April 25, 2011

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


Dear Technical Director:

PPL Corporation ("PPL") appreciates the opportunity to comment on the Proposed Accounting Standards Update, Balance Sheet (Topic 820) – Offsetting ("Proposed ASU"), referenced above. PPL is an energy and utility holding company that, through its subsidiaries, owns or controls nearly 19,000 megawatts of generating capacity in the United States, sells energy in key U.S. markets, and delivers electricity and natural gas to about ten million end users in the United States and the United Kingdom.

PPL supports the FASB’s initiatives for the issuance of high quality accounting standards that provide transparency in financial statements and meet the needs of investors and other market participants. PPL further supports the goal of attaining a single set of high quality global standards through convergence efforts; as such, PPL appreciates the Board's efforts to converge the requirements for offsetting assets and liabilities on the statement of financial position to improve the comparability of financial statements prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) or International Financial Reporting Standards (IFRSs).

Summary

PPL generally supports the proposed guidance to prohibit offsetting unless an entity has an unconditional and legally enforceable right to setoff the eligible asset and eligible liability. We cannot support convergence without supporting a single approach for offsetting, as we understand that current offsetting requirements result in the single largest quantitative difference in the amounts presented in statements of financial position prepared in accordance with U.S. GAAP or in accordance with IFRSs.
However, PPL does not support the additional criterion that an entity must intend either to settle the eligible asset and eligible liability on a net basis or realize the eligible asset and settle the eligible liability simultaneously. We believe that this criterion adds a bright line rule based on operational practices rather than legal rights or obligations. Entities strive to make their operations as efficient as possible, and, as such, one should be able to assume that the most efficient settlement practices possible will evolve as a condition for continuing to do business.

PPL also does not support the proposed disclosure requirements as written. We understand that some preparers and users believe that a net presentation provides information about credit mitigation that would be lost if offsetting is not allowed for master agreements that have conditional rights of setoff, even though the existence of a master agreement is only one of many credit risk mitigation practices. As more fully discussed below, the various existing credit disclosures and the proposed disclosure requirements do not share common scopes, and none of them provides a succinct view of overall credit risk and mitigation. We encourage the FASB to develop disclosure guidance that comprehensively addresses credit risk and mitigation.

Finally, we request clarification related to the appropriate unit of account used for presentation purposes, as we discuss below.

Responses to Questions

Offsetting Criteria—Unconditional Right and Intention to Settle Net or Simultaneously

Question 1: The proposals would require an entity to offset a recognized eligible asset and a recognized eligible liability when the entity has an unconditional and legally enforceable right to setoff the eligible asset and eligible liability and intends either:

1. To settle the eligible asset and eligible liability on a net basis
2. To realize the eligible asset and settle the eligible liability simultaneously.

Do you agree with this proposed requirement? If not, why? What criteria would you propose instead and why?

We agree that a recognized eligible asset and a recognized eligible liability should be netted when an entity has an unconditional and legally enforceable right to setoff. When eligible assets and eligible liabilities have the same economic and legal characteristics of financial swaps, we believe they should be presented net, consistent with the net presentation of floating and fixed "legs" of a financial swap.

However, we do not agree with the requirement that the entity must intend either to settle the eligible asset and eligible liability on a net basis or realize the eligible asset and settle the eligible liability simultaneously. We believe that simultaneous settlement will occur when operationally it is the most efficient practice. Furthermore, this requirement would call into question the net presentation of certain single transactions, such as a forward foreign currency purchase, since the two currencies are transferred on the same day but generally not at the same time.

To comply, entities would need to carefully evaluate the procedures of clearing houses or exchanges to determine whether settlements occur simultaneously. We believe that no party (users, preparers, or auditors) would benefit from the added complexity, extra effort, and additional potential for error that would result from having to evaluate individual settlements.
with an exchange to determine if they occurred simultaneously, as currently defined. If this simultaneous criterion is retained in the final guidance, we believe that, as a practical and expedient consideration, the guidance should explicitly permit netting of all instruments transacted through a clearing house or exchange.

It follows, then, that we support gross presentation for all other eligible assets and eligible liabilities. Furthermore, we support gross presentation of collateral separate from eligible assets and eligible liabilities, as the right to use collateral to offset eligible assets or eligible liabilities is conditional upon some form of default.

**Unconditional Right of Offset Must Be Enforceable in All Circumstances**

**Question 2:** Under the proposals, eligible assets and eligible liabilities must be offset if, and only if, they are subject to an unconditional and legally enforceable right of setoff. The proposals specify that an unconditional and legally enforceable right of setoff is enforceable in all circumstances (that is, it is enforceable in the normal course of business and on the default, insolvency, or bankruptcy of a counterparty) and its exercisability is not contingent on a future event. Do you agree with this proposed requirement? If not, why? What would you propose instead and why?

Yes, as discussed in our response to Question 1.

**Disclosures**

**Question 4:** Do you agree with the proposed disclosure requirements in paragraphs 11–15? If not, why? How would you propose to amend those requirements and why?

First, we request clarification about the scope of the disclosures. Paragraph 3 of the Proposed ASU states: 'This guidance shall be applied to all entities to all financial assets and derivative assets (hereinafter referred to as "eligible assets") and financial and derivative liabilities (hereinafter referred to as "eligible liabilities").' We interpret that statement to include cash, trade receivables and payables, and an entity's own debt, as well as debt and equity instruments, financial and physical derivatives, and other contractual agreements that commonly meet the definition of a financial instrument. Some of these eligible assets and eligible liabilities may or may not be recorded at fair value on the statement of financial position. However, the tabular disclosures described in Paragraph 12 of the Proposed ASU, as well as the illustrative examples in Paragraph IE1, assume that all eligible assets and eligible liabilities are recorded on the statement of financial position.

Second, we do not believe that the proposed disclosures provide meaningful or complete information about credit risk or its mitigation. Credit managers are unencumbered by accounting requirements. They are neither concerned about whether a contract is considered a financial instrument, a derivative, or an executory contract, nor whether the contract is or is not included on the statement of financial position. To comply with existing disclosure guidance, preparers must intentionally diverge from the credit manager's viewpoint. The Proposed ASU does not improve the required disclosures. Specifically:
ASC 815-10-50 requires, among other things, disclosures of the aggregate fair value of derivatives that are in a net liability position, if the derivatives contain credit-contingent features, as well as the fair value of the posted collateral and the amount that would have to be posted if the credit-contingent features were triggered. Conversely, the Proposed ASU would require entities to disclose the net liabilities of eligible liabilities, as well as the cash and other financial instruments posted as collateral, but only up to the amount of the liability presented in the statement of financial position.

- The scope of the Proposed ASU is broader than ASC 815-10-50, but the required disclosures have not been expanded. For example, an entity may also have credit-contingent collateral requirements in non-derivative financial liabilities. For instance, PPL posts collateral to various independent system operators (ISOs). ISOs coordinate the movement of wholesale electricity within their markets and operate a competitive wholesale electricity market. Collateral requirements are based on recent payables to the ISOs, not derivatives, and include credit-contingent features. As of December 31, 2010, PPL had posted collateral of approximately $50 million to ISOs. While PPL includes this exposure in its discussion of ratings triggers in Management's Discussion and Analysis, it's troublesome that accounting rules have inappropriately limited the scope. The Proposed ASU provides an opportunity to align credit-related disclosures.

- Additionally, the Proposed ASU would require the disclosure of posted collateral that may not equal the actual posted collateral, as there are times when collateral posted can exceed the net liability, such as collateral posted with an ISO, as discussed above. Yet, the total collateral already posted is considered when disclosing how much more collateral would be required if credit-contingent features were triggered. Finally, a credit manager would view "net liability position" to include the effect of current receivables and payables. The Proposed ASU doesn't contemplate that current receivables and payables affect the credit risk to or from a counterparty.

- Besides the effect of current receivables and payables on credit risk, credit mitigation is also commonly achieved by posting a letter of credit or results from offsetting positions not recorded on the statement of financial position, such as derivatives that qualify for the normal purchase/normal sales exception. Therefore, disclosures that implicitly encourage the comparison between the fair values of the collateral recorded on the statement of financial position with the net recorded fair value of eligible assets or eligible liabilities do not provide information that reflects actual credit risk and mitigation from a credit manager's viewpoint.

ASC 825-10-50 requires entities to disclose the fair value of all financial and derivative instruments (including those that are not included on statement of financial position or not recorded at fair value). Furthermore, entities must disclose information about the concentration of credit risk, including 1) the maximum amount of loss due to credit risk that, based on the gross fair value of the financial instruments, the entity would incur if parties to the financial statement that make up the concentration failed completely to perform according to the terms of the contracts and the collateral or other security, if any, for the amount due proved to be of no value to the entity and 2) the net exposure after
considering any rights to setoff and posted collateral. However, the tabular disclosures of the Proposed ASU do not include any eligible assets and eligible liabilities (or related collateral in the form of letters of credit) that are not recorded or not recorded at fair value on the statement of financial position.

- Again, the scope of the Proposed ASU overlaps, but is not the same as, ASC 825-10-50. We believe that presenting related information that uses different measurement criteria does not improve the clarity of financial statements, while increasing the XBRL compliance burden by adding amounts to the financial statements that need to be tagged.

Appendix 1 provides one example of a tabular disclosure that we believe combines all meaningful credit risk disclosures and addresses the inconsistencies noted above, using PPL’s table for recurring fair value measurements as the basis. All values are for illustrative purposes only.

**Clarification: Appropriate unit of account for presentation purposes**

Related to the disclosures is the presentation of eligible assets and eligible liabilities on the statement of financial position (excluding those that, due to other accounting guidance, are not recorded). From our discussions with other industry participants and accounting firms, we recognize that the Proposed ASU allows for more than one interpretation, because the Proposed ASU does not explicitly address multiple settlement dates. Different interpretations could significantly affect the presentation of eligible assets and eligible liabilities on the statement of financial position, thereby reducing the comparability of statements of financial position.

To clarify, PPL buys and sells monthly, quarterly and/or calendar financial or physical energy derivatives under its master agreements, and these derivatives may have periodic settlements that occur within the next 12 months and beyond. PPL, which does not offset eligible assets and eligible liabilities within master agreements, as permitted by current U.S. GAAP, considers each confirmed deal as the unit of account that must be reflected at fair value on the statement of financial position as an asset or liability. However, on the statement of financial position, the asset or liability is further segregated into its net current and net non-current value. We understand this to be a common practice within our industry.

*For example, a derivative with a fair value of $100 could be reported as a $120 short-term asset (representing $130 of positive settlements and $10 of negative settlements) and a $20 long-term liability (representing $45 of negative settlements and $25 of positive settlements).*

Paragraph C11 of the Proposed ASU states, in part: "Realization of an eligible asset and settlement of an eligible liability are simultaneous only if settlements take place at the same moment.....Thus, if the settlements take place over a period...it is not simultaneous settlement because settlement is not at the same moment." It is possible to conclude that Proposed ASU precludes entities from netting the expected positive and negative settlements within one derivative.
Under this interpretation, the derivative example above would be reported as a $130 short-term asset, a $10 short-term liability, a $25 long-term asset and a $45 long-term liability.

We request that the Board explicitly address the effect of multiple settlements on the presentation of eligible assets and eligible liabilities on the statement of financial position.

**Effective Date and Transition**

**Question 5:** Do you agree with the proposed transition requirements in Appendix A? If not, why?

Companies that have presented net amounts for eligible assets and eligible liabilities will have a significant change in presentation for their statements of financial position. Similarly, if the final ASU precludes the netting of expected positive and negative settlements within a unit of account, then that will also result in a significant change in presentation for many entities. As such, to enhance comparability, we support the requirement to apply the guidance retrospectively. While we trust that the Board will provide sufficient time to adopt the final guidance, we recommend that the earliest implementation date would be for financial statements issued for periods beginning after December 15, 2012.

**Conclusion**

We hope that the Board finds PPL’s comments helpful, and we thank the Board for the opportunity to share our views on this significant accounting issue. If requested, we would be happy to discuss this further with you.

Very truly yours,

Vincent Sorgi  
Vice President & Controller

Attachment

cc: Mr. P. A. Farr  
    Mr. M. A. Cunningham  
    Mr. M. D. Woods
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<th>Assets</th>
<th>Gross FV</th>
<th>Less Unconditional Netting</th>
<th>Recorded on Balance Sheet</th>
<th>Less Conditional Netting</th>
<th>Plus/Less Current AR/AP</th>
<th>Cash</th>
<th>FV other financial instruments</th>
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| Liabilities | Price risk management liabilities: | | | | | | | | |
| Energy commodities | 1,500 | 200 | 1,300 | (1,050) | (20) | (25) | (200) | 5 | 75 | 60 |
| Plus: NPNS | 50 | 0 | | (5) | | | | | |
| Interest rate swaps | 100 | 0 | 100 | | | | | | |
| Foreign currency swaps | 10 | 0 | 10 | | | | | | |
| Cross-currency swaps | - | 0 | - | | | | | | |
| Long-term debt | 13,000 | 13,000 | | (100) | (100) | 12,800 | | 2,000 | 100 |
| Equity contract adjustment payments | 150 | 150 | | | | | | | |

From "Fin instr not recorded at FV"

(a) One counterparty accounted for 12% of this exposure, and the next highest counterparty accounted for 11% of the exposure. The top ten counterparties accounted for 95% of the next exposure. Nine of the counterparties had an investment grading from S&P; the remaining counterparty is current on its obligations.