



January 31, 2011

Technical Director  
Financial Accounting Standards Board  
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Re: Financial Accounting Standards Discussion Paper — *Effective Dates and Transition Methods* File Reference No. 1890-100

PNM Resources, Inc. (“PNMR”) appreciates the opportunity to respond to the Discussion Paper — *Effective Dates and Transition Methods* (the “DP”).

We believe the FASB is premature in soliciting comments on the effective dates and transition methods for the projects listed in the DP. The projects that are the subject of the DP are very far-reaching projects that propose many fundamental and radical differences from existing accounting pronouncements. Furthermore, an exposure draft (“ED”) has not been issued for several of the projects.

Many substantive issues have been raised with respect to the EDs relating to these projects. The issues raised include many that question the theory of the proposals as well as the difficulty and practicality of implementing them. The FASB has recently announced that it is going to make a fundamental change in how to account for financial instruments from proposals previously set forth by the FASB. It appears likely to us that fundamental changes will also be made to other major proposals. Depending on the significance of changes made to the original proposals, it may be necessary and beneficial to re-circulate EDs to solicit additional comments on the proposed changes. Therefore, we believe it is virtually impossible to respond to the questions raised in the DP with the degree of certainty that the FASB is requesting. While the responses to the DP may provide the FASB with basic positions about the projects, we believe it will be necessary to request additional input when further progress is made on the projects.

In the process of developing responses to the DP and revisiting the proposals contained in the EDs and other FASB publications, it became apparent to us that the FASB should re-evaluate all of the EDs taken as a whole. We believe many of the proposals, while perhaps theoretically valid, will be virtually impossible to implement. The proposed increased levels of disclosure will overwhelm both preparers and users of financial statements. Both of these are particularly evident with respect to the significant number of assumptions about future events that the proposals would require. Furthermore, many of the proposals will be extremely difficult to audit and will lead to significant increases in audit fees.

*Question 1*

- a. PNMR is a preparer of financial statements.
- b. PNMR is a diversified energy company in the United States with approximately \$5.4 billion of assets, \$1.6 billion in annual revenues, market capitalization of \$1.0 billion, and 2,100 employees. Our subsidiaries and affiliates are involved in the generation, transmission and distribution of electricity, as well as energy management and other energy-related services primarily in New Mexico and Texas. The bulk of our operations are subject to traditional rate of return regulation by state and federal utility regulatory commissions. Accordingly, the provisions of ASC Topic 980 *Regulated Entities* (formerly, SFAS 71) are currently applied to those operations and reflected in our financial statements. It appears that several of the proposals would change guidance currently provided in ASC 980. We encourage the FASB to reconsider the impacts of the proposals with respect to regulated entities and retain the guidance currently contained within ASC 980.
- e. As mentioned above, it is very difficult to quantify the degree to which each of the proposed new standards would impact us. However, each of the proposed new standards will require a significant amount of analysis to determine the impacts although the impacts may ultimately prove to be relatively minor.

Based on our understanding of the current status of the projects, we believe that the Leases and Financial Statement Presentation projects will have significant impact on our financial statements, including a high likelihood that significant, time consuming, and costly changes in our internal systems and processes will be required. These systems and process changes will also impact our systems of internal controls, which will require additional internal and external costs to document, implement, test, and audit. We have a significant number of leases and the proposed accounting will likely require the acquisition or development of software to assist in the proposed accounting and disclosure. The financial statement presentation required by the proposals in that project, which have not yet been formalized into an ED, are likely to require significant revisions to our basic general ledger and other accounting modules in order to comply with the proposals. In particular, our systems are not currently designed to provide information that would be required to prepare the statement of cash flows on a direct basis. We have not explored software systems regarding these items and, therefore, do not know if software exists that would meet those needs or what the costs might be.

The other projects are not anticipated to have significant impacts on our financial statements or internal operations. However, to the extent the proposals amend or remove guidance in ASC 980, additional impacts would occur. In addition, the projects will significantly expand the required disclosures and analysis in the financial statements that will be time consuming to accumulate, both initially and on a continued basis. Several of the proposals require financial statement preparers to make assumptions or forecasts about future events, which may require systems modifications or the acquisition or development of additional systems. The accounting and disclosure requirements of all of the projects will lead to additional effort by our outside auditors and will likely significantly increase our audit fees.

## ***Question 2***

We have not made an assessment of the time or costs necessary to implement the proposals outlined in the EDs currently issued. However, we anticipate that the time and costs will somewhat follow the impacts outlined under Question 1. Therefore, we believe the costs and time necessary to implement the Leases (as well as the Financial Statement Presentation proposals although not yet issued as an ED) will require significant amounts of time and costs, both internal and external. We anticipate the need for additional software to implement the Leases ED as proposed (and the Financial Statement Presentation proposals), but do not know the costs. The other proposals will require less time to analyze and implement, although still significant, but significant external costs are not anticipated.

We are very concerned about the nature and amounts of additional disclosures contained in the proposals. While individually the disclosures do not seem onerous, when the totality of the proposed disclosures is considered, they become excessive. We believe the volume of the disclosures will overwhelm all but the most sophisticated users of financial statements. Various proposals include requirements for qualitative and quantitative information about multiple assumptions utilized in the accounting process, roll-forwards of various financial statement captions, sensitivity analysis surrounding accounting estimations and assumptions, maturity analysis of various financial statement amounts, etc. The extent and volume of disclosures is likely to be misunderstood by most users of financial statements and important information will become difficult to identify due to the massive amount of disclosures. The amount of disclosures has already expanded significantly over the last few years. We currently have approximately 90 pages of footnote disclosure in our annual financial statements. Although we have not made a study of the exact impacts of the additional proposed disclosures, we believe the volume of footnote disclosure would increase significantly, perhaps in the 25% range.

## ***Question 3***

As mentioned above, the bulk of our operations are subject to regulation by utility commissions. It appears unlikely that the utility commissions will change the way our operations are regulated to adopt the proposals set forth in the projects. As a result, accounting information will likely have to be maintained in parallel systems or manually adjusted to previous methods of accounting when providing non-SEC regulatory filings. Parallel reporting or adjustments to modified reporting would increase both system costs and periodic audit fees for the majority of our non-SEC regulatory filings. For example, utility regulators treat differences between income taxes reported on income tax returns and recorded in financial statements differently than required by GAAP. It appears the proposals may lead to further differences, which will require additional effort to analyze and record, as well as additional time and cost from outside advisors. All of the proposals will require additional effort from outside auditors, which we believe will result in significant increases in audit fees. In particular, the numerous requirements involving assumptions and projections about the future and sensitivity analyses will be difficult and time consuming to audit with a disproportionate amount of time spent by audit partners and managers.

The proposals set forth in the Leases ED would result in additional debt being recorded, which could impact compliance with requirements of our debt agreements, as well as how rating

agencies and financial analysts evaluate us. Debt agreements may need to be amended or renegotiated, which will necessitate additional internal and external costs. Additional effort will be required to discuss and explain the impacts to the rating agencies and analysts. Changes that result from the Financial Statement Presentation project may have similar impacts.

#### ***Question 4***

In general, we believe that the full retrospective approach would provide users of financial statements with the best and most comparable information. However, the full retrospective method may be extremely difficult to implement for certain projects or certain elements within a project and the costs may significantly outweigh the benefits. Based on the final form of the proposals and the comments from the respondents most impacted by them, there may be instances where modifications of the retrospective approach or the prospective approach may be justified. To the extent the retrospective approach is required, the FASB should consider that five years of comparable information would be required for SEC registrants in the Selected Financial Data sections of their filings.

It may also be beneficial to leave financial statement preparers with some discretion on the application of transition provisions. For example, in our response to the ED on Leases we suggested such an alternative. The Leases ED proposes that it be applied on a simplified retrospective basis. We believe this is an appropriate approach in many cases. However, where an entity has many small leases of minor significance and a few very large leases that are very significant, we believe it would be appropriate to allow entities the option of applying the full retrospective approach with respect to the large leases while retaining the simplified approach for the smaller leases.

#### ***Question 5***

We believe that the single date approach is the preferable implementation approach when compared to the sequential approach, particularly with respect to projects that are applied retrospectively. The single date approach would result in all impacts of the projects being reflected in a single restatement of an entity's financial statements rather than restating the financial statements multiple times as each project is issued. We believe this concept should also encompass any changes necessitated by the adoption of IFRS if the SEC mandates that for U.S. registrants. Restatements of financial statements result in lost credibility regarding an entity by the investing and financial communities. Therefore, it is important to keep the possibility of restatements to a minimum.

The effort required to implement each of the final proposals will be significant due to the major fundamental changes in accounting contained in some of the proposals. The effort will vary between entities. Some entities may only be significantly impacted by one proposal while others may be significantly impacted by multiple or all proposals. Due to the significant effort and complexity involved in the implementation, it is important that the FASB allow sufficient time to analyze, plan, and implement the final standards. As mentioned above, we believe the implementation should be inclusive of IFRS and, therefore, the implementation date should be consistent with the date specified by the SEC for adoption of IFRS, assuming the SEC issues

such a mandate. In the event the SEC does not issue a mandate to adopt IFRS, the FASB should allow a timeframe for the single date adoption of the proposals similar to the four years being suggested by the SEC with respect to IFRS. In any case, a minimum of three years should be allowed for all entities to be able to analyze, plan for, modify systems, and implement all of the projects given the extreme complexity of them.

***Question 6***

Allowing entities to adopt all of the proposals early would reduce the comparability among entities during periods prior to the mandatory date. Nevertheless, we would support allowing entities to early adopt, provided all of the proposals are adopted at the same time. However, we do not believe that entities should be permitted to adopt only one or some of the proposals for reasons similar to those set forth in response to Question 5 above.

***Question 7***

Provided that sufficient time is allowed to adopt the proposals such as outlined under Question 5 above, we do not believe there is a need to provide for delayed implementation.

***Question 8***

Please see Question 5 above for our comments on effective dates and transition. Given the major fundamental changes being proposed, we believe the above comments are appropriate and the transition and effective dates established by the FASB need not be the same as those of the IASB.

***Question 9***

We do not believe there is any theoretical basis for treating private companies differently than public companies. The proposals set forth accounting principles that will be difficult and time consuming to implement for all entities that engage in transactions covered by the proposals without regard to whether an entity is public or private. However, we acknowledge that some accommodation for private companies would not be detrimental to the financial reporting process as a whole.

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As set forth above, we believe that the proposals need to be further analyzed by the FASB considering responses to the EDs before decisions can be made regarding transition and effective dates. Furthermore, we believe the impacts of the adoption of IFRS must be taken into account as the transition and effective dates are determined. Accordingly, we believe the FASB should not take action to establish transition methods and effective dates until the EDs have been re-deliberated and the SEC has decided if it will mandate IFRS for U.S. registrants. We also encourage the FASB to reconsider all of the EDs taken as a whole to evaluate whether the proposed changes in accounting standards and required disclosures are operational and if the benefits outweigh the costs. We believe that many of the proposals are not practical and that the

costs will greatly outweigh the benefits. If fundamental changes are made to the proposals that were set forth in the EDs, those EDs should be re-exposed for additional comment. Similarly, we believe additional comments should be solicited on the transition methods and effective dates, either by issuing a separate ED on those topics or by including them in the re-exposed EDs related to each proposal.

Sincerely,



Henry A. Ingalls  
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PNM Resources, Inc.