January 31, 2011

Technical Director
File Reference: 1890-100
Financial Accounting Standards Board
401 Merritt 7
Post Office Box 5116
Norwalk, Connecticut 06856-5116

File Reference: 1890-100 Effective Dates and Transition Methods

The Edison Electric Institute (EEI) respectfully submits our comments on the Financial Accounting Standards Board (FASB) Discussion Paper – Effective Dates and Transition Methods (the DP). The Edison Electric Institute (EEI) is the association of United States shareholder-owned electric companies. Our members provide service to 95 percent of the ultimate customers in the shareholder-owned segment of the industry, and represent approximately 70 percent of the United States electric power industry. EEI appreciates the opportunity to comment on the above-referenced DP.

EEI appreciates that the FASB and the International Accounting Standards Board (IASB) are seeking convergence on multiple standards that are the subject of the DP. We have limited our responses to questions for which we have particular insights or make recommendations. Although we had requested an extension of the comment period for the DP, nevertheless we have endeavored to provide the most substantive responses within the time available. In order to assist us, our member companies considered not only the provisions of the various proposed standards covered by the DP but also their past experiences implementing various complex new accounting standards.

Summary

EEI appreciates the FASB (the “Board”) and IASB seeking input on the proposed effective dates and transition methods for the multiple standards that are the subject of the DP. The proposed changes will have significant and unique impacts to members of the EEI when considered both individually and collectively. EEI has elected to limit its responses to the following standards that are included as subjects of the DP (paragraph 3). We have also listed below the corresponding dates of EEI comment letters that were submitted for several of the proposed standards. Though we have attempted in this comment letter to respond to the proposed standards as written we re-affirm the recommendations made in prior EEI comment letters as to the fundamental accounting for Financial Instruments, Revenue Recognition, Leases, and Financial Statement Presentation.
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Responses to Questions in the DP

**Question 1:** Please describe the entity (or the individual) responding to this Discussion Paper. For example:

a. Please indicate whether you are primarily a preparer of financial statements, an auditor, or an investor, creditor, or other user of financial statements (such as a regulator). Please also indicate whether you primarily prepare, use, or audit financial information prepared in accordance with U.S. GAAP, IFRSs, or both.

b. If you are a preparer of financial statements, please describe your primary business or businesses, their size (in terms of the number of employees or other relevant metric), and whether you have securities registered on a securities exchange.

c. If you are an auditor, please indicate the size of your firm and whether your practice focuses primarily on public companies, private entities, or both.

d. If you are an investor, creditor, or other user of financial statements, please describe your job function (buy side/sell side/regulator/credit analyst/lending officer), your investment perspective (long, long/short, equity, or fixed income), and the industries or sectors you specialize in, if any.

e. Please describe the degree to which each of the proposed new standards will likely affect you and the factors driving that effect (for example, preparers of financial statements might explain the frequency or materiality of the transactions to their business and investors might explain the significance of the transactions to the particular industries or sectors they follow).

As noted above, EEI’s members represent approximately 70% of the United States (US) electric power industry. Our member companies employ over 500,000 American workers. In our nation’s economy, the industry represents 3% of real GDP. Key metrics from the twelve months ended September 30, 2010 about the investor-owned electric utility industry at the parent company level include:

- Total Property, Plant, & Equipment: $992 billion
- Net Property, Plant, & Equipment: $716 billion
- Total Assets: $1,115 billion
- Long-term Debt: $396 billion
- Revenue: $272 billion
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- Pre-tax net income $37 billion

EEI member companies are engaged in a broad range of services to US customers and will be impacted in multiple ways by the proposed standards that are the subject of this DP. Following is a discussion of how each proposed new standard is expected to impact our business. We participated in the comment process for each new proposed standard whose deadline has since passed, with the exception of Other Comprehensive Income. However, a summary is provided below.

**Leases**

As evidenced by the above metrics, ours is a capital intensive industry, including sizable generation, transmission and distribution (T&D), and mining assets amongst other items. Many of our member companies supplement their core asset portfolio through a variety of leasing arrangements. These arrangements may include leases of fuel reserves, mining equipment, vehicle service fleets, transmission & distribution (T&D) related items (lines, pole attachments), and power purchase agreements (PPAs) or any other output based arrangements with “right to use” pricing features. We also lease several non-core assets such as land, buildings, and office equipment. A given member company may have hundreds or even thousands of individual leases, a significant majority of which are currently accounted for as operating leases under existing accounting guidance. Due to the complexity of the proposed requirements and the volume of transactions subject to them, we anticipate this standard to have the most pronounced impact on our member companies, both from a cost and effort perspective as well as the actual financial statement impact. As a member organization we enumerated a number of concerns related to the proposed leasing guidance (stated more fully in our comment letter dated December 15, 2010) that we believe will, if unaddressed, likely have a significant impact on the reporting of our operating results, financial position and cash flows.

Due to the sheer volume of the arrangements mentioned above, we expect the largest impact will be a sizable addition to our balance sheets, which will require us to educate our investors and rating agencies as to our true capital leverage position. Similarly, we expect a dramatic shift in the composition of our income and cash flow statements due to the proposed reflection of what has historically been viewed as operating activities within non-operating, investing and financing sections respectively, which will require a similar external education effort. Other non-financial statement effects include the potential need for systems solutions, overhauling existing processes and control structures, internal and external stakeholder training and internal and external project management costs to actually implement the proposed changes, which are more fully enumerated in our responses to Question 2 below.

We also expect to be affected by certain pre-existing accounting application issues involving lease scope (“right to use”) and payment identification (lease vs. non-lease), including possible new application issues regarding measurement and reassessment of contingent payments. If these issues remain unaddressed the likelihood of divergent application and the
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associated reporting impact will both become more pronounced given the on-balance sheet accounting proposed in the revised standard. Finally, the potential loss of specific lease accounting guidance related to regulated enterprises will result in the loss of related regulatory balances, requiring us to explain these differences to our regulators and potentially impacting our rate bases and ability to recover costs from customers.

**Financial Instruments**

As explained in our related comment letter dated September 29, 2010, our member companies typically carry a high amount of outstanding long term debt to support the asset intensive nature of our industry. In order to actively manage short term and long term financing needs while reducing related costs, our member companies’ Treasury functions are active in managing the maturity, credit and rate mix of their capital structures, which may include periodic refinancing, debt exchange, and/or early retirement activities. We believe these activities are consistent with prudent and normal treasury management functions and an overall strategy of issuing debt for contractual repayment. While the proposed new guidance provides a means for applying amortized cost to a company’s own debt, we are concerned that fair value will more likely than not be the de-facto resulting measurement attribute if this guidance takes effect unchanged, resulting in a significant mismatch within our operating results that is not reflective of our true business model. Additionally, because few of our companies presently record debt at fair value, we would have to implement necessary accounting systems, processes, and controls in order to begin reflecting fair value information in our accounting records and financial statements.

Further, our members with nuclear generation profiles are required to maintain nuclear decommissioning trust (NDT) funds in order to satisfy ultimate retirement and disposal obligations. The size of these funds varies depending on a given member’s generation profile, but for those with significant nuclear generation assets the funds are substantial and in some cases material to their financial position and operating results. The existing proposed criteria for achieving fair value through OCI classification will preclude this accounting treatment for these investments, which we believe may result in unrepresentative volatility and distort our true operating performance when considering the long-term commitment and restricted use of these funds.

Additionally, many of our members frequently engage in the use of financial and non-financial derivative contracts as accounting hedges, most commonly cash flow hedges of forecasted transactions to procure fuel and power supply, or to sell natural gas or electricity to end use customers. Given the prohibitive nature of the proposed hedge de-designation and re-designation rules and the fact that most risk management systems are not currently designed to accommodate them, we anticipate that some members will limit their use of hedge accounting despite the relaxed effectiveness assessment criteria. An obvious impact of this is the resulting accounting/economics mismatch within our financial statements. However, it is also conceivable that without appropriate upfront education, some of our investors will have expected us to increase the use of hedge accounting due to the other
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relaxed criteria, which could negatively impact the outlook on our member companies’ financial strength and/or the prudence of their risk management practices. For those entities that elect to continue to use hedge accounting, the systems, record-keeping and internal procedures necessary to comply with the new requirements will impose significant additional costs and complexity because of accounting requirements that diverge from risk management practices.

Lastly, additional costs will be incurred in applying the proposed equity method investment accounting and credit risk models. Companies will need to determine appropriate accounting policies as to whether operations of investees are considered “related” to operations of the investor, which may vary resulting in divergent application. A more onerous effort will result as companies attempt to determine the fair value of equity method investments that are not considered related to their core operations, which will prove challenging as many equity method investments are in private entities or partnerships and thus do not have readily determinable fair values. We also anticipate that members will incur additional costs in applying the proposed credit risk model to determining allowances for doubtful accounts, since the standard would remove the recognition criteria from FAS 5 that losses must be probable and instead require a probability weighted assessment for each receivable.

Overall, we expect there will be a higher number of fair value transactions and related measurement complexity that will need to be managed due to the shifting of certain instruments from amortized cost to fair value and the new proposed guidance on embedded derivatives and related host contracts. Further, the level of complexity required to operate the business and simultaneously comply with these new rules will increase as the accounting requirements for fair value diverge from the risk management and operational practices of the entity, particularly for accounting hedges, traditional debt financing, and equity method investments.

**Revenue Recognition**

The source and nature of our member companies’ revenues can be broadly separated into regulated and unregulated sources. Regulated utility revenues principally arise from residential retail and commercial & industrial end-user sales of electricity, participation in alternative energy efficiency and decoupling programs, as well as transmission and distribution activities. Unregulated power entities primarily derive revenues from merchant generation, wholesale sales, long-term structured sales and risk management contracts, commodity optimization and trading activities. Many contracts (particularly sales to end-users and also most renewable supply agreements) contain multiple deliverables and performance obligations. Finally, some of our members have numerous small to medium-sized contracts for non-energy related services, including contracts for added customer electrical facilities; property rentals; contracted meter reading for other entities; miscellaneous engineering, technical & mapping services; electrical installation & inspection services; transportation of telecommunication data, etc.
We also expect rate actions addressed through decoupling and alternative revenue programs to increase significantly in the future as regulators implement energy efficiency policies across the nation. As noted in our related comment letter dated October 22, 2010, our regulated entities subject to alternative revenue (incentive award) and decoupling programs will be significantly impacted if the related, specialized industry guidance currently in place is superseded by the Boards’ proposed accounting standard. Without retaining this guidance, our utility’s financial statements will not reflect a faithful representation of our operations by ignoring the regulators’ actions and resulting effects of these programs.

Another area where our members expect to be affected is in the proposed guidance on accounting for contract modifications. Energy sellers frequently engage in customer sale contract renegotiations commonly known as “blend and extend” arrangements, in which a pre-existing long-term contract’s price is blended with the current market price related to the tenor and volumes added. We believe that the current price dependency criteria for determining whether to account for such a modification prospectively or cumulatively are not sufficient to contemplate such arrangements. Unless these criteria are modified, our members’ reported financial results for these arrangements will reflect cumulative accounting which is not representative of the underlying economics.

More pervasively, we believe that the guidance in determining how to account for a contract that has multiple elements or separate performance obligations differs across current accounting standards as well as across the EDs on Revenue Recognition, Financial Instruments, and Leases due to conflicting or exclusionary inter-referencing scope provisions and general lack of clarity on the ordering of framework application. We believe that this divergence will continue in accounting for separate performance obligations absent such clarification and will impair comparability amongst members as a result. Further, although all contracts with multiple elements will need to be evaluated under the new guidance, it is likely that there will be a large number of non-energy based contracts requiring re-review, retraining of many business unit individuals, and recalibrating associated billing systems, processes, and procedures.

**Financial Statement Presentation**

Although an exposure draft has yet to be published on this standard, our initial reaction to the Board’s tentative decisions in this area (as documented in the “staff draft” published in July 2010) is that this proposal has the potential to be very impactful to all preparers due to the fundamental changes proposed to the financial statements, the significant expansion of disclosures, and the requirement for a direct statement of cash flows. At the very least, we expect a costly multi-year effort to reengineer processes, reconfigure systems in order to disaggregate required data, and to re-channel financial information flows into the new financial statement formats and disclosures.
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Summary

In summary, these proposed standards will have a significant impact on our industry due to the extensive use of leases and financial instruments in conducting our business as well as the broad sources of revenue streams with the existence of multiple performance obligations. The impact is driven by both the number of transactions as well as the complexity of the accounting covered by these standards.

Question 2: Focusing only on those proposals that have been published as Exposure Drafts (accounting for financial instruments, other comprehensive income, revenue recognition, and leases):

a. How much time will you need to learn about each proposal, appropriately train personnel, plan for, and implement or otherwise adapt to each the new standard?

b. What are the types of costs you expect to incur in planning for and adapting to the new requirements and what are the primary drivers of those costs? What is the relative significance of each cost component?

Given the complexity and magnitude of changes resulting from the above proposed standards, combined with either full or limited retrospective application requirements currently within each, we anticipate a significant amount of time and cost will be incurred to implement each new standard. Some of our member companies anticipate that it could reasonably be in excess of two years to fully adapt to and implement individual standards (such as the proposed standard on Leases), with total implementation time across all such standards ranging from four to six years if current retrospective application requirements are retained. These are only preliminary time estimates and members are in various stages of undertaking internal initiatives to more fully estimate implementation project plan efforts. These efforts will need to be fully vetted before an informed estimate of related costs can be surmised. Our preliminary views of time and associated cost are based on a number of factors more fully enumerated in the categories below (by decreasing order of expected effort/cost).

Process Impact

Member companies expect significant transitional and recurring changes to process and related control environments in a variety of areas. An example can be illustrated through reference to the proposed Revenue Recognition and Lease standards. Given the magnitude of the changes in these standards and the volume of transactions subject to them (i.e., all sources of revenue and any contract which could conceivably involve the right to use an underlying asset), we expect a significant upfront assessment process will be necessary to re-evaluate all of our outstanding sales, supply, and lease contracts (and a number of contracts from prior years if retrospective application is required) to determine the appropriate accounting recognition and measurement attributes to record going forward. The volume of contracts requiring review combined with the complexity of applying the new accounting requirements will easily make this area the most time consuming and costly.
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Further, this will require involvement from our tax functions in order to assess the impact of these changes from an accounting and planning perspective. We will also need to involve other departments, including legal and finance teams, in order to assess the impact of the accounting changes on our debt covenants. It is likely that given the volume of contracts requiring review and the impact of correctly applying the revised accounting, we may need to outsource some of these efforts. Finally, because of the re-evaluation requirements inherent in the above-mentioned standards, many members expect they will need to add permanent accounting staff in addition to augmenting internal and external accounting resources upon initial transition.

Systems Impact

We expect there to be a significant impact to our current information technology capabilities arising from each proposed standard, including significant system redesign up to and including implementation of new systems to enable data capture and processing to reflect the new basis of accounting and reporting required in the EDs. Under retrospective application requirements, there is also an added cost to either running dual systems (current GAAP and revised GAAP) up to the implementation date, or recasting prior periods under an ad-hoc system solution upon adoption.

As explained in our answer to Question 1.e above, some of our members have thousands of transactions related to multiple leasing agreements, which will require a significant effort to review and process unless certain industry comments are addressed within the final Lease standard. If the proposed standard takes effect as written, a large number of our members already anticipate having to implement a separate IT solution to adapt to the new accounting. Specifically, the proposed standard will require isolating and reporting a specified “right to use” lease asset and associated obligation from within affected power purchase agreements on a basis other than contractually-defined payments. In addition, we will need to adequately capture and compute the ongoing effect of changes in estimates and judgments related to lease terms and contingent rents. The proposed Revenue Recognition standard could also drive increased systems costs due to the ongoing evaluation requirements associated with variable consideration estimates, initial and subsequent estimates of customer credit risk, separately identifying and measuring performance obligations (including the identification of onerous obligations), and accounting for contract modifications. Finally, as our user community (including investing, credit, and regulatory agencies) evaluate the results of our operations on a contractual cash flow basis for a majority of these items today, we will likely need a separate solution to track each basis of accounting.

As it relates to all of the proposed standards, many of our members’ outstanding debt commitments require covenant compliance tracking on the basis of GAAP in effect at the time of issuance. While this is an existing issue, we expect that our member companies may need to implement more formal IT solutions given the complexity and far-reaching accounting impacts resulting from the proposed standards. Alternatively, some members
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may consider renegotiating these agreements depending on existing leverage and ability to access capital markets. In either case, we expect this to be another area where added costs, time and effort are likely to occur.

Finally, some of our external users may not accept certain aspects of the proposed accounting. We will need to ensure that we can accurately report and explain ongoing GAAP accounting differences to our stakeholders who require financials in a form other than the proposed GAAP. It is conceivable that we may need to retain up to three sets of accounting records (GAAP as revised, previous GAAP for debt compliance, and regulatory accounting) to meet this need. This could require further adjustments to our processes and systems as described above plus the engagement of external advisors that will add substantial costs to the implementation effort.

**Training Impact**

Major accounting change implementations typically require a significant amount of training depending on the size of the company. Some companies report training requirements exceeding one thousand hours for major accounting changes. The proposed standards that are the subject of this DP will likely require as much if not more of an investment in training due to the volume of impacted transactions and activities and the complexity of applying the proposed guidance. Further, each standard will require separate attention and education due to the scope of accounting covered and the activities subject to each. This training may occur largely through in-house resources, though many companies also avail themselves of external consulting resources. This formal approach to training will also need to be supplemented with a considerable degree of upfront, informal on-the-job training to address the practical impact of acclimating to new processes, control structures and in some cases new or modified systems. It is also important to note that this training will need to involve multiple cross-functional departments, including accounting, financial reporting, finance & treasury, investor relations, tax, legal, human resources, IT, contract administration, internal audit and regulatory amongst any others which may be impacted. When considering all of the proposed standards that are the subject of the DP, training and development budgets will need to be significantly increased in order to adequately equip all relevant functions within our member companies.

**Project Management & External Involvement**

Due to the various impacts noted above, many members expect they will need to supplement their own project teams through use of outside consulting resources in order to effectively manage all aspects of change resulting from the proposed standards. This includes effectively managing change across the organization (including upfront training), assuring adequate stabilization and sustainment of key process changes post-implementation, outsourcing staff during initial implementation where necessary, and ensuring adequate system solutions are in place and operating effectively. Some of our members have raised concerns that if adequate time is not allowed for existing retrospective application
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requirements, the competition for outside resources could significantly impact the related cost of services. Further, any outsourcing requirements would likely involve more senior external resources due to the complexity of the proposed accounting requirements.

We also expect to incur increased audit fees upon initial adoption (particularly if retrospective application is required in some form) in order to ensure our external auditors are comfortable with the accounting, processes and control environment changes resulting from the proposed standards. Further, we anticipate that a portion of this increase will carry forward to future periods as a result of particular standards with ongoing re-evaluation requirements (i.e., Leases and Revenue Recognition), which will require the use of judgment and management estimates and may necessitate the use of audit specialists.

**Question 3:** Do you foresee other effects on the broader financial reporting system arising from these new standards? For example, will the new financial reporting requirements conflict with other regulatory or tax reporting requirements? Will they give rise to a need for changes in auditing standards?

The electric power industry is heavily regulated, and our members report to a variety of state public utility commissions, the Federal Energy Regulatory Commission (FERC), and other local regulators. Currently there are slight differences from the basis of reporting submitted to our industry regulators and the information filed or furnished to the SEC. The proposed standards will be evaluated by regulators at all levels. We will require a certain amount of time to educate our various regulators about the new proposals and to work through the various issues that we expect to encounter upon adoption of the proposed new guidance. It is highly likely that some aspects of the new standards will not be embraced by our regulators as our member companies already have reporting differences as it relates to leases and financial instruments. We expect those differences to continue as well as increase with the new proposed guidance for leases, financial instruments and revenue recognition. As explained in our response to Question 2 above, this will result in a continued need to maintain multiple sets of accounting records to meet both US GAAP and regulatory reporting requirements. This will further complicate implementation of the new standards and, as a result, increase the associated costs. Further, what is (or more importantly, what is not) allowed for cost-recovery from a reporting standpoint will also ultimately affect our rate bases and the ability to recover the cost of our capital and operations from our customer base. Whether regulators accept or reject aspects of the new standards there will be increased time spent providing training to and communicating with the regulators. These costs will need to be factored into any implementation plan.

We also expect significant impacts on both current and deferred tax calculations arising from the new standards (in particular Leases, Revenue, and Financial Instruments). This will require both training and increased implementation costs to accurately and effectively account for the increased level of book-tax adjustments required in completing regular tax calculations. Should the IRS revise certain provisions to tax code in order to reduce and manage these differences, we will need to adapt to those changes as well.
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Finally, as mentioned in our response to Question 2 above, we are also concerned about the ability to find a workable solution for the application of the new proposed guidance to the calculation of our debt covenants, which could require a similar educational effort with our lenders, including separate system solutions as described above. This may further require the input of external advisors that will add substantial time and costs time to the implementation effort.

**Question 4:** In the context of a broad implementation plan covering all the new requirements, do you agree with the transition method as proposed for each project? If not, what changes would you recommend and why? In particular, please explain the primary advantages of your recommended changes and their affect on the cost of adapting to the new reporting requirements.

We encourage the Board to refer to prior comment letters submitted by the EEI on the Memorandum of Understanding Joint Projects referenced in the Summary above. These comment letters contain valuable insights into the operations of companies in the electric power industry. Further, these comment letters outline various concerns and recommendations pertaining to the proposed accounting requirements. We re-affirm those concerns and recommendations but have attempted to limit our comments regarding effective dates and transition methods in this comment letter to the standards as currently proposed. Should there be changes in the final standards, it is possible that some of our conclusions in this comment letter could be impacted.

We wish to note that the EEI’s comment letters referred to above make certain recommendations as to the proposed transition methodologies. The reasons supporting those recommendations remain valid, although in this comment letter we have attempted to comment on the proposed standards taken as a whole. In the prior EEI comment letters, we recommended that restatement of three years of financials was not the best transition approach. Our recommended approach would require a balance sheet adjustment as of the earliest balance sheet date upon implementation, with one year of comparative statements. This method would require companies to maintain dual reporting for only one year. We elaborate on this approach with respect to each of the three major standards below.

**Leases**

We understand the proposed “limited retrospective” approach requires an adjustment to opening balances for the earliest prior period presented and the other comparative amounts revised for each prior period presented as if the new accounting policy had been applied from the beginning of the earliest period presented. For SEC registrants we assume this would require three years comparative information. Lease assets and lease liabilities would be recognized at the initial application date at the present value of remaining lease payments. This would not require a cumulative effect adjustment at the date of initial application since there is no requirement to apply the standard as if it was always required.
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We generally concur with the proposed transition methodology with the following exceptions:

- We believe that one year of comparative information would be appropriate and sufficient. We also reaffirm our view expressed in our Lease comment letter that the primary users of our financial statements tend to have a prospective outlook. As such, we believe one year of comparative information would give users a sufficient baseline from which to compare and derive trends and projections for forward-looking analysis, while reducing the need to explain prior period reporting differences in the future.

- Carry forward the grandfathering provisions under Emerging Issues Task Force Issue No. 01-08, Determining Whether an Arrangement Contains a Lease (EITF 01-8). As stated in the EEI Comment Letter on the Leases standard, we do not believe that requiring the evaluation of contracts entered before May 2003 at this point is cost-justified. Adoption of the new lease accounting guidance as proposed in the ED will be a time-consuming and costly effort by most companies regardless. Providing some relief to retain the existing criteria for scope, such as the continued grandfathering of older contracts, will help companies successfully achieve the “bigger picture” improvements to lease accounting over the long run.

- Transactions that no longer exist at the effective date would be excluded from retrospective application requirements, to mitigate the cost to preparers. All leases that exist as of the effective date will be accounted for under the new standard going forward, and an adjustment to the opening balance sheet will be made to account for any differences from this new standard. Adjustment of prior period financials for leases that no longer exist at the adoption date does not provide value to the user, as they will have no impact on the financials going forward.

**Revenue Recognition**

We understand the proposed retrospective approach would require financial statements for each individual prior period presented to be adjusted to reflect the effects of applying the new accounting principle. This approach will entail significant implementation costs for our members, as there are several sources of revenue in our industry, and the proposed standard would apply to all revenue streams. In contrast, we recommend an adjustment as of the earliest balance sheet date upon implementation, with one year of comparative statements. As such, for contracts with unfulfilled performance obligations as of the latest balance sheet date upon implementation, compute the cumulative effect adjustment for these contracts retrospectively. Reflect this adjustment in opening equity on the date of adoption. Apply the new standard to these contracts, and any new contracts, going forward. We believe that one comparative year is achievable, and is sufficient for investors as noted above.
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Some members have indicated support for an approach that does not provide any comparative information for several reasons, including reducing implementation costs, avoiding the need to use hindsight to recreate past transactions, and eliminating the need to maintain two separate revenue recognition systems in tandem during the transition period. In coming to our recommended approach as described above, we have attempted to balance the concerns of our members within the stated constraints of this DP. Should the final revenue recognition standard change in a material way from the current exposure draft, our recommendation could change.

**Financial Instruments**

Overall, we support the FASB’s proposed transition method for this project as it relates to classification and measurement. Specifically that all existing financial instruments at the period end prior to the effective date be adjusted to comply with the requirements of the ED through a cumulative effect adjustment.

However, for derivative instruments and hedging activities, we propose that the hedge measurement and assessment requirements should be applied prospectively, and no de-designation and subsequent re-designation of pre-existing relationships should be required upon adoption simply as a result of the proposed changes in hedge accounting guidance overall. We note that the recent IASB Exposure Draft, *Hedge Accounting*, proposes prospective implementation as well.

**Question 5:** In thinking about an overall implementation plan covering all of the standards that are the subject of this Discussion Paper:

- a. Do you prefer the single date approach or the sequential approach? Why? What are the advantages and disadvantages of your preferred approach? How would your preferred approach minimize the cost of implementation or bring other benefits? Please describe the sources of those benefits (for example, economies of scale, minimizing disruption, or other synergistic benefits).
- b. Under a single date approach, what should the mandatory effective date be and why?
- c. Under the sequential approach, how should the new standards be sequenced (or grouped) and what should the mandatory effective dates for each group be? Please explain the primary factors that drive your recommended adoption sequence, such as the impact of interdependencies among the new standards.
- d. Do you think another approach would be viable and preferable? If so, please describe that approach and its advantages.

As we described more fully in our responses above, the implementation efforts required for each standard would be significant with some requiring system changes that alone could entail 18–24 months of additional work. We encourage the Board to consider our recommendations on transition methods since we believe they balance achieving the main
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objectives of the proposed standards with the resource and time constraints of our member companies. We recommend below a “grouped sequential” approach and also describe a sequential approach favored by many of our members as an alternative. These recommendations assume:

- All final proposed standards are issued by 6/30/11 except for the Financial Statement Presentation standard which is anticipated by 12/31/11.
- The proposed FASB transition methodology is adopted.
- No material changes to the exposure drafts are made.

Should future developments in the standard-setting process prove these assumptions inaccurate, our recommendations could be affected. For example, should the standards be issued at later dates, our suggested effective dates may also be pushed back to allow for adequate planning and implementation. Although not subject to this DP, we would also like to direct the Board’s attention to our comment letter issued September 3, 2010 in response to the proposed accounting standards update on Fair Value Measurements and Disclosures. In that letter, we recommended that should the provisions of the proposed Fair Value changes be adopted, then the implementation date should coincide with the implementation date that is established for the proposed Financial Instruments standard which is subject to this DP.

**Grouped Sequential**

For some companies there are potential interdependencies between the Lease, Revenue, and Financial Instruments standards which may suggest that these standards (or portions thereof) should be implemented concurrently (for example, due to the contract assessment-intensive nature of these standards). This approach would allow certain companies to achieve economies of scale, efficiencies and synergistic benefits by adopting the main standards on a single date. Further, some of our members believe that it may be easier for investors to assimilate and trend the modified financial information if all the accounting changes occur at a single date rather than over sequential years.

Should the Board consider such an approach, we recommend that the following standards become effective for fiscal years beginning on or after December 15th of the years indicated:

**Group 1: Comprehensive Income: 2011 or 2012**
- Due to the minimal impact of this standard it could be adopted in a more accelerated manner.

**Group 2: Leases, Revenue, and Financial Instruments: 2014**
- An adoption date for fiscal years beginning on or after December 15, 2014 will allow for two years of process, controls, and system implementation leading up to adoption, plus two additional years to capture or recreate prior periods for comparative purposes.
Group 3: Financial Statement Presentation: 2015 or later

- Given the significant changes to each of the financial statements, we believe this standard should be adopted after all the above standards have been implemented.

Sequential Alternative

It will likely be difficult for some preparers to simultaneously implement the three major standards at the same time as it will require a greater concentration of time and resources. As a result, this could require a longer disruption to normal operations due to the large volume of contracts and transactions that would need to be reviewed, resulting increased complexity of the proposed guidance, and related impact on systems modification or implementation. A sequential approach would work best for these companies as it would better focus internal resources during the period of implementation of each standard, which would most likely be spread over several years. The ability to implement only one or two standards at a time would also minimize disruptions to normal operations. Significant process and systems changes will be required to implement certain standards and that is factored into the timeline below.

This alternative sequential approach is based upon the same assumptions as noted above, and the standards would become effective for fiscal years beginning on or after December 15th of the years indicated:

- **2011 or 2012:** Comprehensive Income
- **2013 – 2015:** During this multi-year period the proposed Financial Instruments, Revenue, and Leases standards would become effective one standard per each year. There is diversity of opinion as to the precise ordering of these standards since they will impact member companies differently depending on their business operations. However, those standards with the furthest-reaching retrospective application requirements would generally become effective later in the sequence.
- **2016 or later:** Financial Statement Presentation

Single Date

Though the majority of EEI members prefer a grouped sequential or sequential approach, they request that the Board consider the following should a single date approach be required. If a single date retrospective approach (full or limited) is selected by the Board, then the standards should become effective no earlier than for fiscal years beginning on or after December 15, 2015. If the Board decides on prospective implementation for the standards then the targeted single date could be advanced by two years. All of these suggested dates assume that final standards would be issued by the end of 2011 (we understand that the Financial Statement Presentation project is not scheduled on the Board agenda until the second half of 2011 at the earliest).
A single date approach, even if the effective date was well into the future, could be more difficult to implement with so many changes being made to processes and systems, as well as restatements of prior year amounts (if retrospective adoption is required for some of the standards). Although a sufficient lead time would allow us to prepare for all of the standards, we believe that the concentration of efforts required under this approach in order to adopt all standards at the same time could result in an unnecessary disruption to our members’ normal operations. Further, we believe there are advantages to a grouped sequential or individual sequential approach in that preparers would have an increased opportunity to address any practice interpretation or application issues that may have arisen between adoption periods, thereby potentially improving the quality of subsequent implementation activity. Ultimately, we believe that a single date approach would be more likely to increase the potential for errors in initial implementation while imposing significant costs and no incremental benefit to financial statement users.

Potential Impact of SEC Deliberations on Convergence Project Effective Dates

As requested by the Board, we did not consider a possible SEC IFRS implementation mandate when compiling the above recommendations on effective dates. However, we feel that convergence project effective dates should be coordinated with any SEC mandated IFRS conversion dates so that US preparers are not required to perform convergence project implementations for US GAAP and then perform duplicative implementations in the same areas to convert to IFRS shortly thereafter. We appreciate that the FASB has recognized that it may need to reconsider the effective dates and transition methods of newly issued standards once any decisions from the SEC about adopting IFRSs have been made. We believe that our recommended effective dates for projects most likely impacted by a mandatory IFRS conversion are far enough in the future to allow the Board to reconsider them once an SEC IFRS implementation plan is likely published but sufficiently before the convergence projects are actually implemented by preparers.

**Question 6:** Should the Board give companies the option of adopting some or all of the new standards before their mandatory effective date? Why or why not? Which ones? What restrictions, if any, should there be on early adoption (for example, are there related requirements that should be adopted at the same time)?

If the Board decides to stage the effective implementation dates based on company size or accelerated vs. non-accelerated filing status, we believe early adoption should be allowed (for example, as it was in FAS 123R) to allow subsidiaries with standalone reporting requirements to take advantage of their parent company’s adoption efforts. If there is no such staged adoption of these standards, we favor disallowing early adoption as this would increase comparability both within and outside of our industry.
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**Question 8:** Should the FASB and IASB require the same effective dates and transition methods for their comparable standards? Why or why not?

Due to the global trend of convergence to IFRS, having the FASB and IASB require the same effective dates and transition methods would support the spirit of convergence and provide for greater comparability across countries and capital markets. As stated in previous comment letters the EEI applauds the convergence efforts of both the FASB and IASB. If the final issued standards are in fact comparable (or exactly the same) it would be incongruous to have the standards issued with differing effective dates and transition methods.

However, we would like to emphasize that the required implementation efforts for those companies reporting under US GAAP may be different and potentially greater than for those companies currently reporting under IFRS. Further, for those companies subject to Sarbanes-Oxley requirements, implementation of any new standards will require additional time and resources in order to be compliant. Therefore, we support aligning effective dates and transition methods with the IASB but only under timelines that allow for adequate preparation and implementation for US public filers subject to these additional requirements. We believe that the timelines we have outlined in this comment letter would allow for such planning/implementation and encourage the FASB to accept our recommendations.

**Conclusion**

We appreciate your consideration of these important topics and our related comments. The proposed accounting standards and the effective dates and transition methodologies for implementing those standards will have a very significant impact on our industry. We would be pleased to discuss any of these subjects with you and to provide any additional information that you may find helpful in addressing these important matters.

Very truly yours,

[Signature]

Richard F. McMahon, Jr.
Vice President

RFM/ds