



LETTER OF COMMENT NO. 15

Progress Energy Service Company, LLC

May 31, 2007

Mr. Robert H. Herz  
Chairman, Financial Accounting Standards Board  
401 Merrit 7  
PO Box 5116  
Norwalk, Connecticut 06856-5116

Subject: Issuance of FSP FIN 48-1 - *Definition of Settlement in FASB Interpretation No. 48*

Dear Mr. Herz:

Progress Energy, Inc., headquartered in Raleigh, N.C., is a Fortune 250 diversified energy company with more than 23,000 megawatts of generation capacity and \$10 billion in annual revenues. The company's holdings include two electric utilities serving approximately 3.1 million customers in North Carolina, South Carolina and Florida. As a large public corporation with multiple business units, Progress Energy appreciates the Financial Accounting Standards Board's mission to establish and improve standards of financial accounting and reporting. Such standards are essential because financial statement users demand and rely on credible, transparent, and comparable financial information. The FASB's mission is made more difficult by the challenges of our dynamic economy and the complexity of financial instruments and transactions observed in the marketplace.

Nevertheless, we wish to express our concerns over the process employed in the FASB's recent issuance of FSP FIN 48-1, *Definition of Settlement in FASB Interpretation No. 48* (the "FSP"). The FASB has stated that a precept of its mission is to "bring about needed changes in ways that minimize disruption to the continuity of reporting practice." Therefore, the FASB endeavors to establish reasonable effective dates and transition provisions when new standards are introduced. However, this precept seems to have been ignored during the recent issuance of FSP FIN 48-1.

The FSP was issued on May 2, a mere eight days before the deadline for calendar-year public companies to file and report first quarter 2007 earnings with the U.S. Securities and Exchange Commission on Form 10-Q. For companies impacted by the FSP and who were in the final stages of quarterly financial statement preparation, such as Progress Energy, the timing of issuance of the FSP created a considerable reporting burden. Our comments below reflect our observations and suggestions to improve the process of issuance and implementation of further standards.

#### Timing of Issuance of the FSP

We recognize and appreciate the FASB's efforts to respond, through the issuance of the FSP, to the concerns of preparers of financial statements who requested additional guidance and clarity around the definition of "settlement" of tax positions. The determination of when certain tax positions are considered settled can have a significant impact on the implementation of Interpretation No. 48, especially when companies are in the final stages of examinations by taxing authorities. The FSP provides useful guidance in the application of Interpretation No. 48. However, in our opinion the timing of the issuance of the FSP was not considerate of, nor helpful to, companies' efforts to publish first quarter results in a timely and orderly manner. The timing of issuance and the FSP's transition provisions do not appear to reflect an appreciation for the level of effort necessary for most large corporations to read, assess, interpret and apply authoritative guidance to their various transactions and businesses, and then revise financial statements as necessary in time to meet their financial reporting commitments.

The Sarbanes-Oxley Act has required most public companies, including Progress Energy, to enhance internal controls relating to preparation and approval of financial statements. Such controls include expanded reviews by mid-level and senior management, the Audit Committee and the Board of Directors. Logistics often require a period of several days for such reviews to be completed. In addition, changes to financial statements that are made outside a company's normal processes of closing the general ledgers and preparing financial statements typically require additional levels of review by

P.O. Box 1551  
PEB 18A  
Raleigh, NC 27602

T > 919.546.2388  
F > 919.546.5760

management. For companies such Progress Energy with multiple subsidiaries and multiple reporting registrants, post-closing adjustments may require a minimum of 2 – 3 days to process, record in the accounting records, review and “flow through” the financial statements and related quarterly press releases, working papers, etc.

Frankly, the issuance of authoritative guidance that is required to be implemented in the current quarter a mere eight days prior to known quarterly reporting deadlines is more detrimental than having no guidance at all. The result of such a late issuance is that companies are rushed to make immediate financial reporting decisions based on their own interpretations of the guidance in order to provide enough “lead time” to record the adjustments in the financial statements and meet their internal and external reporting deadlines. Such decisions may be made before consultations with the external auditors are finalized. As a result of the increased scrutiny of regulators and the number of restatements in recent years, we have observed that nearly all decisions on complex accounting issues (such as interpretations and application of new standards) are referred for consultation by local external audit teams to their national offices. In fact, a standard line of inquiry during the SEC Staff’s comment letter process relates to the involvement of an accounting firm’s national office on complex issues. It is rare that such consultations are resolved within one week. The result is that companies are held in accounting and reporting “limbo,” forced by time constraints to quickly push through adjustments based on their interpretations using the best available evidence, yet subject to challenge in hindsight if its external auditor’s national office later publishes interpretive guidance that is contrary to the positions taken. This is clearly a no-win situation for the reporting companies.

Recommendation

We suggest that for any future accounting standard to be issued less than one month before a calendar-year public company quarterly reporting deadline, the FASB at a minimum allow an option for companies to adopt the guidance in the subsequent quarter. Alternatively, the FASB could allow 30 to 60 days to implement all future FSPs. We believe such practices would provide the necessary balance between the goal of timely and accurate financial reporting and the inevitable disruption to companies’ financial reporting processes from adopting new standards.

Effective Dates of Future Standards

On a related matter, we also encourage the FASB to reassess the reasonableness of the effective dates of future standards in light of the complexity of, and level of effort necessary to implement, each and every new standard. In general, we *believe the complexity of most new accounting standards justify a minimum implementation period of one year*. As an example of our concerns, we reference the proposed effective date of the FASB’s proposed amendment to Statement No. 133’s disclosure requirements (file reference no. 1510-100). To date sixty-three companies have commented on the proposed standard, with many noting that significant operational efforts and system changes are necessary to implement the standard. The proposed effective date is December 31, 2007, with the FASB’s stated goal to issue a final statement by June 30, 2007. This timetable would leave only six months to implement the system and process changes necessary to comply with the proposed standard’s voluminous disclosure requirements. Given the substantial nature of the comments received, we believe it is unlikely that the FASB will issue a final standard by June 30<sup>th</sup>.

Recommendation

We encourage the FASB to consider granting a *minimum implementation period of at least one year for most, if not all, future major changes in accounting standards*. We specifically ask the FASB to set the implementation date for the final derivatives disclosure standard no earlier than for fiscal years ending after December 15, 2008.

We would be pleased to discuss any of our comments with the Board or the FASB staff. Please direct your questions or comments to me at (919) 546-2388 or Wayne Stallings at (919) 546-4686.

Sincerely,



Jeffrey M. Stone

Cc: Mr. Lawrence Smith, Director—Technical Application and Implementation Activities  
✓ Ms. Suzanne Bielstein, Director - Major Projects and Technical Activities