October 9, 2009

Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116  
(e-mail: director@fasb.org)

Re: File Reference No. 1710-100

Dear Technical Director, Board Members and Staff:

PPL Corporation (“PPL”) appreciates the opportunity to comment on the Proposed Accounting Standards Update “Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures about Fair Value Measurements (“Proposed ASU”)” referenced above. PPL is an energy and utility holding company that, through its subsidiaries, controls more than 11,000 megawatts of generating capacity in the United States, sells energy in key U.S. markets, and delivers electricity to about four million customers in Pennsylvania and the United Kingdom.

Summary

PPL supports the FASB’s goal of improving the transparency of fair value measurements and believes that some of the additional disclosures and clarifications of existing disclosures presented in the Proposed ASU will help to meet that objective. However, PPL also believes that some of the additional disclosures would add significant complexity to the disclosures without providing users with meaningful information. Specifically, PPL supports:

- The gross presentation of information about purchases, sales, issuances and settlements within the reconciliation of fair value measurements using significant unobservable inputs (Level 3 roll-forward table). Purchases, sales, issuances and settlements represent disparate activities that can and should be separately analyzed.
- The clarification that disclosures be made by class of assets and/or liabilities. We believe that these improved disclosures may mitigate the need for sensitivity analyses.
- The clarification of disclosures regarding valuation techniques and inputs used in determining the fair value of each class of assets and/or liabilities classified as Level 2 or Level 3, for both recurring and non-recurring fair value measurements.
As discussed in more detail below, PPL does not support:

- Disclosures of sensitivity analyses about the effect of using reasonably possible alternative inputs on fair value measurements that use significant unobservable inputs
- Quantitative disclosures about the transfers between Level 1 and Level 2
- The requirement to assume that transfers between Levels occur on the first day of the quarter.

**Sensitivity analyses**
The fair value of an asset or liability is inherently a range of values, because market participants’ needs, expectations, and risk appetites vary considerably. The existence of bid/ask spreads is a straightforward example of this concept. Fair value measurements, therefore, reflect only the most probable outcome for fair value. This is true whether the asset or liability is classified as a Level 1, Level 2 or Level 3. For example, a Level 1 price input generally reflects the end-of-day price; however, transactions throughout that day likely reflected several different prices. Level 2 prices may be based on observable bid/ask spreads or observable discount curves that vary because they are from various sources. These Level 1 and Level 2 price inputs provide the basis for determining Level 3 price inputs. For example, we may estimate a power price for 2015 by assessing 2014 power prices and/or 2015 gas prices (because power and gas prices are correlated), adjusted for gas basis and power transmission. Similarly, we may estimate a power price for an illiquid delivery point by assessing the power prices for a nearby liquid delivery point, adjusted for transmission basis that may be based on historical or forward prices.

We use the most robust data that is available, and we believe that fair value measurements that are ultimately classified in Level 3 are reliable values that are, of course, subject to audit scrutiny. Adding a range of potential fair value measurements will not improve the reliability of those values. Furthermore, because energy prices relate to thousands of delivery points and forward curves that vary by region, season, and month, as well as being influenced by the correlation to other energy products (power to gas, gas to expected gas storage volumes, gas to oil, oil to emission allowances, etc.), we believe that it may not be feasible to prepare sensitivity analyses from reasonably possible alternatives without being overly voluminous.

Additionally, we believe there is a distinct possibility that sensitivity analyses will lead to misinterpretation and/or unreasonable expectations due to the inappropriate focus on only Level 3 measurements, as it is inconsistent with the tools management uses to assess its risks. Risk management activities appropriately use sensitivity analyses prepared at a portfolio level, in which all market-related risks and offsetting positions are evaluated together. As such, all assets and/or liabilities within a class are evaluated together with contracts that receive accrual accounting, as well as physical assets.
Finally, we believe that the “reasonably possible” criterion is subject to considerable judgment and possible disagreement with auditors. If this disclosure requirement is adopted in the final ASU, we believe that this phrase should be clarified to reflect the expectation that it is not intended that entities use all possible alternative assumptions in the preparation of sensitivity analyses.

**Transfers between Level 1 and Level 2**

The Basis for Conclusions indicates that the requirement to provide additional details related to the transfers between Level 1 and Level 2 is intended to provide readers with useful incremental information in their assessment of the quality of earnings and expected future cash flows. However, we believe the *ending* fair value amount and Level classification provides the only relevant information to readers. The transfers are caused by changes in the observability of inputs used to determine fair value but do not provide any useful information related to the quality of earnings, and should not be used to form an expectation about future cash flows. We believe, however, that readers would benefit from a qualitative discussion about the reasons for transfers, if significant; this would complement the existing disclosure requirements about valuation techniques and inputs.

**Transfer Dates**

The Proposed ASU would require entities to presume that any significant transfers between Levels had occurred on the first day of the quarter. We disagree with this “bright line” approach; rather, we believe that the determination of transfer dates should be a matter of management’s judgment, based on facts and circumstances, and that the election should be disclosed. Additionally, companies may have already adopted conventions that differ from the Proposed ASU when disclosing transfers into and out of Level 3. Most companies determine their Levels at the end of the quarter, and their systems are not currently designed to make that determination as of the balance sheet date and then relate it to information prepared three months earlier.

**Effective Date**

Based on the Proposed ASU’s requirements, we believe the effective date for any sensitivity analyses should be no earlier than for the interim and annual periods ending after December 15, 2010, in order to provide users with sufficient time for system modifications and to reduce the need to use manual processes to comply with the disclosure requirements. Because the proposed sensitivity analyses do not correspond to anything presently used by management for accounting or risk management purposes, we believe entities will need to make extensive system changes in order to capture ‘reasonably possible alternative inputs.’
We also believe that the effective date for the other provisions should be deferred, at a minimum, until the interim and annual periods ending after March 15, 2010, to minimize the need for manual processes to convert the net reporting of transfers into and out of Level 3, as well as the net reporting of purchases, sales, issuances, and settlements in the Level 3 roll-forward table (through the third quarter of 2009) to gross reporting and to make any system modifications necessary to capture this data on a gross basis in the future.

Summary and Conclusion

We reiterate our support for improving the transparency of fair value measurements. However, for the reasons detailed above, we believe that some of the proposed changes to required fair value disclosures may not help to achieve this objective. As such, we ask that you consider our recommendations about the proposed disclosures and their related timing.

We would like to thank the Board for the opportunity to share our views on this significant accounting issue.

Very truly yours,

Matt Simmons
Vice President-Risk Management
Vice President and Controller

cc: Mr. P. A. Farr
    Mr. M. A. Cunningham
    Mr. M. D. Woods