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Russell G. Golden
Director of Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
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(e-mail: director@fasb.org)



LETTER OF COMMENT NO. 3

Dear Mr. Golden:

File Reference: Proposed FSP ARB 43-a

PPL Corporation (PPL) appreciates the opportunity to comment on the proposed FSP ARB No. 43-a, "Amendment of the Inventory Provisions of Chapter 4 of ARB No. 43," which provides guidance on the accounting for trading inventories.

PPL is an energy and utility holding company. Through its subsidiaries, PPL controls more than 11,000 megawatts of generating capacity in the United States, sells energy in key U.S. markets, and delivers electricity to about 4 million customers in Pennsylvania and the United Kingdom.

PPL appreciates the Board's consideration of this issue and generally agrees with the requirement that inventories included in an entity's trading activities should be initially and subsequently measured at fair value with changes in fair value recognized in earnings. It is within this context of general agreement with the proposal that we provide the following recommendations for your consideration.

Scope Limitation

We understand the proposed FSP is intended to amend ARB 43 to require mark-to-market accounting for inventories designated as held for trading, but that it would not amend the scope of ARB 43. Therefore, the amendment would not change which items are accounted for under ARB 43, either by adding new items to its scope or by removing items currently accounted for under its provisions.

We believe it is important to emphasize this point because many energy companies currently account for emissions allowances and renewable energy credits as inventory while others currently account for these items as intangible assets. It is our understanding that this diversity has, within the last several years, been brought to the attention of the SEC staff, the FASB staff, and certain of the largest international accounting firms. We also understand that those discussions acknowledged the existence of diversity in the accounting for such items yet also permitted current practice to continue and clarified that specific guidance related to accounting for inventory should only be applied by those entities following an inventory accounting model.

We do not believe the proposed FSP is intended to modify the scope of ARB 43 to include intangible assets or change the current practice of entities that account for these items as intangible assets. We believe the Board's current project on Emission Trading Schemes provides the appropriate means for addressing this diversity. Therefore, in view of the existence of diversity in this area and in order to avoid the potential for confusion or misinterpretation, we request the final FSP to state explicitly that it does not change the present scope of ARB 43 and, because of the intentional scope limitation, it should not be analogized to other situations.

Explicit Designation of Trading Inventories

We note that paragraphs 7 and 8 of the proposed FSP appear to support an approach under which classification of inventories as part of trading activities requires an affirmative designation. We also note that paragraph 8 appears to acknowledge that other types of activities, beyond the specific examples listed, would be considered non-trading. We agree with this principles-based approach, but we also believe it is possible that some may interpret the examples in paragraph 8 as all-inclusive and could conclude that trading activity treatment must be applied by default to any assets not falling within one of the specific examples of non-trading activities. Additionally, we believe the example in paragraph 11 could be interpreted by some to mean that if inventory intended for use in a production activity is later determined to be excess due to changes in production expectations, then the excess inventory would by default be included in trading activities. Therefore, we believe the guidance in the final FSP would be improved if it were to include a clear statement that the entity must explicitly designate those inventories that it has determined to represent trading activities based on its specific facts and circumstances.

Disclosures

We believe the disclosures proposed in paragraph 11.a. pertaining to the description of trading activities and the basis for concluding that such inventory is part of the entity's trading activity should be required only for annual reporting periods. We do not believe such policy-oriented information requires repetition in each interim period unless there is a material change from the information disclosed in the most recent annual reporting period. We note that no similar disclosures are required for trading securities under SFAS No. 115 and we see no conceptual reason or other principle that would justify more

frequent or granular disclosures regarding inventories classified as part of trading activities.

We also do not believe the proposed disclosure of the typical holding period for trading inventory should be required in either interim or annual periods. We do not believe there is a direct link between such disclosures and the financial statement amounts related to trading inventories. Those amounts are influenced by a variety of factors and are not necessarily or solely related to holding period. Additionally, the "typical" holding period is historical information that is not necessarily indicative of future holding periods. As we observed above regarding the proposed interim disclosures, we also note no similar disclosure requirements relating to the holding period for trading securities.

Readily Determinable Fair Value

Although we believe that only items that have readily determinable fair values should be recognized at fair value in the financial statements, we agree with the Board's rejection of the alternative that would limit the scope of this proposed FSP solely to trading inventories that have readily determinable fair values since this alternative would have conflicted with the provisions of SFAS No. 157, "Fair Value Measurements."

Summary

We would like to thank the Board for the opportunity to share our views and recommendations on the proposed FSP ARB 43-a.

Very truly yours,



Matt Simmons

Vice President & Controller

cc: Mr. P. A. Farr
Mr. M. D. Woods
Mr. M. A. Cunningham
Ms. M. A. Calder