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May 26, 2009

LETTER OF COMMENT NO. 3

Technical Director, FASB
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116



File Reference: Proposed FSP FAS 157-f

A New Generation of Energy

Dear Sir:

Conectiv Energy, a division of Pepco Holdings, Inc., would like to submit comments regarding proposed FSP FAS 157-f.

Valuation of liabilities under SFAS No. 157 has presented a challenge to traditional valuation methodology. Historically (prior to FAS 157), anything requiring fair valuation required the consideration of prudent reserves to keep valuations in line with the principle of conservatism. FAS 157's requirement to consider the reporting entity's own credit risk changed the long-standing view of making conservative accounting estimates, and created an unrealistic valuation of an entity's liabilities.

In most cases, derivative liabilities are offset with other like derivatives in order to exit a market position. It is rare that an actual liability is either sold or otherwise transferred. In a large number of cases, master netting agreements exist between entities that trade derivative products, and net positions are offset if one or both parties wish to exit a position. Real credit risk in these cases is limited to the net asset position for the party holding that position.

I am not aware of any real life examples of an entity that was not in financial distress transferring a liability at less than face value. On the contrary, I have seen multiple examples of an entity paying a premium to transfer a liability to another entity. The only realistic scenarios where an entity would transfer a liability at less than face value would be in the case of financial distress when the holder of the liability may be willing to reduce the amount owed in order to keep the other party out of bankruptcy, or an entity in bankruptcy.

Valuation reserves should be unidirectional. They should only reduce an asset's value, or increase a liability. An entity should not be permitted to book a gain because its own credit rating was lowered, unless there is a going concern question.

Thank you for the opportunity to comment on this matter.

Sincerely,

Stephen T. Smith
Division Controller
Conectiv Energy