1810-100
Comment Letter No. 1458

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September 30, 2010

Mr. Russell G. Golden
Director of Technical Application
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, Connecticut 06856-5116

Re: File Reference Number 1810-100

Dear Mr. Golden:

FirstEnergy Corp. genuinely appreciates the opportunity to respond to the Financial Accounting Standards Board's (FASB) proposed Accounting Standards Update, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities* (the proposed ASU).

FirstEnergy is a diversified energy company in the United States with approximately $34 billion of assets, $13 billion in annual revenues, and $12 billion in market capitalization. Our subsidiaries and affiliates are involved in the generation, transmission and distribution of electricity, as well as energy management and other energy-related services. Our seven electric utility operating companies comprise the nation's fifth largest investor-owned electric system, serving 4.5 million customers within 36,100 square miles of Ohio, Pennsylvania, and New Jersey. Our generation subsidiaries control more than 14,000 megawatts of capacity.

We support the FASB's effort to improve accounting for, and to simplify and improve financial reporting of, financial instruments and hedging activities through the development of a singe source of accounting standards. However, we believe that the proposed ASU will not improve the usefulness or transparency of information and accordingly, we do not support the issuance of the proposed ASU as a final standard.

We offer the following responses to questions presented on the proposed ASU that are applicable to our operations.

Responses to Questions on Scope

Question 1: Do you agree with the scope of financial instruments included in this proposed update? If not, which other financial instruments should be included that are proposed to be excluded? Why?

We agree with the items excluded from the scope of the financial instruments in the proposed ASU and urge the FASB to reconsider additional scope exclusions, including application to certain industry-specific financial instruments and the application of fair value accounting to an entity's own debt. Refer to our responses to Questions 13 and 14 for further detail and reasoning.

Question 2: The proposed guidance would require loan commitments, other than loan commitments related to a revolving line of credit issued under a credit card arrangement, to be measured at fair value. Do you agree that loan commitments related to a revolving line of credit issued under a credit card arrangement should be excluded from the scope of this proposed update? If not, why?

We agree with the FASB's exclusion of revolving lines of credit issued under credit card arrangements from the scope of the proposed ASU. If the FASB proceeds with its approach to fair value loan commitments, we urge consideration of excluding all revolving financing arrangements from the scope of the proposed ASU for the purpose of practicality.

We believe the proposed ASU may need to further address the scope of how the proposed ASU would apply to the non-financial services sector and those organizations that negotiate financing commitments with customers in the normal trade of goods and services.

Question 3: Excluded due to limited applicability or impact.

Question 4: The proposed guidance would require an entity to not only determine if they have significant influence over the investee as described currently in Topic 323 on accounting for equity method investments and joint ventures but also to determine if the operations of the investee are related to the entity's consolidated business to qualify for the equity method of accounting. Do you agree with this proposed change to the criteria for equity method of accounting? If not, why?

We do not support the proposed changes to accounting for equity method investments. We believe that companies hold equity investments for different strategic reasons which may not always relate directly or align directly with the investor's consolidated business. We believe that the current criterion of "significant influence" used in evaluating the current guidance for equity method investments has proven to be operational for companies and is consistently applied across entities. The proposed "related to the investor's consolidated operations" criterion may inadvertently apply fair value measurement to equity investments that are strategic in nature and substance but that do not relate directly with the investor's operations. Further, interpretations of the proposed criterion could be construed narrowly or broadly, resulting in varying interpretations across entities and creating reporting inconsistencies.

Responses to Questions on Initial Measurement

Question 8: Do you agree with the initial measurement principles for financial instruments? If not, why?

We agree with the FASB's initial measurement principles of measuring financial instruments at transaction price. We support the FASB's notion that the transaction price of a financial instrument may be closely equivalent to its exit price and/or fair value, given the exclusion of differences that are attributable to other elements in the transaction that cause the transaction price to be significantly different from the fair value. In that case, we agree that those other elements, contractually stated or unstated, should be evaluated and considered in measuring the financial instrument's initial fair value.

However, we strongly believe a single initial measurement principle is sufficient and that the initial measurement guidance should not differentiate how an instrument is subsequently measured. Please refer to our response to Question 10 for additional discussion.

Question 9: For financial instruments for which qualifying changes in fair value are recognized in other comprehensive income, do you agree that a significant difference between the transaction price and the fair value on the transaction date should be recognized in net income if the significant difference relates to something other than fees or costs or because the market in which the transaction occurs is different from the market in which the reporting entity would transact? If not, why?

We agree that the significant difference between transaction cost and fair value should be recognized in net income.

Question 10: Do you believe that there should be a single initial measurement principle regardless of whether changes in fair value of a financial instrument are recognized in net income or comprehensive income? If yes, should that principle require initial measurement at the transaction price or fair value? Why?

We strongly believe that there should be a single initial measurement principle that does not differentiate how an instrument will be subsequently measured. We believe that all initial measurements should be based on the transaction cost because this is the most current, reliable evidence of fair value on the date the transaction occurs. We acknowledge and agree with the requirement of paragraph 15 of the proposed ASU which requires identification and recognition of other elements, outside of transaction cost, that may cause a significant difference between the transaction cost and fair value. We believe this proposed guidance should be applicable to all instruments, regardless of subsequent measurement requirements. By using a single initial measurement approach, we believe the FASB would meet its objective of reducing the complexity in accounting for financial instruments while simplifying the proposed guidance.

Question 11: Do you agree that transaction fees and costs should be (1) expensed immediately for financial instruments measured at fair value with all changes in fair value recognized in net income and (2) deferred and amortized as an adjustment of the yield for financial instruments measured at fair value with qualifying changes in fair value recognized in other comprehensive income? If not, why?

We do not believe there should be a distinction in the accounting for transaction fees and costs that depend on the subsequent measurement requirements of the financial instrument. We believe that transaction fees and costs associated with securing third-party financing represent a one-time component of the cost to acquire debt. The nature of these fees and costs indicate that they should be deferred at the transaction date with subsequent amortization as an adjustment of the yield relating to the financial instrument measured.

Question 12: For financial instruments initially measured at the transaction price, do you believe that the proposed guidance is operational to determine whether there is a significant difference between the transaction price and fair value? If not, why?

We believe that preparers will be able to operate under the proposed guidance surrounding the initial measurement based on the considerations of "reliable evidence" listed in the implementation guide of the proposed ASU as well as the ability for an entity to exercise judgment, based on facts and circumstances, in deciding what is considered a significant difference.

Responses to Questions on Subsequent Measurement

Question 13: The Board believes that both fair value information and amortized cost information should be provided for financial instruments an entity intends to hold for collection or payments of contractual cash flows. Most Board members believe that this information should be provided in the totals on the face of the financial statements with changes in fair value recognized in reported stockholders' equity as a net increase (decrease) in net assets. Some Board members believe fair value should be presented parenthetically in the statement of financial position. The basis for conclusions and the alternative views describe the reasons for those views. Do you believe the default measurement attribute for financial instruments should be fair value? If not, why? Do you believe that certain financial instruments should be measured using a different measurement attribute? If so, why?

We strongly disagree that the default measurement attribute for financial instruments should be fair value. We support the minority FASB members who favor a mixed measurement model consisting of fair value and amortized cost. We recognize that the fair value measurement attribute may be a highly relevant attribute for financial statement users; however, we are concerned that fair value measurements of certain illiquid or unmarketable financial instruments may not be completely reliable, accurate, or consistently applied among reporting entities. The fair value measurement of certain financial instruments could result in misleading volatility of earnings which may not always reflect the underlying economics of an instrument. Recognizing changes in fair value measurements will not always result in a faithful representation of realizable gains and losses recognized in net income.

We disagree with the notion that fair value should apply to financial instruments being held for collection or payment of contractual cash flows. We believe that amortized cost is the most accurate and relevant measurement method for an entity's own debt. For commercial and

industrial entities, often the purpose of issuing debt or securing third-party financing is to fund operational and core activities. These entities are typically not involved in securing such instruments for the purpose of purchasing financial assets and therefore the fair value of these instruments would be irrelevant to the financial statement user. Further, in considering the purposes for which most commercial and industrial entities issue debt or enter into lending arrangements, the concept of measuring a company's debt instruments at fair value does indeed exacerbate a measurement attribute mismatch. We recognize that the FASB considers this mismatch in its proposed guidance. We believe the proposed criteria used to evaluate a measurement attribute mismatch is rule-based and is not necessarily reflective of corporate borrowing strategies which typically are to fund an entity's operations on a broad basis or as a whole, not necessarily relating to a specific asset or group of assets.

Question 14: The proposed guidance would require that interest income or expense, credit impairments and reversals (for financial assets), and realized gains and losses be recognized in net income for financial instruments that meet the criteria for qualifying changes in fair value to be recognized in other comprehensive income. Do you believe that any other fair value changes should be recognized in net income for these financial instruments? If yes, which changes in fair value should be separately recognized in net income? Why?

We believe the proposed ASU will have a significant impact on accounting for debt and equity investments held within a Nuclear Decommissioning Trust (NDT) fund. NDT funds are unique to the utility industry as they are required by the Nuclear Regulatory Commission and relate to nuclear generation plants.

We believe that the investments held in the NDT funds should be recorded on the balance sheet at their fair value with changes in fair value recognized in other comprehensive income. We do not agree that recognizing the effect of changes in fair value associated with NDT funds should be recognized in net income.

NDT funds are monetary assets required to be segregated from the assets of the responsible nuclear operating company and are managed by a third-party trustee. NDT funds are a regulatory requirement which ensure that the cost associated with decommissioning a nuclear power plant at the end of its useful life can be appropriately funded. The decommissioning process may extend up to 60 years after the end of the power plant's operating life. The NDT funds cannot be used for any other purpose, outside of decommissioning, and are required to remain intact in the event of bankruptcy. For these reasons, the nature of the investments held in NDT funds are not directly associated with a reporting entity's true operating performance and should not be recognized in a utility company's net income. Further, NDT funds are long-term in nature and used to fulfill a long-term obligation. We believe that reporting short-term changes in fair value within net income would create unnecessarily confusing volatility within a utility company's reported results of operations. We recommend that NDT funds be excluded from the scope of the proposed ASU. We liken the objectives and restrictions of an NDT fund to the assets and liabilities associated with a pension fund, which is excluded from the scope of this proposed ASU.

We urge the FASB to give further consideration to this industry-specific financial asset. We refer you to the comment letter submitted by the Edison Electric Institute, an association of United States shareholder-owned electric companies, for further detail on NDT funds and the impact fair value accounting could have on these industry specific assets.

Question 15: Do you believe that the subsequent measurement principles should be the same for financial assets and financial liabilities? If not, why?

We do not agree that subsequent measurement principles should be the same for financial assets and financial liabilities. As mentioned in Question 13, we disagree with the notion that fair value should apply to financial liabilities. Generally, a non-financial sector entity issues debt or secures third-party lending based on operational and core activity needs.

We believe that amortized cost is the most accurate and relevant measurement method for debt issued or funds borrowed. Unlike banks and other financial-sector entities, commercial and industrial entities are not typically involved in securing financial liabilities for the purpose of purchasing an offsetting financial asset. Instead, commercial and industrial entities enter into financial liabilities to support non-financial assets, such as capital expenditures for productive assets or general operations. By applying a fair value measurement to issued debt or funds borrowed that are used to support non-financial assets, a mismatch is created within the balance sheet valuation which subsequently results in misleading earnings volatility. We recognize that the FASB considered this mismatch in its criterion for applying the amortized cost option; however, we believe the circumstances set forth within the proposed criterion are rule-based and could potentially cause exclusion of commercial and industrial debt from the amortized cost option.

While we recognize that the fair value measurement attribute of both financial assets and liabilities may make sense in some situations, we urge the FASB to fully consider the implications and reasoning behind applying this guidance to non-financial sector entities.

Question 16: Excluded due to limited applicability or impact.

Question 17: Excluded due to limited applicability or impact.

Question 18: Do you agree that a financial liability should be permitted to be measured at amortized cost if it meets the criteria for recognizing qualifying changes in fair value in other comprehensive income and if measuring the liability at fair value would create or exacerbate a measurement attribute mismatch? If not, why?

We strongly believe that amortized cost is the most accurate and relevant measurement method for debt issued or loans entered into by a reporting entity. Please refer to our responses to Questions 13 and 15 for our underlying reasoning.

Question 19 – 21: Excluded due to limited applicability or impact.

Question 28: Excluded due to limited applicability or impact.

Question 29: Do you believe that measuring a financial liability at fair value is operational? If not, why?

We believe that determining the fair value of financial liabilities may prove to be a challenging undertaking for a reporting entity, especially where there is not an active market for such instruments. We have significant concern with the concept of valuing our own debt and recognizing fair value changes in net income -- the impact of such gain or loss should only be reported as a component of earnings if the debt is prematurely extinguished.

Question 30: Do you believe that the proposed criteria are operational to qualify for measuring a financial liability at amortized cost? If not, why?

While we do believe the proposed criteria are operational, we do not necessarily agree with the rule-based nature of these criteria. As discussed in our response to Question 13, we believe the proposed criteria do not necessarily reflect corporate borrowing strategies which typically are used to fund operations on a broad basis and do not necessarily relate to a specific asset or group of assets.

Question 31: Excluded due to limited applicability or impact.

Responses to Questions on Presentation

Question 32 - 34: Excluded due to limited applicability or impact.

Responses to Questions on Credit Impairments

Question 37 – 42: Excluded due to limited applicability or impact.

Question 46 – 47: Excluded due to limited applicability or impact.

Responses to Questions on Interest Income

Question 48 – 51: Excluded due to limited applicability or impact.

Responses to Questions on Hedge Accounting

Question 56: Do you believe that modifying the effectiveness threshold from highly effective to reasonably effective is appropriate? Why or why not?

We agree with the FASB's position of designating a hedging relationship based on reasonably effective criteria (rather than highly effective criteria) as this approach better aligns accounting with risk management strategies. Although we agree that qualitative factors should be established and evaluated to ensure that an economic relationship exists between the hedging instrument and the hedged item, we do not agree this negates the need for a concurrent quantitative assessment. We believe that qualitative as well as quantitative factors should be evaluated at inception to qualify for hedge accounting with no need for an ongoing assessment of effectiveness, unless facts and circumstances suggest that the hedging relationship would no longer be reasonably effective. We encourage the FASB to consider establishing clear principles that entities can uniformly apply to determine whether a hedging relationship meets the definition of reasonably effective and that the criteria for such definition requires a

qualitative and quantitative assessment. We also encourage the FASB to provide examples regarding the completion of the reasonably effective assessment that would be appropriate for commercial and industrial entities. We believe that such guidance would lessen diversity in practice among entities, simplify accounting and improve financial reporting.

Question 57: Should no effectiveness evaluation be required under any circumstances after inception of a hedging relationship if it was determined at inception that the hedging relationship was expected to be reasonably effective over the expected hedge term? Why or why not?

We believe that an ongoing assessment of effectiveness should not be required as it would not simplify accounting or improve financial reporting. We further believe that an effectiveness evaluation at inception based on qualitative and quantitative factors would be sufficient and a subsequent evaluation should only be performed if facts and circumstances suggest that the hedging relationship would no longer be reasonably effective.

Question 58: Do you believe that requiring an effectiveness evaluation after inception only if circumstances suggest that the hedging relationship may no longer be reasonably effective would result in a reduction in the number of times hedging relationships would be discontinued? Why or why not?

We believe that requiring an effectiveness evaluation after inception only if circumstances suggest that the hedging relationship may no longer be reasonably effective will reduce the number of times hedging relationships are discontinued. As noted in our response to Question 56, we support lowering the threshold from highly effective to reasonably effective for improved alignment of risk management strategies with accounting. Accordingly, we believe reasonably effective criteria will reduce the number of instances hedging relationships will be discontinued due to failure in meeting hedging relationship criteria. We agree with the proposed ASU guidance that states a hedging relationship shall be discontinued if the qualifying criteria for designating a hedging relationship are no longer met and believe that entities' compliance with such guidance will dictate discontinuation frequency.

Question 61: Do you foresee any significant operational concerns or constraints in calculating ineffectiveness for cash flow hedging relationships? If yes, what constraints do you foresee and how would you alleviate them?

We do not foresee any significant operational concerns or constraints in calculating ineffectiveness for cash flow hedging relationships. We support recognizing ineffectiveness for cash flow hedges in accordance with the current model -- recognition in earnings of ineffectiveness for cash flow underhedges would not be an improvement to financial reporting. Recognition of cash flow underhedges proposed in the ASU would require gains or losses on a hypothetical derivative as compared to the actual derivative (representing the forecasted transaction), to be recognized in earnings with an offset to other comprehensive income (OCI). We believe that entities should not defer in OCI a nonexistent gain or loss on a derivative and recognize in earnings an offsetting nonexistent loss or gain when the change in the present value of the expected future cash flows of the hedged transaction exceeds the change in the present value of the expected cash flows of the hedging derivative. Such an outcome is nothing more than a mathematical exercise that would undermine the integrity of financial reporting. As such, we believe the current model for recognizing ineffectiveness for cash flow hedges is appropriate.

Question 62: Do you foresee any significant operational concerns or constraints in creating processes that will determine when changes in circumstances suggest that a hedging relationship may no longer be reasonably effective without requiring reassessment of the hedge effectiveness at each reporting period? If yes, what constraints do you foresee and how would you alleviate them?

We do not foresee any significant operational concerns or constraints in creating processes that will determine when changes in circumstances suggest that a hedging relationship may no longer be reasonably effective.

Question 63: Do you foresee any significant operational concerns or constraints arising from the inability to discontinue fair value hedge accounting or cash flow hedge accounting by simply dedesignating the hedging relationship? If yes, what constraints do you foresee and how would you alleviate them?

We do not support the elimination of an entity's ability to elect to dedesignate a hedging relationship. This modification to current guidance would restrict an entity's ability to align accounting with risk management strategies -- an entity could only achieve elective dedesignation via expiration of the hedging instrument or the hedging instrument being sold, terminated, or exercised. We believe that the ability to dedesignate hedges is critical to risk management strategies as elective dedesignations enable entities to rebalance derivative portfolios and optimize portfolio management techniques. The result could be entities abandoning certain common hedging strategies. We encourage the FASB to retain existing guidance pertaining to dedesignations since the changes outlined within the proposed ASU will not simplify accounting or improve financial reporting.

Question 64: Do you foresee any significant operational concerns or constraints arising from the required concurrent documentation of the effective termination of a hedging derivative attributable to the entity's entering into an offsetting derivative instrument? If yes, what constraints do you foresee and how would you alleviate them?

We do not support the proposed ASU offsetting derivative instrument language as it is not clear how to apply the guidance as the term "fully offset" is not defined. The proposed ASU indicates that effective termination of a hedging derivative is accomplished by entering into a derivative instrument that fully offsets the hedging derivative instrument. We anticipate that entities will encounter challenges in entering into derivative instruments that are considered identical to the derivative instrument to be offset. As noted in our response to question 63, we encourage the FASB to permit dedesignations as currently permissible per existing guidance and to forgo "fully offset" guidelines.

Response to Question on Disclosure

Question 65: Excluded due to limited applicability or impact.

Responses to Questions on Effective Date and Transition

Question 68: Do you agree with the transition provision in this proposed Update? If not, why?

We are not in support of the transition provision of the proposed ASU as specific transaction guidance with respect to existing hedges is not provided.

Question 69: Excluded due to limited applicability or impact.

Question 70: How much time do you believe is needed to implement the proposed guidance?

We do not support the issuance of the proposed ASU as a final standard. If the FASB were to issue the proposed ASU as a final standard, we believe that entities should be given a minimum of 2-3 years from the date of issuance to implement the proposed ASU.

Question 71: Do you believe the proposed transition provision is operational? If not, why?

We do not believe the proposed transition provision is operational. Transition provision guidelines specific to hedging activities are not provided in the proposed ASU. For example, it is unclear how entities should account for the cumulative ineffectiveness that may exist in hedging relationships accounted for previously in accordance with the shortcut method or critical terms match.

We support the FASB and the International Accounting Standards Board (IASB) working jointly to establish accounting standards applicable to financial instruments and hedge accounting. The proposed ASU is counter to that objective. We encourage the FASB and IASB to work jointly to develop an exposure draft addressing financial instruments and hedging activities.

FirstEnergy appreciates the opportunity to comment on the FASB's Proposed Accounting Standards Update, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities*. In light of the concerns expressed above, we believe that the FASB should not issue the proposed ASU as a final standard.

Sincerely,