February 29, 2016

Technical Director
File Reference No. 2015-350
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

File Reference: 2015-350: Fair Value Measurement (Topic 820) – Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement

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) Exposure Draft referenced above regarding Fair Value Measurement (hereafter the "Exposure Draft").

EEI is the association that represents all U.S. investor-owned electric companies. EEI members provide electricity for 220 million Americans, operate in all 50 states, and directly employ more than 500,000 workers. With more than $90 billion in annual capital expenditures, the electric power industry is responsible for millions of additional jobs. EEI has 70 international electric companies as Affiliate Members and 250 industry suppliers and related organizations as associate Members. Organized in 1933, EEI provides public policy leadership, strategic business intelligence, and essential conferences and forums.

The AGA, founded in 1918, represents 202 local energy companies that deliver clean natural gas throughout the United States. There are more than 70 million residential, commercial and industrial natural gas customers in the U.S., of which almost 93 percent – more than 65 million customers – receive their gas from AGA members. AGA is an advocate for natural gas utility companies and their customers and provides a broad range of programs and services for member natural gas pipelines, marketers, gatherers, international gas companies and industry associates. Today, natural gas meets almost one-fourth of the United States' energy needs.

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

Edison Electric Institute ■ 701 Pennsylvania Avenue, NW ■ Washington, DC 20004 ■ 202-508-5000 ■ www.eei.org
American Gas Association ■ 400 North Capitol Street, NW ■ Washington, DC 20001 ■ 202-824-7000 ■ www.aga.org

view of each organization's member companies and respond only to certain questions that are most relevant to our members.

We agree with the underlying goal of the Exposure Draft —to improve the effectiveness of disclosures in the notes to the financial statements—and appreciate the Board's efforts to do so. We support the Board's proposal regarding Assessing Whether Disclosures are Material. While the proposed changes to materiality mark an important step toward improving the effectiveness of disclosures, we believe it is necessary to make targeted improvements to individual standards in order to have a more measureable effect. Therefore, we encourage the Board to continue its initiative to evaluate the cost-benefit of disclosure requirements of individual standards, such as those being considered in the topics of fair value measurement, defined benefit plans, income taxes, inventory, and interim disclosures.

We now address several of the specific questions in the proposal.

Question 1: Would the proposed amendments result in more effective, decision-useful information about fair value measurements? If not, please explain why. Would the proposed amendments result in the elimination of decision-useful information about fair value measurements? If yes, please explain why.

<u>Proposed Disclosures to be Removed</u>
We agree with the proposal to remove the disclosure of the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, the policy for timing of transfers between levels, and the valuation policies and procedures for Level 3 fair value measurements. We agree that these disclosures do not provide useful information to investors. We believe that the most valuable information is the amount of assets and liabilities included within each Level, which indicates the relative uncertainty in those measurements consistent with how each Level is defined in the Codification.

<u>Proposed Disclosure Modification</u>
We agree that the disclosure requirements should be modified to focus on information about the uncertainty in measurement as of the reporting date rather than information about sensitivity to future changes in these measurements. This is consistent with the objective of the disclosure and would eliminate the underlying expectation that preparers should attempt to predict future changes in fair value measurements, which is implied by the sensitivity disclosure but which we believe is inappropriate. This change also would align with the proposed FASB Concepts Statement, *Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements (proposed Concepts Statement).*

<u>Proposed Additional Disclosure</u>

We do not believe the proposed disclosure of the changes in unrealized gains and losses for the period included in other comprehensive income (OCI) and earnings (or changes in net assets) for recurring Level 1, Level 2, and Level 3 fair value measurements held at the end of the reporting period, disaggregated by level of the fair value hierarchy would result in more effective, decision-useful information about fair value measurements.

Disclosing unrealized gains and losses by fair value hierarchy level for instruments held at the end of the reporting period does not meet the stated objective of providing information about the volatility of fair value measurements. The fair value hierarchy is intended to rank an instrument's valuation based on the observability of the instrument's underlying valuation inputs. However, the volatility of financial instruments is not correlated with the observability of their inputs, and instruments with more observable inputs may have higher volatility than those with less observable inputs, depending on the nature of the specific instrument.

For example, exchange traded equity instruments are typically classified as Level 1 in the fair value hierarchy; however, the fair value of these instruments may be very volatile due to short-term market fluctuations. Conversely, instruments classified as Level 3 may have very little volatility depending on the instrument's valuation inputs, which could reflect long-term assumptions that are relatively constant.

Additionally, each hierarchy level may contain multiple types of instruments which have varying degrees of volatility based on the nature and term of the instrument and not the hierarchy level.

Disclosing unrealized gains or losses by level may mislead investors' perception of fair value volatility when one type of instrument within a level has a particularly high or low price volatility compared to other similarly valued instruments. As such the aggregation of dissimilar instruments by level does not lend itself to a fulsome evaluation of volatility.

Furthermore, the proposal would only provide information regarding unrealized gains and losses relating to instruments held at the end of a period, which may not be reflective of an entity's activities during the period. This snapshot of changes in value of ending positions does not provide a fair presentation of volatility during the period, or volatilities to which the entity may be exposed over time. For example, a company's open position regarding derivative instruments often changes over time thus increasing or decreasing exposure to volatility as compared to a point in time.

For these reasons, we believe that presenting unrealized gains and losses by level is not an accurate means for determining volatility and is likely to present misleading information.

The proposed additional unrealized gain and loss disclosures would also not meet the stated objective of disclosing the relationship between financial statement line items. Unrealized gains and losses on instruments held at the end of the period are only a portion of the total unrealized gains and losses reflected in earnings and OCI (i.e., excludes unrealized gain and loss related to positions that settled during the period). Thus, the proposed disclosures would not enable investors to understand the relationship between total unrealized gains and losses recognized in earnings and OCI and the end of period assets and liabilities.

We do agree with the proposed disclosure’s exclusion of gains and losses when the amounts are recorded as regulatory assets or liabilities since disclosing these amounts by hierarchy level would provide no decision useful information to investors. For entities subject to rate regulation under ASC Topic 980, changes in the fair value of end of period assets and liabilities recognized at fair value may not result in gains and losses in reported in earning or OCI. For example, companies in our industry may execute commodity and commodity-related purchases to acquire electricity, fuel, or natural gas to meet regulated customer usage needs. Often, these contracts meet the accounting definition of derivatives, but they may not qualify for the normal purchases and normal sales scope exception. However, because changes in the fair value of such contracts are probable of recovery from (or refund to) customers as part of the regulated cost of providing utility service, in those cases the unrealized gains (or unrealized losses) would be deferred as a regulatory liability (or regulatory asset).

In such cases, the gains and losses do not contribute to volatility of earnings or OCI. Of significance to investors is the annual disclosure of the end of period regulatory assets and liabilities which companies currently provide in their notes to the financial statements. For regulatory assets and liabilities, investors want to know the amounts that are recoverable from customers through regulated rates which have been deferred on the balance sheet, which is information they already receive.

The recognition of regulatory assets and liabilities by rate regulated entities is another reason that the stated objective of disclosing the relationship between financial statement line items is not achieved by the proposed additional disclosure of unrealized gains and losses recognized in earnings or OCI. As with unrealized gains and losses related to positions that settled during the period, the disclosure would not enable investors to understand the relationship between total unrealized gains and losses recognized by the entity and the end of period assets and liabilities.

We believe that the proposed requirement to disclose unrealized gains and losses for Level 1, 2 and 3 recurring fair value measurements in some cases may be substantially redundant to other current disclosure requirements and that its objective would be more effectively met by those existing disclosures.

In general, significant recurring fair value measurements for our members include investments and derivatives. Accounting Standards Codification (ASC) paragraph 815-10-50-4A requires us to disclose the total amount of unrealized and realized derivative gains and losses by financial statement line item. For debt securities that are considered available for sale, such as nuclear decommissioning trusts, ASC paragraph 320-10-50-2 requires the disclosure of unrealized gains and losses as well as any other-than-temporary impairments. For equity securities, ASC paragraph 321-10-50-4 requires disclosure of unrealized gains and losses that relate to equity securities still held and impairments. Disclosure of the financial statement line item where unrealized gains and losses on investments are recorded is not currently required. We do not believe the proposed disclosure provides more meaningful information for financial statement users when compared to these current disclosure requirements.

Question 5: The proposed amendments to paragraph 820-10-50-2(bbb) require that a reporting entity disclose the weighted average of significant unobservable inputs used in Level 3 fair value measurements. Are there classes of financial instruments for which this disclosure is inoperable or does not provide meaningful information? If yes, please describe those classes of financial instruments and explain why.

We also do not believe the proposed disclosure of the weighted average and the time period used to develop significant unobservable inputs would result in more effective, decision-useful information about fair value measurements.

Some public companies operate only in one market and have risk management procedures that restrict the use of derivatives to a few types of contracts. For these companies, we are concerned that providing information on weighted average prices and time periods could disclose proprietary information to the detriment of the utility and its customers.

Conversely, for those public companies that operate in several markets, the information on weighted average prices and time periods will not be useful to the financial statement user. By a wide margin, electricity is the most volatile commodity. Actual prices in the course of a day can be negative in certain hours in order to incentivize generators to reduce production to balance their output with customer usage. In other hours, prices have soared to over $1,000 per megawatt-hour at peak periods when electricity supply is tight, perhaps due to a large plant unexpectedly shutting down, transmission line problems, fuel supply constraints, or extreme weather conditions.

Electricity prices also differ in order to reflect delivery location and can vary dramatically across an individual utility’s network or between interconnected regional network locations. Prices in peak periods in the summer and winter tend to be significantly higher than in the fall and spring. Other factors affecting electricity prices outside of day to day

operations are reserve margins, the economy, and plant retirements. All these factors tend to make information on the weighted average price and the time period difficult to compare between companies and also less relevant due to the averaging of various price observations that vary by substantial amounts on a regular basis.
As a result of the significant variability in electricity prices geographically and between ISOs, presenting information on the weighted average price of electricity and time period when a company operates in many markets would not accurately reflect the market price of electricity in any of the markets. Thus, in this situation, the disclosure of weighted average price and time period would have little value to investors.

We understand the desire of investors to have insights into the volatility of earnings but believe that this type of information cannot be addressed in the notes to the financial statements in a useful, representationally faithful manner. Volatility of earnings from derivative activities for electric companies is the result of the variety of factors that impact electricity prices and management's willingness to expose the company to those risks by allowing or prohibiting proprietary trading and employing risk management procedures. This would be the case for other companies in different industries as well. We believe these factors are more usefully discussed in earnings announcements and Management's Discussion and Analysis than in the notes to the financial statements.

Question 6: The proposed amendments to paragraph 820-10-50-2(bbb) require that a reporting entity disclose the time period used to develop significant unobservable inputs. What would be the costs associated with including this disclosure? Would this disclosure provide more effective, decision-useful information?

The proposed disclosure of the time period used for significant unobservable inputs would require companies to disclose information that may be sensitive and proprietary when an entity prepares projected cash flows as part of recording an impairment of a long-lived asset, such as a power plant. Such impairments are often the result of a significant adverse change in market conditions or management's expectation that the asset will be disposed of significantly before the end of its previously estimated useful life, and disclosing the time period used for future cash flows projections may be viewed as signaling management's intent for the closure of the plant. However, these cash flow projections are often prepared from the perspective of a market participant, and do not necessarily represent management's estimate or intention for the operating life of the asset. Therefore, disclosing the time period used for these cash flow projections could be misleading to employees at the plant and others with a stake in how long the asset will continue to operate, such as regulatory agencies.

Question 8: Are there any other disclosure requirements retained following the review of Topic 820 that should be removed on the basis of the proposed Concepts Statement or for other reasons? Please explain why.

To see how the Board applied the decision questions from the proposed Concepts Statement to Topic 820, see *Decision Questions Considered in Establishing Disclosure Requirements.*

As discussed in Basis for Conclusions paragraph BC25, we concur with certain Board members that a reasonably informed investor understands that the items within each level of the fair value hierarchy are affected by purchases, sales, transfers, and changes in fair value measurements. We believe that the currently required Level 3 rollforward provides little additional benefit to investors or insight into management's decisions. We believe the Level 3 rollforward is unnecessary, providing an opportunity to simplify and reduce disclosures. Accordingly, we urge the Board to eliminate the currently required Level 3 rollforward disclosures.

EEI and AGA appreciates the opportunity to provide our input on the proposed Exposure Draft. 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/ Patrick J. Migliaccio

Patrick J. Migliaccio
Senior Vice President & Chief Financial Officer
Chairman of the American Gas Association Accounting Advisory Council