



January 31, 2011

Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116

Reference: 1890-100

Exelon Corporation (Exelon) appreciates the opportunity to comment on the Financial Accounting Standard Board's (the Board) Discussion Paper, *Effective Dates and Transition Methods*. The following summarizes our thoughts on certain questions posed in the Discussion Paper.

**Q1: Please describe the entity responding to this Discussion Paper.**

Exelon is a preparer of financial statements in accordance with U.S. GAAP and is one of the United States' largest electric utilities with approximately \$17 billion in annual revenues. The company has one of the industry's largest portfolios of electricity generation capacity, with a nationwide reach and strong positions in the Midwest and Mid-Atlantic. Exelon distributes electricity to approximately 5.4 million customers in Illinois and Pennsylvania and natural gas to approximately 486,000 customers in southeastern Pennsylvania. Exelon is headquartered in Chicago and trades on the NYSE under the ticker EXC. Exelon has over 19,000 employees, primarily based in Illinois and Pennsylvania.

Based on our review of the exposure drafts, discussion papers and staff drafts, we currently expect the proposed guidance addressed in the Discussion Paper to have the following degrees of impact to our Company:

Significant Impacts:

- Leases
- Financial Statement Presentation

Moderate Impacts:

- Financial Instruments
- Revenue Recognition

Minimal Impacts:

- Financial Instruments with Characteristics of Equity
- Insurance Contracts
- Comprehensive Income

Our assessment is based on the number and financial magnitude of impacted transactions; the extent of process and system changes required to support adoption; and the effort required to educate both internal and external financial statement users as to the impacts of the new standards on reported results and associated financial metrics and analyses.

Given we may also be required to adopt some or all of other newly proposed standards being considered by the Board at the same time as those standards covered in this Discussion Paper (including fair value measurement, emissions trading schemes, investment properties, disclosure of certain loss contingencies and disclosures about an employer's participation in a multiemployer plan), we request the Board consider all projects on the current agenda in determining the most appropriate transition methods and effective dates.

**Q2: Focusing only on those proposals that have been published as Exposure Drafts (accounting for financial instruments, other comprehensive income, revenue recognition and leases):**

- a. How much time will you need to learn about each proposal, appropriately train personnel, plan for, and implement or otherwise adapt to each new standard?**

With respect to the proposed leases, financial instruments and revenue recognition guidance, we expect it will take a significant amount of time and resources to:

- Educate and train impacted functions within our organization (e.g., Senior Management, Accounting, Treasury, Tax, Power Trading, Risk Management, Regulatory, Legal, Real Estate, Supply/Procurement, Information Technology, Investor Relations, Internal Audit);
- Evaluate and implement the guidance:
  - review and analysis of a large volume of transactions;
  - identification, design and implementation of necessary process and systems changes;
  - reassessment and appropriate changes to financial reporting controls and associated documentation and Sarbanes Oxley testing programs;
- Educate and socialize the new guidance with external stakeholders (e.g., regulators, investors, bankers, analysts, rating agencies).

Given the significance of these activities and to allow for sufficient time for implementation, *we recommend the Board establish an effective date of 18-24 months after the issuance of each final standard, with no more than two standards issued per year.*

The exposure drafts issued generally propose a retrospective application requirement. Through comment letters issued by the Edison Electric Institute, we have requested prospective application for the most significant standards (leases and revenue recognition).

However, *if the proposed guidance is to be applied retrospectively, we recommend an additional two year period (after the 18-24 months discussed above)* to allow for appropriate data tracking, process change, and systems development necessary to support reporting of comparative periods under the new standards.

In order to comply with retrospective application, we anticipate the need to keep two sets of GAAP books, in addition to our books for tax and regulatory reporting purposes. Without sufficient time to track information for purposes of retrospective application, we would need to employ significant estimates and assumptions to report comparative prior period transactions under the new standards.

Therefore, as further discussed in our response to question 4 below, we support prospective application of the standards, under which we would apply the new method of accounting to all existing or future transactions beginning on the effective date.

Evaluation and implementation of the proposed standards will entail the review and assessment of thousands of contracts and transactions.

Our most significant lease contracts are complex, and we have specific concerns in applying the guidance to power purchase agreements (PPAs) and other commodity supply agreements. For example, we believe that estimating contingent rent payments for our PPAs will be difficult as contingent payments fluctuate period to period in large part based on changes in plant production profiles, weather, and economic factors. We will need to develop and implement new processes in order to update these estimates on a quarterly basis for financial reporting. Due to the complexity and volume of impacted transactions, we will likely need to implement a new system to inventory and track the lease information. We will also need to work with banks and other counterparties to evaluate our debt covenants and other contractual agreements that may be affected as a result of the lease guidance's impact to the balance sheet.

The financial instruments exposure draft will impact several very significant account balances (e.g., debt, spent nuclear fuel obligation, equity method investments, accounts receivables, accounts payables, derivative financial instruments). As a result, we anticipate a higher number of fair value transactions and related measurement complexity that will need to be managed due to the shifting of certain instruments from amortized cost to fair value and the new proposed guidance on embedded derivatives and related host contracts.

Additionally, we have approximately \$17 billion in revenue with more than five million customers that would need to be evaluated under the revenue recognition standard, which would include a system update to track the initial versus subsequent estimates of bad debt.

The financial statement presentation standard represents a dramatic change to financial reporting and will require a significant amount of system and human capital resources.

Specifically, we will need to design, implement and test system enhancements to capture and report source document information in order to prepare the direct method cash flow statement and related disclosures. In addition, we believe change management will be significant as the direct method cash flow statement will require the identification of cash and non-cash activities at a much lower level. Further, there are a number of policy decisions required to determine the appropriate categorization of transactions under the proposed presentation model and substantial new disclosures that would have to be developed.

In proposing these timeframes (18-24 months for a prospective application with an additional two years if retrospective application is required), we have considered resource constraints. Many of our internal resources will be involved in implementing the various proposed standards, as well as emerging guidance not covered by this Discussion Paper, such as fair value measurement, emissions trading schemes, investment properties, disclosure of loss contingencies and multiemployer plans.

As noted in your Discussion Paper, if the Securities and Exchange Commission (SEC) were to mandate International Financial Reporting Standards (IFRS), the timelines proposed above would need to be reconsidered and possibly extended.

The proposed other comprehensive income guidance is not expected to require significant effort. We present a single comprehensive income statement in our Form 10-K and 10-Q filings, and therefore already have the knowledge and systems in place to present a single comprehensive income statement in all of our financial statements filed with the SEC.

**b. What are the types of costs you expect to incur in planning for and adapting to the new requirements and what are the primary drivers of those costs? What is the relative significance of each cost component?**

We expect significant systems implementation costs and human capital resources costs, including external consultants. The primary driver of these costs is the need for systems updates (which may involve creating a new system update internally or purchasing it from a vendor) and the transfer and testing of information into the new or upgraded systems, which we expect to be significant. Analysis of the proposed standards and development and execution of implementation plans, as well as educating impacted parties (both within our organization and external stakeholders) is another area where significant human capital resources, and likely externally assistance, will be necessary. Maintaining multiple sets of financial records, as discussed above, will also contribute to costs. In addition, we expect to spend increased time and fees involving our external auditors in the implementations.

**Q3: Do you foresee other effects of the broader financial reporting system arising from these new standards? For example, will the new financial reporting requirements conflict with other regulatory or tax reporting requirements? Will they give rise to a need for changes in auditing standards?**

Yes. Exelon has regulated utility subsidiaries that are required to file financial statements and other information with regulators (including the Federal Energy Regulatory Commission or “FERC” and state regulators); which serves as the basis under which the regulators determine the utilities’ rates charged to customers. Regulatory accounting and reporting requirements do not necessarily change in conjunction with changes in U.S. GAAP. Therefore, if U.S. GAAP changes significantly without corresponding changes in regulatory reporting, we will likely need to track and reconcile two separate financial statements, one in accordance with U.S. GAAP and one in accordance with our regulatory accounting requirements.

Further, changes in GAAP will likely increase the number of book-to-tax differences, requiring system changes and additional human resources to track and review deferred tax accounts.

**Q4: In the context of a broad implementation plan covering all the new requirements, do you agree with the transition method as proposed for each project? If not, what changes would you recommend and why? In particular, please explain the primary advantages of your recommended changes and their affect on the cost of adapting to the new reporting requirements.**

As noted in our response to question 2a above, *we generally support prospective application of the proposed standards, under which we would apply the new method of accounting to all existing or future transactions beginning on the effective date.*

Leases:

We recommend that the Boards allow prospective application of the leases proposed guidance, or at a minimum, exclude transactions that no longer exist at the adoption date if retrospective adoption is required.

The exposure draft transition guidance requires entities to “recognize and measure all outstanding contracts within the scope of this guidance as of the date of initial application.” The date of initial application is the beginning of the first comparative period presented in the financial statements at the date of adoption. As SEC filings require three years of financial data, this retrospective application will potentially require entities to evaluate arrangements that qualify as leases that no longer exist on the date of adoption. We question the relevance of this prior year information, especially for contracts that no longer exist as of the adoption reporting date. Future minimum lease payments and tenors are disclosed in the financial statements under current lease guidance. Users of financial statements tend to have a more prospective view and investors often request comparisons of current financial information to an entity’s plan as opposed to historical comparisons.

Revenue Recognition:

We recommend that the Boards allow prospective application of the proposed revenue recognition guidance as we do not believe that the benefits of

retrospective application outweigh the costs. Retrospective adoption will cause companies to incur unnecessary costs in revising and re-auditing previously reported information. Companies may need to maintain two revenue recognition systems in tandem during a transition period (assuming systems changes will be required to accommodate the proposed guidance requirements). Additionally, internal control processes and documentation would have to be maintained for each system. Retrospective adoption may also lead to the use of hindsight in recording prior periods included in the financial statements as of the date of adoption, which we believe is not appropriate.

In order to provide financial statement readers with prior period comparable information while reducing unnecessary costs to preparers, we instead recommend the Board consider a requirement for preparers to present the effect of the leases and revenue recognition guidance on prior periods in an unaudited pro forma footnote disclosure, similar to the disclosure requirement in the period of adoption for FAS No. 123-R, *Share-Based Payment*.

We agree with the proposed transition methods for the financial instruments and other comprehensive income project.

**Q5: In thinking about an overall implementation plan covering all of the standards that are the subject of this Discussion Paper:**

- a. Do you prefer the single date approach or the sequential approach? Why? What are the advantages and disadvantages of your preferred approach? How would your preferred approach minimize the cost of implementation or bring other benefits? Please describe the sources of those benefits (for example, economies of scale, minimizing disruption, or other synergistic benefits).**

*We recommend the sequential approach to implementing the upcoming standards.*

As discussed in our response to question 2 above, it will take a significant amount of time and resources to plan for and implement each of the new standards. The sequential approach would minimize the risk of errors in adoption or of misinterpretation by financial statement users.

The ability to implement just one or two standards at a time would also minimize disruptions to our normal operations; and would enable vendors, consultants and auditors the capacity to better allocate their resources and provide a higher quality of service to financial statement preparers regarding the implementation of the standards (e.g., new systems/programs, more human capital resources, best practice documents).

The single date approach would likely result in incurring higher costs as we would need to hire incremental resources (internally or externally) to complete the implementations, and the high demand for such expertise and resources would likely drive the costs up significantly.

We also have concerns about the various user communities' ability to effectively understand and incorporate into their analyses and assessments this extent of change all at once.

**c: Under the sequential approach, how should the new standards be sequenced (or grouped) and what should the mandatory effective dates for each group be? Please explain the primary factors that drive your recommended adoption sequence, such as the impact of interdependencies among the new standards.**

*We recommend that the leases standard have the first effective date* as we anticipate that it will have the most significant financial statement impact and that the information provided will be most useful to financial statement readers. *In addition, we recommend that the financial statement presentation standard have the last effective date* as it would be easier for financial statement users to understand and analyze the changes to the presentation once all the accounting changes have been implemented. The remaining proposed standards covered in this Discussion Paper should be issued sequentially in the order of the projects deemed to be most useful to the readers of financial statements. Furthermore, the FASB should consider the interdependencies of the standards when determining the order of issuance.

**Q6: Should the Board give companies the option of adopting some or all of the new standards before their mandatory effective date? Why or why not? Which ones? What restrictions, if any, should there be on early adoption (for example, are there related requirements that should be adopted at the same time)?**

We do not believe the Boards should give companies the option of early adopting these standards as it would limit comparability between entities, making analysis across entities more difficult for financial statement users. However, if the Board decides to phase-in the effective dates based on company size or accelerated vs. non-accelerated filing status, we believe early adoption should be allowed to enable subsidiaries with standalone reporting requirements to take advantage of their parent companies' adoption efforts.

**Q8: Should the FASB and IASB require the same effective dates and transition methods for their comparable standards? Why or why not?**

Given that the degree of change may be different between U.S. GAAP and IFRS users, we do not believe that the U.S. GAAP effective dates and transition methods should necessarily mirror those required under IFRS. The degree of changes related to these exposure drafts for companies already reporting under IFRS may not be in line with the degree of changes required for companies currently reporting under U.S. GAAP. We believe that the magnitude of change and usefulness to financial statement users should dictate the effective dates and transition methods required by the FASB.

We appreciate your consideration of these comments. If you have any questions or would like to discuss further, please contact me at 312-394-4736 (or [duane.desparte@exeloncorp.com](mailto:duane.desparte@exeloncorp.com)).

Respectfully submitted,

Duane M. DesParte  
Vice President and Corporate Controller  
Exelon Corporation