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Ms. Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-1090

File Number: S7-27-08

Dear Ms. Murphy:

FirstEnergy appreciates the opportunity to respond to the SEC's proposed rule, "*Roadmap for the Potential Use of Financial Statements Prepared in Accordance With International Financial Reporting Standards by U.S. Issuers*" (proposed Roadmap).

FirstEnergy is a diversified energy company with approximately $34 billion of assets and $14 billion in annual revenues. Our subsidiaries and affiliates are involved in the generation, transmission, and distribution of electricity, as well as energy management and other energy-related services. Our seven electric utility operating companies comprise the nation's fifth largest investor-owned electric system, serving 4.5 million customers within 36,100 square miles of Ohio, Pennsylvania, and New Jersey. Our generation subsidiaries control more than 14,000 megawatts of capacity.

We support the SEC's view that a single set of high-quality global accounting standards is an important means of enhancing the ability to compare financial information of U.S. companies with those of non-U.S. companies. An imperative to achieving that end state is universal application of International Financial Reporting Standards (IFRS) among the major international economies, without local variants in principles. If that is not possible, the Commission's proposed rule should not be adopted. Instead, current Financial Accounting Standards Board (FASB)/International Accounting Standards Board (IASB) convergence activities should continue indefinitely.

The transition to IFRS from generally accepted accounting principles used in the United States (U.S. GAAP) by U.S. companies will be a significant effort, specifically in terms of time and resources. It is critical that this transition be undertaken in the most efficient and cost-effective manner, particularly considering current economic conditions. For this reason and others, we outline the following issues for the SEC's consideration.

<u>Single Set of High-Quality Global Accounting Standards</u>

The Advisory Committee on Improvements to Financial Reporting (CIFR) stated in its August 1, 2008 report to the Commission, ''we broadly support the continued move to a single set of high-quality accounting standards, coupled with enhanced international coordination to foster their consistent interpretation and to avoid jurisdictional variants." The SEC appears to support this position in its proposed Roadmap by stating "any decision we may take to expand the use of IFRS to U.S. issuers would necessitate our evaluation of whether global developments support the assertion of IFRS as the single set of high-quality globally accepted accounting standards that is applied consistently across companies, industries and countries."

We support this position and believe that before the use of IFRS by U.S. companies is mandated, it must be demonstrated that the majority, if not all, of the global economic powers use IFRS, as issued by the IASB, without "local tweaking" of the standards. U.S. GAAP is a set of high-quality accounting standards. If other major countries are able to introduce their own jurisdictional variants into IFRS, there is no compelling reason for the U.S. to switch from U.S. GAAP to IFRS.

With that being said, how will the SEC assess the global use of IFRS to be able to assert that IFRS should, and will continue to be, a single set of high-quality global accounting standards? How and when will this assessment be communicated to all of the interested stakeholders? The answers to these questions need to be clearly communicated in the final version of the SEC's IFRS Roadmap.

IFRS – Sufficiently Comprehensive and Flexible

In its discussion regarding "improvements in accounting standards," the SEC states that high quality accounting standards must be "sufficiently comprehensive." The proposed Roadmap also states that "IFRS is not as prescriptive as U.S. GAAP in certain areas and offers a greater amount of options than in U.S. GAAP." The Commission further states that this flexibility allows for the preparation of financial statements that may more closely reflect the economics of transactions.

We agree with these points and take the position that before IFRS is mandated by the SEC, IFRS must include guidance that is flexible enough to allow utilities to recognize regulatory assets and liabilities, an important component of their economic model. The majority of rate regulation in the U.S. is based on a "cost-of-service" model. Under this model, each utility's rates are established based on the costs to provide service to its customers. This type of environment produces scenarios where actions by a regulator result in a future economic benefit or obligation for the utility. We believe that recorded regulatory assets and liabilities represent the economic substance of transactions for companies operating in regulatory environments with cost-based rates. Typically, in this type of environment, there is a direct link between costs and revenues provided by established rates. The use of deferral accounting to facilitate the refunding of excess recoveries to, or recovery of, prior period costs from customers represents the true economic substance of a company's position if it operates in this type of regulatory environment.

In addition, the recognition of regulatory assets and liabilities plays a key role in the evaluation, by financial statement users (e.g., investors, regulators), of companies operating under cost-based rate regulation. The impact of regulatory assets and liabilities on a regulated company's equity structure is significant, including the ability to pay dividends and obtain financing for capital requirements. Regulatory assets represent a significant percentage of the market capitalization of the largest U.S. utilities with regulated operations. The following data was compiled from recent published financial results:

Largest U.S. Utilities with Regulated Operations
($ in Billions)

Market Cap. Ranking	Market Cap.	Reg. Assets Dec. 31, 2008	%
Top 5	$ 109.4	$ 16.601	15.2%
Top 10	$ 172.1	$ 40.237	23.4%
Top 20	$ 242.2	$ 67.368	27.8%
$1B-$5B Market Cap.	$ 75.6	$ 35.157	46.5%
$1B-$2B Market Cap.	$ 11.9	$ 5.744	48.2%
FirstEnergy	$ 12.2	$ 3.140	25.7%

While we acknowledge an objective of the IASB is to eliminate or minimize industry specific guidance, the FASB and the SEC have determined that the recognition of regulatory assets and liabilities is appropriate under U.S. GAAP. Migrating to IFRS does not change the underlying economics of a utility's business, as the basic business model remains the same. If companies are required to derecognize their regulatory assets and liabilities, it will have a significant detrimental impact on their capital structures. Further, it will be necessary for users of these financial statements to utilize non-IFRS measures in order to properly evaluate their true financial position on an on-going basis.

Roadmap Milestones

The proposed Roadmap contains seven milestones which, if achieved, could lead to the SEC mandating use of IFRS by all U.S. issuers. We agree that setting milestones is an important part of the process of determining if the SEC should mandate IFRS in place of U.S. GAAP. However, in order for any performance measure to be effective, it must be objective and measurable. We are concerned with the vagueness of the milestones as they are written. Currently, it is not possible to determine how progress against the milestones will be measured. For example, a part of the discussion supporting the "improvements in accounting standards" milestone states "the Commission will continue to monitor the activities of both the FASB and the IASB and the progress of their efforts." The discussion further states "the Commission will consider the degree of progress made by the FASB and the IASB in any future evaluation of the potential expanded role of IFRS in the reporting by U.S. issuers. When the Commission considers mandating use of IFRS by U.S. issuers in 2011, it would consider whether those accounting standards are of high quality and sufficiently comprehensive." Based on these criteria, how will the FASB and the IASB know whether or not they are making significant progress toward achieving this milestone? Will there be opportunities for them to make mid-course corrections if they are not on track? How will financial statement preparers and auditors know if the FASB and the IASB are making the appropriate level of improvements in accounting standards? Will there be a strict "go/no-go" decision in 2011 regarding mandatory adoption of IFRS or could the mandatory adoption date be delayed? This information is absolutely critical. Companies need timely and frequent communications to gauge their IFRS preparations and to adequately assess how much time, effort and money should be allocated for those preparations.

The above discussion relates specifically to the first of the seven milestones listed in the proposed Roadmap. In general, our comments apply to all the milestones. We believe they are too vague to be able to assess the progress being made. We suggest that the SEC develop quantifiable performance metrics for each of the milestones to be evaluated against. Further, we strongly advocate quarterly reporting against those milestones so that companies can begin

to develop a sense for what the SEC's 2011 decision regarding mandatory adoption of IFRS will be.
In the proposed Roadmap the Commission states "we believe that a Commission decision and action in 2011 would provide issuers with sufficient early notice of the transition to IFRS to permit them to begin their internal accounting using IFRS in 2012." As we discuss in more detail below, we respectfully disagree. The Commission's proposed 2011 decision point does not provide sufficient early notice of the transition to IFRS. Mandatory adoption of IFRS by U.S. companies in 2014 means that those companies need to begin reporting under IFRS as of the beginning of 2012. In order to meet this deadline, companies need to start planning their transition to IFRS now, in 2009. As a result, companies need to be able to assess progress against the milestones in order to properly plan their own transition to IFRS. Without that ability, there is the risk that companies will spend a significant amount of time and money and the SEC will decide not to mandate the use of IFRS. Alternatively, it is possible, if not likely, that companies will wait too long to get started and will face major time and resource constraints if the SEC decides to mandate the use of IFRS in 2014.

Information Presented and Timeline

The proposed Roadmap, if adopted as written, would require large accelerated filers to file their first financial statements under IFRS for the first fiscal year ending after December 15, 2014. Currently, registrants would be required to include two prior years of comparative financial statements and three years of "selected financial data." By comparison, IFRS only requires one year of comparative financial statements. In addition, registrants would be required to provide the reconciling information from U.S. GAAP to IFRS called for under IFRS 1, *"First-time adoption of International Financial Reporting Standards",* in a footnote to their audited financial statements.

IFRS 1 provides the requirements for transition to IFRS from a prior basis of accounting. The required information includes the restatement of, and reconciliation from, prior years' financial statements and the related disclosures. The reconciliation called for under IFRS 1 would be included as part of the issuer's audited financial statements in its first annual report that includes IFRS financial statements. IFRS 1 requires entities to explain how the transition from a previous basis of accounting to IFRS affects their reported financial position, financial performance and cash flows. In order to comply with this requirement, an entity's first IFRS financial statements must include a reconciliation of its equity reported under previous GAAP, to its equity under IFRS, from the date of transition to IFRS to the end of the latest period presented in the most recent annual financial statements prepared under previous GAAP. This reconciliation is also required for the income statement and statement of cash flows for the latest period in the most recent annual financial statements.

There are several issues with the above requirements that need to be addressed. As written, companies would have to be ready to use IFRS on January 1, 2012. This will be necessary in order to meet the requirement that two prior years of comparative financial statements be presented. In 2012 and 2013, U.S. companies will prepare their financial statements in accordance with U.S. GAAP. In 2014 annual reports, companies will file using IFRS and will be required to recast 2012 and 2013 using IFRS. U.S. companies will need to maintain dual accounting (U.S. GAAP and IFRS) for 2012, 2013 and the first three quarters of 2014 in order to meet these requirements. It's not as simple as preparing some "top-side" entries to convert from one basis of accounting to another. Performing dual accounting for a period of years will result in excess costs for companies. It will also increase the costs of Sarbanes-Oxley (SOX) financial reporting controls compliance and will undoubtedly result in higher audit fees since 2012 and 2013 will, essentially, have to be audited twice.

It seems as if dual accounting for a given period of time is unavoidable. Consequently, we suggest that the SEC require companies to file both IFRS and U.S. GAAP financial statements in 2014 and 2015 instead of recasting 2012 and 2013. This alternative would allow financial statement users to clearly see the differences between IFRS and U.S. GAAP. In addition, financial statement preparers and auditors would have more time to prepare for the mandatory adoption of IFRS. Financial results for 2014 and 2015 would still need to be audited under both U.S. GAAP and IFRS, but this could be done at the same time, which would result in certain synergies. In 2016, three years of IFRS financial statements would be presented and the U.S. GAAP financial statements would no longer be required. In addition, we propose that the same reporting requirements apply to the 5 year Selected Financial Data required by Item 301 of Regulation S-K.

IASC Foundation – Accountability and Funding

One of the milestones listed in the proposed Roadmap relates to accountability and funding of the International Accounting Standards Committee (IASC) Foundation. The activities of the IASB, including appointing IASB members, are overseen by the IASC Foundation. Historically, the IASC Foundation has financed the operations of the IASB through voluntary contributions from a wide range of market participants from across the world's capital markets, including accounting firms, companies, international organizations, central banks and governments. The IASC Foundation has committed to developing a funding mechanism that would be broad-based, compelling, open-ended and country-specific. These terms are specifically defined in the proposed Roadmap. The SEC has stated that its future determination regarding the required use of IFRS by all U.S. issuers should only occur after the IASC Foundation reaches its goal of securing a stable funding mechanism that supports the independent functioning of the IASB. We concur with the SEC's position on this issue. It is absolutely critical for the IASB to have a funding source that is free from undue influence by any nation, industry, company or other organization.

We believe that the recent creation of the Monitoring Board helps to achieve the milestone of making the IASC Foundation more accountable. Although the SEC will have a reduced role compared to its current role in the standards setting process, it will still have a significant voice in these matters.

The SEC has indicated that it will evaluate the effectiveness of the Monitoring Board as it determines whether or not to mandate the use of IFRS in the United States. We support that position and believe there is enough time between now and 2011 for the SEC to perform a careful evaluation. We suggest, however, that specific evaluation criteria be developed, published and reported against in order for all of the relevant stakeholders to be able to form their own judgments regarding the effectiveness of the Monitoring Board as an oversight organization. Also, we believe that opportunities for mid-course corrections, if required, should be communicated.

Timeline for Non-accelerated Filers

In the section called "Implementation of the Mandatory Use of IFRS" the SEC considers using a staged transition for mandatory adoption of IFRS. Under their proposed plan, IFRS filings would begin for large accelerated filers for fiscal years ending on or after December 15, 2014. Accelerated filers would begin IFRS filings for years ending on or after December 15, 2015. Non-accelerated filers would begin IFRS filings for years ending on or after December 15, 2016.

We do not disagree with a staged transition approach but want to emphasize that the SEC should not allow the timeline for non-accelerated filers to continually extend as has been done with SOX controls. One of the primary reasons to migrate to IFRS is comparability among companies and not adhering to the deadlines would further delay the ability to achieve comparability. We do disagree with the timeline included in the SEC's proposed transition approach. Again, we suggest that the SEC require companies to file both IFRS and U.S. GAAP financial statements in 2014 and 2015 instead of recasting 2012 and 2013.

Some non-accelerated filers are subsidiary SEC registrants of large accelerated filers. Those organizations should be permitted to adopt IFRS on the same timeline as their large accelerated filer parents.

FASB – Ongoing Role

In the "Overview" of the proposed Roadmap, the SEC indicates that it will consider designating the FASB as the standard setter for purposes of establishing financial reporting standards in issuer filings with the Commission. Under this alternative, the SEC's presumption is that the FASB would incorporate all provisions under IFRS, and all future changes to IFRS, directly into U.S. GAAP.

We disagree with this approach and believe this redundancy would lead to unnecessary costs. Assuming that all of the milestones listed in the proposed Roadmap are met and the SEC mandates the use of IFRS instead of U.S. GAAP, the FASB will have no meaningful role and should be discontinued. Key to that decision would be that the SEC concludes that IFRS should be the single set of high-quality global accounting standards and that there is proper funding and oversight of the IASB to ensure that it can function independently.

Acceptance of IFRS by other Regulators

The Commission highlights the impact that IFRS will likely have on various financial covenants that explicitly require the use of U.S. GAAP. However, there is no indication that the Commission has considered the impact of other regulators. The electric utility industry is one of many that are regulated on a state and federal basis; those agencies require audited financial statements prepared based on U.S. GAAP. Has the SEC had any discussions with other regulatory agencies to determine if they would be willing to accept financial statements prepared under IFRS for purposes of paying taxes or setting regulated rates? This should be taken into consideration when the SEC makes its ultimate decision regarding whether or not to mandate the use of IFRS. If certain businesses are still required to submit financial reports based on U.S. GAAP, dual accounting will be required indefinitely. This would be a very costly endeavor for those companies in terms of financial statement preparation, audit fees, and other considerations.

Conclusion

We support the Commission's work toward evaluating whether or not U.S. companies should transition from U.S. GAAP to IFRS. We agree with many of the Commission's tentative conclusions, but do hope that the Commission considers the concerns we addressed above.

FirstEnergy looks forward to continued participation in this important project and appreciates the opportunity to present our views.

Sincerely,

Harvey L. Wagner