggest that significance be defined in a way that is consistent with other accounting standards, such as SFAS 131(18).

With some minor changes we believe the new test would mark a step forward to more accurate financial reporting, and therefore we ask that the FASB:

- *expand the guidance for cash flow calculations under the proposed new paragraph 20, including incorporation of the pertinent provisions of Concept Statement 7. We also recommend adding an appendix to illustrate examples of expected cash flow scenarios to determine commercial substance.*
- *better define the significance threshold for commercial substance. This might be achieved by simply referring to an existing standard, such as SFAS 131, paragraph 18.*

If you have any questions concerning our comments, please contact me at 614-716-2821.

Sincerely,



Joseph M Buonaiuto
Controller & Chief Accounting Officer

cc: Stephen P. Smith, Senior Vice President
Susan Tomasky, Executive Vice President