



May 30, 2013

Technical Director
File Reference No. 2012-260 & 2013-220
Financial Accounting Standards Board
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**File References: 2012-260, Proposed ASU, *Financial Instruments – Credit Losses*, and
2013-220, Proposed ASU, *Financial Instruments – Recognition and
Measurement of Financial Assets and Financial Liabilities***

Dear Ms. Cosper:

The Edison Electric Institute (EEI) and the American Gas Association (AGA) appreciate the opportunity to comment on the Financial Accounting Standards Board's (FASB or Board) proposed Accounting Standards Updates (ASUs) with respect to recognition & measurement as well as impairment of financial instruments (also referred to herein as the "revised R&M ED", "revised Impairment ED" or "revised EDs"). EEI is the association of United States shareholder-owned electric companies. EEI's member companies provide service to 98 percent of the ultimate customers in the shareholder-owned segment of the industry and represent approximately two-thirds of the United States electric power industry. The AGA, founded in 1918, represents more than 200 local energy companies that deliver clean natural gas throughout the United States. There are more than 71 million residential, commercial and industrial natural gas customers in the U.S., of which 92 percent — more than 65 million customers — receive their gas from AGA members. EEI and AGA regularly work together on projects of mutual interest and impact to the energy utility sector broadly, and the comments expressed herein represent the majority view of each organization's member companies.

As expressed in previous comment letters, we support and encourage the FASB and the International Accounting Standards Board's (IASB) continued efforts to converge their respective accounting frameworks. We believe the Board's revised R&M and Impairment ED's represent improvements upon their predecessor proposals within the initial Financial Instruments ED issued in 2010. Given the interaction between these two components of the financial instruments project, and the impact of both proposals on externally managed "available for sale" investments that are common to our industry, we have combined our comments and concerns on the revised ED's into this single comment letter.

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By way of background, the majority of our members' available for sale investments today consist of instruments in externally managed and restricted funds, primarily nuclear decommissioning trust funds (NDT's) but also other similar funds such as Rabbi trusts and similar investment vehicles. In brief, the underlying investments in such funds are generally restricted from the entity's administrative control and may be bought or sold at the fund manager's discretion subject to the overall governing trust provisions and related investment objectives. An individual investment manager will have full discretion under the "core" guidelines which generally include outperforming a specific bond index or achieving a ranking within a certain quartile of a peer universe measured over a period of years. The entities usually specify credit quality minimums for fixed income securities and certain transaction types may be explicitly prohibited (e.g. derivatives, commodities or securities lending). Concentration limits are typically in place to ensure the portfolio is not heavily weighted in any single issuer, currency denomination or industry. See the EEI's previous comment letter on the initial 2010 Financial Instruments ED for further background on these funds and their related objectives.

Our primary comments on the revised EDs' proposals are as follows:

1. Under the revised R&M ED, the majority of our previous concerns on the initial classification and measurement proposals within the initial 2010 Financial Instruments ED appear to be alleviated. However, certain instruments within the investments described above would still appear to lose FV-OCI classification in lieu of Fair Value through Net Income (or "FV-NI") treatment under the revised R&M ED. In particular, given that FV-OCI classification would be limited to instruments that meet the Board's "cash flow characteristics" criteria (which effectively limits FV-OCI treatment to debt or "debt-like" instruments whose cash flows are derived solely from principal and interest payments), any other investments within these funds would fall to FV-NI treatment. This appears to be true despite the fact that management of the fund as a whole fits within the Board's FV-OCI business model criteria (i.e., "hold and sell"). We believe that FV-OCI treatment continues to be an appropriate classification for the entirety of these funds given their overall restricted nature and long-term investment objectives at the fund level, as noted in our previous comment letters on the Board's original Financial Instruments ED. Individual entities who choose to utilize the Board's FV-NI model on such investments for optional/expediency purposes should be allowed to do so on an unrestricted basis, whether such investments are managed internally or externally.
2. As it relates to accounting for credit losses, we support both Boards' objectives in moving away from today's "incurred" loss model to an "expected" loss model. We also understand and support the FASB's occasional decisions to deviate from the convergence objective where deemed appropriate and in the best interests of the U.S. capital markets. In that context, we believe that the FASB's proposed "Current Expected Credit Loss" (CECL) model is superior to the more complex, "three-bucket" approach recently proposed by the IASB. However, we believe that the Board's proposal to separately identify, measure, and report changes in fair value due solely to credit factors on

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instruments that qualify for FV-OCI treatment, on a cost-benefit view, would negatively impact preparers and provide no more meaningful information to financial statement users.

The above concern with respect to the revised Impairment ED is further elaborated below:

Requiring entities to isolate, measure, and separately report changes in fair value due solely to one particular driver of fair value (in this case, credit risk) gives arbitrary preeminence to that driver over all other inputs to the fair value measurement.

For debt or debt-like instruments the drivers of fair value are primarily credit risk and interest rate risk. Both of these drivers are subject to change from period to period, including reversal (or “recovery”, depending on the input in question and its impact on the instrument’s fair value). We are not convinced that there is a compelling argument put forth that changes in credit risk are more “permanent”, indicative or otherwise more important than changes in other fair value drivers. In fact, even if this assertion were true, it appears that the Board’s objective in separately tracking credit changes is not even primarily grounded in the principle of full and immediate earnings recognition for a “non-recoverable” deterioration in value (which we understood to be the primary focus of moving to an expected loss impairment model). Instead, the proposal to track credit risk separately appears to be merely for the purpose of increasing “visibility” (as such) on value change due to credit risk.

For example, in the Board’s revised R&M proposals regarding use of the FV-NI option on qualifying financial liabilities that otherwise require amortized cost or FV-OCI treatment, changes in fair value due solely to credit risk would be separately tracked in OCI, while all other fair value changes would go through earnings. In this case, the FV-NI option has been invoked and therefore all changes in value (absent the requirement above) would already be immediately recognized in earnings each period, including credit risk. However, the above R&M requirement effectively “defers” the impact of credit deterioration (or recovery) within OCI, ostensibly so that one may merely “see” what change in value is being driven by credit factors.

Finally, we are also unsure why an entity would be required to separately track credit-driven fair value changes for some FV-OCI instruments (i.e., financial assets which meet the cash flow and business model criteria, and financial liabilities described above) but not others (i.e., qualifying cash flow hedges). For the above reasons, we do not feel a compelling argument has been put forth to treat credit risk any differently (separately) from any other input to a fair value measurement.

In addition to the above theoretical concerns, we believe the requirement to separately track and report credit-driven fair value changes for every FV-OCI instrument will create an enormous administrative burden and cost that is not justified by a meaningful user benefit, particularly for any entity whose FV-OCI instruments are managed (or at minimum, priced) externally.

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Along with the actual administration of the above-described investments being performed by a 3rd party investment manager, the computation and reporting of the underlying instrument fair values is also performed and provided by the 3rd party to the sponsoring entity. Each investment manager may have its own approach to assessing credit loss, resulting in inconsistent treatment of the same type of security across investment managers (and therefore public reporting enterprises).

While our member companies generally have sufficient processes and controls in place today to ensure the accurate valuation and fair value disclosure of such investments, these controls are typically executed under a risk-based approach through the use of portfolio level analysis and sample-based instrument pricing challenges. No company who outsources the valuation of their investments to a 3rd party, to our knowledge, obtains the type of granular “input” based information on an instrument by instrument basis needed to comply with the revised Impairment ED’s proposal to separately track credit risk. If the Board were to finalize this proposal, it would likely require a sizable cost to negotiate the receipt of such information (presuming 3rd party providers are amenable in the first place to providing such information, unlikely given proprietary market information policies). Further, the internal cost and effort to validate and use this information (if available), at the scale required for purposes of the meeting the Board’s requirements, would effectively negate the benefit of a 3rd party provider’s pricing service component in the first place.

For the above reasons we believe that reporting of period to period fair value changes should be mechanically similar for both FV-NI and FV-OCI instruments; meaning, the offset should be reported entirely in either net income or OCI, respectively. If the Board nonetheless proceeds in concept with the requirement to separately track credit-driven fair value changes on FV-OCI instruments (and/or FV-NI financial liabilities that otherwise qualify for FV-OCI or amortized cost treatment), we recommend the following:

- Broaden the revised R&M proposal’s FV-NI option criteria. In particular, ensure that use of the terms “managed” or “manages” within these criteria contemplates both internal and external investment management, given the prevalence of externally managed funds within our industry and elsewhere. We recommend this clarification because we expect that a number of our member companies will forego any perceived benefit of FV-OCI treatment altogether, where possible to treat as FV-NI, due to the cost and effort of complying with the related credit tracking requirements if they are finalized as proposed. Additionally, we recommend removing the requirement to separately track credit-driven fair value changes through OCI on financial liabilities electively treated as FV-NI.
- With respect to the revised Impairment ED, for those entities who intend to proceed with the FV-OCI treatment on qualifying instruments we believe the concept of a “practical expedient” could be extremely helpful in avoiding significant amounts of resources dedicated to analyzing securities that we would anticipate having “insignificant” amounts

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of expected credit loss. However, it is critical that the “insignificant expected credit loss” criteria can be applied appropriately without incurring the same amount of effort applied to classes of assets or individual assets that would otherwise be subject to the proposed credit loss guidance. We believe specific implementation guidance on applying this practical expedient would be extremely helpful.

We also believe the “practical expedient” does not go far enough due to the criteria limiting its use to those securities with fair values at or above amortized cost. In such cases preparers would be prohibited from applying the expedient to extremely low risk securities (e.g. US Government or US Government backed securities) where fair values are temporarily below cost due to factors other than credit (e.g. interest rates). In these instances where a class of securities could be “underwater”, especially in periods of rising interest rates, an entity would be forced to record credit losses when the risk of default is extremely low. In other words, the reason fair values fall below amortized cost is frequently attributable to the impact of interest rates on the fair value of longer term bonds rather than expected credit loss on these securities. We believe the use of a “practical expedient” should be broadened to include classes of securities where there is generally no expectation of significant credit losses absent extreme or anomalous macro-economic factors indicating otherwise.

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EEI and AGA appreciate the opportunity to provide our input on the proposed ASU. We would be pleased to discuss our comments and to provide any additional information that you may find helpful.

Very truly yours,

/s/ Richard F. McMahon, Jr.

Richard F. McMahon, Jr.
Vice President, Edison Electric Institute

/s/ Stephen P. Feltz

Stephen P. Feltz, Senior Vice President and Chief Financial Officer, NW Natural
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