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LETTER OF COMMENT NO.

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**EDISON ELECTRIC
INSTITUTE**

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January 15, 2009

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File Reference: Proposed FSP FAS 107-a

The Edison Electric Institute ("EEI") respectfully submits our comments on the FASB's proposed FSP 107-a, *Disclosures about Certain Financial Assets: An Amendment of FASB Statement No. 107* (the "proposed FSP") for your consideration. EEI is the association of U.S. 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 U.S. electric power industry.

Summary

We acknowledge that the current economic environment has intensified the need for comparability related to how financial assets are presented. However, we disagree with the requirement for all entities to present additional disclosures as proposed in the FSP for three reasons: first, we believe that the scope of the proposed FSP is too broad, introducing (rather than eliminating) complexity for entities that report fair value; second, certain of the required disclosures involve significant practical application difficulties; and third, the time allowed for implementation is not sufficient.

For these reasons, we believe that any incremental disclosures resulting from this project should be voluntary, permitting but not requiring entities that believe additional information is necessary to supplement the fair value amounts already presented in the financial statements and footnotes. However, if the Board were to adopt an FSP that requires disclosures for all entities, we believe that many entities, particularly those in our industry, would not be able to implement it for calendar-year 2008 financial reports. Therefore, we believe that the effective date of any required

new disclosures should be fiscal years ending after December 15, 2009 with early adoption permitted.

We discuss the basis for our views below.

Required Disclosures Introduce Complexity

We understand the concern raised by different measurement attributes and impairment models for the financial assets included in the scope of the proposed FSP resulting from the application of SFAS 114, *Accounting by Creditors for Impairment of a Loan* ("FAS 114"), and SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities* ("FAS 115"). However, we believe that, although the financial assets have similar economic characteristics, the differences in measurement attributes and impairment models were created intentionally to reflect the different business purposes for which the financial assets are held. In other words, a certain level of complexity is the natural result of faithful representation of diverse business activities.

The existing requirement to present fair value disclosures in accordance with FAS 107, *Disclosures about Fair Value of Financial Instruments*, combined with the measurement of held-for-sale and trading securities at fair value, already provides comparability based upon what the FASB has determined to be the most relevant measurement attribute for financial assets. Introducing another measurement attribute in the absence of a comprehensive project on the accounting for financial instruments is not necessary or appropriate, and it will require significant effort by preparers of the financial statements, with minimal benefit to many of their users.

The incurred loss model is not well understood outside of the financial industry and introduces an added level of complexity, rather than achieving the stated objective of reducing complexity. For those entities that already comply with existing accounting and disclosure requirements to present fair value information, we believe that the disclosure of incurred loss amounts is not useful incremental information and does not justify the cost of producing and auditing that information, particularly if this is to be a "temporary" disclosure pending completion of the broader project on other-than-temporary impairments.

Practical Implementation Difficulties

In many instances, preparers of financial statements will find it difficult to calculate the incurred loss amount for securities. Recording an impairment under FAS 115

establishes a new cost basis and effective interest rate for a marketable debt security, whereas the original effective interest rate is maintained over the life of a loan under SFAS 114. Under the proposed FSP, it is unclear if the calculation of the incurred loss amount, where an other-than-temporary impairment has been previously recognized, will require the use of the original or current effective rate in calculating an impairment under the incurred loss model. In some cases, the original effective interest rate may not have been maintained as it is not needed prospectively under FAS 115. The current effective rate is not relevant as it may reflect the impact of recognized impairments related to factors other than credit losses, including interest rate fluctuations and liquidity discounts. In our industry, this is particularly relevant in the area of nuclear decommissioning trust assets, where assets are likely to have experienced impairments due to a company's inability to assert the ability and intent to hold a security until its expected recovery.

In addition to our concerns regarding the calculation of the incurred loss amount, we also believe that the application of the pro forma income disclosures required under paragraph 14 of the proposed FSP needs to be clarified. As many companies within the electric power industry operate under SFAS 71, *Accounting for the Effects of Certain Types of Regulation* ("FAS 71"), gains and losses on securities that are included in the regulated rate-setting process are frequently refunded to or recovered from their customers and will not have an impact on net income, provided they meet the criteria for deferral under FAS 71. As such, we believe that, if the Board adopts the proposed FSP for all entities, the pro forma disclosure requirements should be clarified to explicitly exclude the impact of regulatory deferrals when calculating the impact on net income under the incurred loss and fair value methodologies. For financial assets that meet the requirements for and are subject to regulatory deferral under SFAS 71, no unrealized gains and losses would ever be recognized in earnings under any measurement model, and we believe that disclosing any other effect would be misleading.

Insufficient Time to Implement

The proposed effective date for interim and annual periods ending after December 15, 2008 does not provide adequate time for many companies, including those in our industry with trust funds managed by others, to successfully implement the proposed FSP for calendar 2008 financial reports. The disclosures mandated by the proposed FSP will require coordination with investment custodians and managers to gather information for the full calendar year 2008 that may not be readily available and is likely not to have been computed. Further, the investment custodians and managers may need to make computer system changes and enhancements to provide the necessary information. Ensuring that their computer

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systems are reprogrammed and thoroughly tested in such a short time frame would be extremely difficult.

Additionally, because it is likely that these systems and programming changes were not in place at the beginning of 2008, computing the information required for the pro forma income from continuing operations disclosures will be difficult. Furthermore, additional time will be necessary for companies to review the information provided by the investment custodians and managers for accuracy and prepare the related disclosures. Finally, once the FSP is finalized, companies will be required to create and test SOX internal control processes around these disclosures.

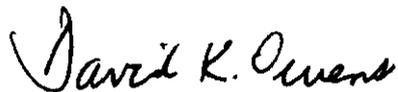
Therefore, if the Board decides to proceed with the disclosures in the proposed FSP, we strongly believe and recommend that the required effective date should be fiscal years ending after December 15, 2009, with early adoption permitted. We believe this approach would accommodate those entities that believe incurred loss is a more relevant or useful measurement (and thus may already have made those calculations), while providing an appropriate amount of time for entities whose systems, processes and disclosures have been designed to meet the disclosure requirements that were actually in place as of the end of 2008.

Summary and Conclusion

For the reasons noted above, we believe the proposed FSP should not be required for any entity, but rather that its provisions should be voluntarily available to those entities that believe the proposed disclosures would provide useful information to the users of their financial reports. We also believe that, if an FSP is adopted that is applicable to all entities, it should be required for reporting periods ending after December 15, 2009 with early adoption permitted.

Thank you for your consideration of our comments. We appreciate the opportunity to express our views on the proposed FSP.

Sincerely,



David K. Owens