July 14, 2014

Technical Director
File Reference: 2014-200
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

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Proposed Statement of Financial Accounting Concepts, Chapter 8:
Notes to the Financial Statements

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 on the Proposed Statement of Financial Accounting Concepts, Chapter 8: Notes to the Financial Statements (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 the District of Columbia, and directly employ more than a half-million workers. With $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 270 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 American Gas Association, 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 view of each organization's member companies.

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Overall Support

EEI and AGA strongly support the Board's goal of establishing an overarching framework to make financial statement disclosures more effective, coordinated and less redundant. We further support the Board's efforts to coordinate with our member companies' primary financial statement regulator, the US Securities and Exchange Commission, to work toward achieving this goal. We believe the current prescriptive disclosure requirements codified in existing US GAAP often result in unnecessarily voluminous disclosures which in turn make finding relevant, meaningful information in financial statements difficult and preparation of financial statements overly burdensome and costly. While we acknowledged that reducing the volume of disclosures is not the primary objective of the Board's disclosure framework project, we believe it is an important factor in achieving the Board's goal.

Suggested Clarifications to the Exposure Draft

We believe an understanding of how the Exposure Draft will *change* current practice is a critical part of evaluating the appropriateness of the specific proposals in this important project. The nature and type of information that the Exposure Draft states 'should be considered for inclusion in the notes to the financial statements' appear consistent with the nature and type of information required to be disclosed under existing disclosure requirements in the Accounting Standards Codification (ASC). However, it is not clear to us how the concepts developed in the Exposure Draft will be implemented by the Board to effect a change to its historical standard setting process for establishing future disclosure requirements and potentially amending existing requirements. Further, it is not clear whether the inclusion of the constraints listed in paragraph D17 represent a change from the Board's historical practice and if so, how the Board will apply these constraints when determining future disclosure requirements.

We recommend the Board consider providing a summary of how, in its view, the main provisions of the Exposure Draft would differ from current practice. Further, we encourage the Board to expand its discussion of the *application* of the constraints discussed in paragraph D17 and specifically how these constraints will be used to reduce and prevent disclosure overload. To this end, we suggest the Board expand the Decision Questions listed in Appendix A to also include specific questions related to the constraints noted in paragraph D17.

Interaction with the Entity's Decision Making Project

Given the interrelated nature of many of the concepts included in the Exposure Draft and the Board's related project on the entity's decision making process, it is difficult to evaluate the impact of this Exposure Draft without also considering the entity's ability to exercise judgment. Paragraph D18 of the Exposure Draft states that the "the board's judgments about whether to establish disclosure requirements necessarily are based on broad general considerations of **relevance** rather than on **materiality** which is entity specific… most types of disclosures have the potential to apply to a broad range of entities, and that range may change from year to year. Therefore, materiality decisions must be made by each individual entity…" While we agree that materiality is entity specific, we also note that relevance is likewise entity specific, or at least industry specific. A transaction or balance may be quantitatively material to an entity yet may not be relevant to the users of the financial statements.

For example, many companies in our industry use derivative instruments to manage the price risk of the electricity or gas they expect to purchase to serve their customer base. Although these instruments may have a quantitatively large fair value relative to the utility's balance sheet, most of the numerous disclosure requirements codified in Derivatives (ASC 815) and Fair Value (ASC 820) are not relevant to the users of a utility's financial statements as a result of the regulatory environment in which it operates. The gains or losses on these instruments are refundable or recoverable to (or from) customers through regulated rates and do not ultimately impact net income. The fair value of such instruments and their level within the fair value hierarchy is not relevant as a result of the pass-through nature of these gains and losses.

While we recognize the interaction of relevance and materiality of a disclosure to an entity may be further addressed in the conceptual framework on the entity's decision making process, we believe it is difficult to fully evaluate this Exposure Draft in the absence of its counterpart. Further, as part of the entity's decision making project, we understand the Board and its staff are in the process of applying the concepts included in the Exposure Draft to the accounting topics for pensions, fair value measurements and income taxes in order to determine how these topics' disclosure requirements would (or would not) change under the proposed conceptual framework. We believe it is important for preparers and users of financial statements to evaluate the outcomes of that process as part of the comment process for this disclosure framework project.

To address these concerns, we recommend the Board not finalize the changes to the conceptual framework proposed by this Exposure Draft until it has issued, and evaluated constituent feedback on, the entity's decision making framework. In doing so, the Board will have the opportunity to make improvements, or solicit additional feedback, on this Exposure Draft.

Additionally, as the Board continues its work on these disclosure projects, we recommend it consider disclosure requirements in the context of their relevance to a particular industry (or group of industries). While we recognize the Board's efforts to reduce industry specific guidance within the codification (e.g., for leases and revenues), disclosure may have a different context as the relevance of disclosures tends to be more focused on comparing entities within industry groups. Thus, as the Board considers the broad variety of potential disclosures discussed in the Exposure Draft, it may determine that certain critical disclosures are relevant only to one specific industry or a small group of industries. Such disclosures should not be eliminated from the codification as a result of their limited relevance to other industries; likewise other entities should not be required to disclose information that is relevant to one or a smaller group of industries. Rather, provision should be made for different industries and/or firms to tailor the disclosures to provide the most relevant information to their financial statement users.

Interim Disclosures

Finally, we recommend the Board expand its decision making process to address more robustly the information required to be disclosed in the interim financial statements in at least two ways. First, it would be helpful for the Board to provide additional discussion of the circumstances in which updated tables of details to financial statement line items would be required. For example, the Board may consider adding questions related to interim disclosure requirements to the Appendix A of the Exposure Draft.

Further, we believe there is some level of potential contradiction regarding disclosures in interim financial statements. In paragraph D12, the Exposure Draft notes that disclosures should provide "information about financial statement line items, the reporting entity, and past events and current conditions and circumstances that have not met the criteria for recognition that can affect an entity's cash flows." However, Paragraph D64 states in part "If there are significant changes in financial position since the most recent annual financial statements or significant differences in results of operations that are unclear from the line items, the changes or differences should be explained in notes."

We do not believe the nature of the information disclosed in the interim financial statements should be different than that disclosed in the annual financial statements. We believe changes in account balances that are not due to a change in accounting method or policy should be discussed in management's discussion and analysis – not in the notes to the interim financial statements. Changes in account balances due to normal operating, investing or financing activities do not meet these general criteria.

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Conclusion

We appreciate the opportunity to provide our comments and consideration of our recommendations. We acknowledge the inherent difficulty of prescribing effective disclosures, and we would be pleased to further discuss this project with you or provide any additional information you may find helpful in addressing this important topic.

Very truly yours,

/s/ Richard F. McMahon, Jr.

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

/s/ William R. Ford

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