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April 14, 2009

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File Reference: Preliminary Views on Financial Statement Presentation

The Edison Electric Institute ("EEI") respectfully submits our comments on the joint Financial Accounting Standards Board ("FASB") and International Accounting Standards Board ("IASB") Discussion Paper, *Preliminary Views on Financial Statement Presentation*. EEI is the association of U.S. shareholder-owned electric companies. Our members provide service to 95 percent of the ultimate customers in the shareholder-owned segment of the industry, and represent approximately 70 percent of the U.S. electric power industry.

Summary

The method by which companies present information in their financial statements (including the footnotes) is critical to ensuring that readers are able to understand financial results and make informed investment decisions. We agree that a project designed to increase the cohesiveness and transparency of financial statements will be beneficial to the financial community. We also commend the Boards for conducting this project jointly. With the continued convergence of IFRS and US GAAP as well as the increasingly global economic environment, coordination between the FASB and IASB is critical to the development of high quality accounting standards and reporting practices.

We do have some suggestions and concerns related to some of the amendments to current financial reporting practices proposed in the discussion paper. In particular, we would like to stress that the footnotes should be characterized as an integral part of the financial statements, sufficient implementation time is needed to successfully apply many of the changes that are proposed, and the timing of this project should be aligned with the other significant projects currently pending. Additionally, we have some specific comments on the planned changes to the Statement of Financial Position and the Statement of Cash Flows.

We discuss the basis for our views below.

Complete set of Financial Statements

One of the objectives for financial statement presentation as proposed by the Boards is that it "disaggregates information so that it is useful in predicting an entity's future cash flows." We believe this is an appropriate objective; however, we want to stress that this objective refers to the complete set of financial statements including the footnotes and not just the primary financial statements. There are a number of instances where the discussion paper requires information to be presented in the primary financial statements. Also, in at least one instance the discussion paper noted: "Providing this information in the statement of financial position is more straightforward and avoids making users go back and forth between the statements and the notes to find important information." The footnotes are an integral part of the financial statements and the information contained in the footnotes should not be characterized as less relevant or less important. Investors cannot expect to obtain all relevant information about a company without analyzing both the primary financial statements and the footnotes.

Sufficient lead time for implementation is critical

The discussion paper includes several items that represent significant changes to the current format for financial statement presentation and will require companies to capture, analyze, test, and report additional data. Examples of the significant changes include: (1) increased level of disaggregation, especially in the statement of comprehensive income, (2) the preparation of the statement of cash flows on the direct method and (3) the reporting of balances by function and nature.

Implementing these changes will require the following:

- significant upgrades to our existing systems or implementation of new systems in order to properly capture and analyze the additional data, including the information needed to prepare the statement of cash flows under the direct method.
- analyzing and testing internal controls over financial reporting and amending or adding controls as needed.
- Re-evaluating XBRL tagging policies especially due to the increased level of disaggregation and changes to classification.
- Preparing comparative information for three years under the revised reporting model. Accordingly, financial statement preparers will need to ensure that they have appropriately captured and reported this information for prior periods in the year of implementation and that the controls in place are effective for all periods presented.

We also note that the FASB has several other major projects (e.g. leasing, revenue recognition, financial instruments with characteristics of equity) with the same completion date of 2011. In consideration of all these potential changes to the accounting standards and format of the financial statements, we ask the FASB to publish a multi-year timeline for implementation. As preparers we need to be able to plan and budget for these changes accordingly. Also, to be able to maximize the use of internal staff and thus reduce costs, we would require the implementation dates to be spaced over a multi-year period. This is especially important in this challenging economic period.

Coordination with IFRS Conversion

If the SEC intends to require a date certain conversion to International Financial Reporting Standards in 2014, we believe it would be prudent to align the timing of this project with the timing of the conversion. Aligning the implementation dates of these major projects will be beneficial for the users of the financial statements as they will only need to become familiar with a new basis for financial reporting once. If we have a significant change to our reporting model one year and then change the set of standards under which we report our results a few years later, it will likely result in confusion in the marketplace. Aligning the projects will allow the users of the financial statements to adjust to these significant changes a single time and thereby mitigate some of the difficulties that will likely arise as a result of the changes.

Statement of Financial Position comments

We have some concerns regarding the proposals related to the Statement of Financial Position. We believe that the current presentation that segregates assets, liabilities and equity is the easiest format for investors to understand while still providing a faithful representation of a company's financial position. We also believe that many assets and liabilities encompass multiple activities and these activities could change from period to period and thus cause complexity and confusion in attempting to analyze the statement of financial position. Management does not currently analyze its assets and liabilities using the categorization set forth in the discussion paper. Thus, in order to provide this breakdown we would need to make arbitrary allocations and the results would be confusing and of little value. If some users find the breakdown by activity useful and relevant, footnote disclosure of the total assets and liabilities by category would provide the required information while reducing the risk of confusing the majority of investors.

Statement of Cash Flow comments

While the direct method of preparing the statement of cash flows is recommended by the FASB, the direct method is rarely used in practice. The 2007 edition of Accounting Trends & Techniques published by the American Institute of Certified Public Accountants surveyed 600 annual reports to stockholders for the year 2006 and found that only 6 used the direct method, while 594 used the indirect method. We believe that the indirect method of cash flows utilized by the majority of companies in the United States must be retained as an option. We believe this method provides an appropriate level of detail to allow users to understand the sources of companies' operating, investing and financing cash flows while being less costly and less difficult to prepare, The information needed to present a direct cash flow is not currently prepared or utilized by most companies and it will require significant costs and efforts to change processes and upgrade systems in order to effectively capture the needed information. Accordingly, we believe that the indirect method of cash flows is still the preferred format for presenting cash flows and the Boards need to ensure that the users of financial statements are better served by the direct method format before requiring companies to incur significant costs to implement this proposed change.

Reconciliation of comprehensive income

If the proposal requiring the direct cash flow method is upheld, we do not believe the reconciliation to comprehensive income will provide any additional useful information to users of financial statements as the majority of the information will already be presented elsewhere in the financial statements. Given that the direct method of cash flows, two years of balance sheets and nonrecurring fair value measurements disclosed within the table required by FASB Statement 157 will already be presented, we do not believe the proposed reconciliation will provide any additional information that will be useful to investors.

Summary and Conclusion

For the reasons noted above, we believe the Boards should carefully consider the implementation timing for this project. We also believe the Boards should evaluate the changes we have highlighted and ensure that they will achieve the desired effect for all of the users of financial statements and that the benefits of these changes are sufficient to justify the related costs.

Thank you for your consideration of our comments. We appreciate the opportunity to express our views on the Discussion Paper.

Sincerely,

David K. Owens

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