Power by Association 54



Richard F. McMahon, Jr.

Vice President

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Technical Director File Reference No. 2012-200 Financial Accounting Standards Board 401 Merritt 7 Post Office Box 5116 Norwalk, CT 06856-5116

File Reference: 2012-220, Invitation to Comment, Disclosure Framework

Dear Ms. Cosper:

The Edison Electric Institute (EEI) appreciates the opportunity to comment on the Financial Accounting Standards Board's (FASB) Invitation to Comment – Disclosure Framework. EEI is the association of United States shareholder-owned electric companies. Our members provide service to 98 percent of the ultimate customers in the shareholder-owned segment of the industry and represent approximately two-thirds of the United States electric power industry.

We support the Board's goal of improving the effectiveness of disclosures in notes to financial statements by clearly communicating the information that is most important to users of each entity's financial statements. Although the Invitation to Comment stated that reducing the volume of notes to financial statements is not the primary focus, we believe that reduced volume is an important goal that will improve disclosures by aiding readers in identifying and focusing on only those disclosures that are most relevant.

We have reviewed the comment letter prepared by the American Gas Association ("AGA"). AGA is the association of U.S. shareholder-owned gas companies, similar to EEI's role for shareholder-owned electric companies. In general, we agree with and support the comments provided by AGA (Comment Letter No. 26, File Reference No. 2012-220), and therefore we have not repeated them in this letter. In addition to supporting the AGA comments, we have two additional observations related to the relevance of disclosures included in the notes and the potential to affect a user's assessment of an entity's prospects for future net cash flows.

First, it is important to emphasize that the level of disclosure that is relevant to a user is significantly influenced by both (a) an entity's business model/intent for entering into transactions, as well as (b) the nature of the regulatory environment in which the entity operates (including any resulting economic effects). Therefore, we believe that the ultimate framework adopted should provide for flexibility, and permit the use of judgment, in tailoring the level of



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disclosure to each reporting entity's specific situation. A significant focus of disclosures should be to provide information about the business intent and economic consequences for the transactions presented.

For example, consider a derivative that is marked to market through earnings (for whatever reason), but either (a) is entered into as an economic hedge or otherwise for "risk management" purposes, or (b) its related gains/losses are subject to regulatory recovery/refund via established rate-mechanisms (and may involve a regulator-imposed requirement to lock-in or fully hedge the risk economically), or both. In either case, we believe that the existing extensive disclosure requirements for derivatives and fair value measurements seem excessive to describe the cash-flow implications of the transaction when the derivative is economically hedging cash flows or fair value exposure, subject to recovery/refund, or both.

In this example, we believe that disclosure to indicate the purpose of entering into the derivative, a description of the above facts and circumstances, why the impact on future net cash flows is minimal, and possibly some basic fair value information, would be an appropriate level of disclosure. By contrast, having to comply with the multiple tabular and quantitative disclosures currently provided for in the accounting guidance (particularly for Level 3 fair value measurements), including disaggregation inherent in those disclosures, should not be required because it would not make a significant difference to a user who understands the purpose and surrounding facts.

Second, we believe it will be important to distinguish between the nature and unique purposes of the various disclosures included in a full set of financial statements, particularly those of public entities, in developing a relevant, workable framework. For public entities, forward-looking information is required to be discussed and is primarily included in Management's Discussion and Analysis. The focus of that section of financial reports is distinct from, and supplemental to, the notes to financial statements. While there is presently some inclusion of contractual forward-looking information in the notes (which is primarily related to contractually determinable amounts), we believe that this project should include an explicit consideration of how much, if any, such forward-looking information is appropriately included in the notes by considering the underlying nature and purpose of those notes and their interrelationship, for public companies, to Management's Discussion and Analysis.

EEI appreciates the opportunity to provide our input on the Invitation to Comment. We would be pleased to discuss our comments and to provide any additional information that you may find helpful.

Very truly yours,

Richard F. McMahon, Jr.

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