

EEI & AGA Executive Accounting News Flash

December 2020

Dear Colleagues:

Welcome to the 2020 fourth quarter edition of the Executive Accounting News Flash. We hope that everyone was able to have a peaceful Thanksgiving.

It has been a busy fourth quarter. EEI and AGA offered over 60 hours of CPE to members delivered through a number of events held in a virtual environment. We also had virtual liaison meetings with all three major standard-setters.

We summarized the SEC's Final Rule to modernize, simplify and enhance MD&A and certain financial disclosure requirements in Regulation S-K and have highlighted a number of changes at the FERC, the SEC, and the FASB within the Recent Standard Setting Activity section.

We submitted a comment letter in response to the International Accounting Standards Board's General Presentation and Disclosure Exposure Draft, a project which the FASB is monitoring. We also submitted a comment letter in response to the FASB's lease accounting targeted improvements exposure draft. Refer to the Comment Letters section for the highlights of our letters.

We refreshed the listing of upcoming EEI and AGA accounting meetings and events for your consideration as you plan for 2021.

Conor Tamms, Industry Accounting Fellow, ctamms@deloitte.com or 614-787-4349

Randall Hartman, Director, Accounting – EEI, rhartman@eei.org or 202-508-5494

Joe Martin, Finance & Accounting Staff Executive – AGA, jmartin@aga.org or 202- 824-7255

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Recent Standard Setting Activity

FERC Commissioner James Danly named Chairman

On November 5, 2020 President Trump named James Danly Chairman of FERC. Danly has served as a Commissioner since March 2020. He replaced Neil Chatterjee who was Chairman since October 2018. Mr. Chatterjee also served as Chairman from August to December 2017.

U.S. Senate Confirms Mark Christie and Allison Clements to FERC

The Senate confirmed President Trump's nominees to fill the two vacant seats on the FERC. Mark Christie, a Republican, has sat on the Virginia State Corporation Commission, which regulates the state's utilities, for 16 years. Allison Clements, a Democrat, founded Goodgrid LLC which is a clean energy and advanced strategy and policy consulting firm. Mr. Christie's and Ms. Clements' confirmations will ensure a quorum at FERC.

SEC Adopts Amendments to Modernize and Enhance MD&A and other Financial Disclosures

On November 19, 2020 the SEC voted to adopt its [Final Rule](#) to modernize, simplify and enhance MD&A and certain financial disclosure requirements in Regulation S-K. EEI and AGA filed a joint [comment letter](#) in April 2020. The final rule reflects many of the recommendations contained in the comment letter.

The final rule will eliminate Item 301, *Selected financial data*, and will modify Item 302(a), *Supplementary financial information*. Registrants will no longer be required to provide 5 years of selected financial data and will no longer be required to provide 2 years of tabular selected quarterly financial data. The quarterly financial data will be replaced with a principles-based requirement for material retrospective changes. These amendments are consistent with the proposed rule, which we fully supported in our comment letter.

The amendments to Item 303(a)(2), *Capital resources*, Item 303(a)(4), *Off-balance sheet arrangements*, and Item 303(a)(5), *Contractual obligations* were adopted as proposed. We largely supported these amendments, but urged the Commission to align the GAAP and MD&A requirements to provide a clear and consistent definition for contractual obligations that will eliminate

duplicative and inconsistent disclosures. The recommendation was considered, but the Commission stated the examples are deliberately not tied to GAAP to provide flexibility and to avoid duplicative disclosure.

The final rule will clarify and codify the Commission's guidance on critical accounting estimates. We have long supported the Commission amending Item 303 to emphasize that it is intended to "eliminate disclosure that duplicates the financial statement discussion of significant accounting policies." The final rule acknowledges our comment that suggested the definition be clarified to state that the disclosure of critical accounting estimates should provide management's insights into estimation uncertainties that have had, or are reasonably likely to have, material impact on reported financial statements. The Commission indicates that this is their intent and that the rule's definition will accomplish this intent. The final amendments will clarify that the material and reasonably available qualifier applies to all parts of the disclosure, not just to the quantitative information, which was also one of the concerns we raised in our comment letter.

The amendments will become effective 30 days after they are published in the Federal Register. Registrants are required to comply with the rule beginning with the first fiscal year ending on or after the date that is 210 days after publication in the Federal Register (the "mandatory compliance date"), which will be for the 2021 Form 10-K for calendar-year end companies. Registrants will be required to apply the amended rules in a registration statement and prospectus that on its initial filing date is required to contain financial statements for a period on or after the mandatory compliance date. Early adoption is permitted, so long as the registrant provides disclosure responsive to an amended item in its entirety.

SEC Chairman Jay Clayton Plans to Conclude Tenure at Year End

Chairman Clayton began his tenure on May 4, 2017. Under his leadership, the SEC has to date timely advanced an average of 86% of the initiatives on the near-term agendas. The new Chair will be designated by president-elect Biden and a new Commissioner will be appointed by the president-elect subject to confirmation by the senate.

FAF Trustees Appoint Frederick L. Cannon and Reappoint Christine A. Botosan to the Financial Accounting Standards Board

Mr. Cannon has almost 40 years of experience focusing on research, equity strategy, investor relations, and corporate communication giving him a strong user perspective. He will succeed R. Harold "Hal" Schroeder whose second and final term ends June 30, 2021. Mr. Cannon's term will be effective July 1, 2021 through June 30, 2026. Ms. Botosan's first term began on July 1, 2016 and her second term will conclude on June 30, 2026.

EEI & AGA Comment Letters

FASB Exposure Draft Addressing Sales-Type Leases with Variable Payments

EEI, on behalf of its member companies, submitted a [comment letter](#) in response to the FASB's [exposure draft](#) on the day-one loss issue associated with certain sales-type leases, among other targeted improvements to ASC 842. The amendments in the proposed Update would address the day-one loss issue raised by EEI in a January 2020 [FASB agenda request](#). The amendments are consistent with the preferred solution suggested in the agenda request. The proposal would amend the lease classification requirements by requiring lessors to classify and account for a lease with lease payments that are "predominantly" variable and do not depend on a reference index or a rate as an operating lease. When a lease is classified as operating, the lessor would not recognize a lease receivable, would not derecognize the underlying asset, and, therefore, would not recognize a selling profit or loss.

The other two targeted improvements proposed in the exposure draft would 1) allow lessees to elect to remeasure lease liabilities and the associated right-of-use (ROU) assets when future lease payments are based on a referenced index or rate and 2) exempt an entity from applying modification accounting to the remaining lease components in a lease contract for transactions in which one or more lease components are terminated before the end of the lease term and that early termination does not economically affect the remaining lease components.

EEI supported the remeasurement proposal (which likely would simplify compliance for entities that report under both GAAP and IFRS), but only to the extent it is an option, not a requirement. Although the industry supported the proposed amendment, because of the potential for additional changes in the modification accounting model, the comment letter suggested that the board consider addressing all aspects of the model holistically through a single amendment to avoid a series of unnecessary and confusing changes in the accounting for leases.

IASB General Presentation and Disclosure Exposure Draft

We submitted a [comment letter](#) in response to the International Accounting Standards Board's General Presentation and Disclosure Exposure Draft related to provisions that may require inclusion of financial key performance indicators and/or non-GAAP measures in the notes to financial statements. The main purpose for commenting is because FASB plans to monitor this IASB project and could consider both the IASB's deliberations as well as any change to IFRS

for future GAAP standard-setting. Thus, while few companies in our industry have immediate IFRS reporting obligations, this is our opportunity to identify and address any potential concerns that might arise if FASB took up a similar initiative. The letter was submitted on September 30, 2020.

EEI & AGA Trainings and Other Events

Standard-Setter Liaison Meetings

Annual liaison meetings between the EEI Accounting EAC/AGA Accounting Advisory Council and representatives of the FASB, FERC, and SEC occurred in late September. Also, the FERC Accounting Liaison Committee held their liaison meeting with the FERC staff on September 24. Through these meetings, EEI and AGA CAO leadership continue to build constructive relationships with key standard-setters which affords opportunities to address issues of industry concern.

One of the topics discussed at the FERC Accounting Liaison meeting, which was attended by Acting Chief Accountant Kristen Fleet, was the excess deferred taxes footnote utilities have been required to include in FERC Form Nos. 1 and 2 as a result of a FERC order issued in November 2018. The industry committee asked FERC staff if utilities are required to continue to include a footnote in the FERC Form Nos. 1 and 2 until all excess deferred tax amounts have been returned to customers. FERC staff stated that this disclosure requirement was intended to be applicable only to the 2018 reporting year and is not required on a go-forward basis.

AGA and EEI Fall Accounting Conference

AGA and EEI held their annual Fall Accounting Conference virtually November 16-18. The conference consisted of three half-day sessions that were highlighted by the Chief Accounting Officer, Corporate Accounting, FERC Accounting, and Property Accounting Roundtable discussions. Approximately 100 member-company representatives attended and 15 hours of CPE were offered.

FERC Accounting and Reporting Virtual Workshop

EEI and AGA partnered with Deloitte to provide a virtual version of the annual FERC accounting workshop on September 15-16. The popularity of this training gives evidence of members' interest in developing their FERC accounting and reporting expertise. Nearly 400 attendees received up to 8 hours of CPE credit.

Regulation S-K Modernization Webinar

EEI and AGA partnered with PwC to provide a webinar on November 19 discussing the recent amendments to Regulation S-K. Representatives from PwC's Power and Utilities practice, SEC Services, and Risk Assurance – ESG shared their perspectives on the new rule and shared insights that companies in our industry may want to consider as they implement the amendments, which became effective November 9, 2020. Over 350 participants enrolled in this training, which offered 1 hour of CPE credit.

AGA-EEI Property Accounting and Depreciation Training

AGA and EEI conducted their annual Property Accounting and Depreciation Training via a two-day webinar held November 19-20. This seminar provided an introduction to property accounting and depreciation in the natural gas and electric utility industries. Utility industry instructors presented the theory and practices of property accounting and depreciation and illustrated how they are to be applied in practical examples. Over 55 member-company representatives attended and 8 hours of CPE were offered.

AGA-EEI Advanced Public Utility Accounting Training

AGA and EEI conducted their annual Advanced Public Utility Accounting Training via a three-day webinar held September 21-23. The course concentrated on complex and specific advanced accounting and industry topics plus timely accounting issues. The course was taught by expert utility instructors and respected leaders in the field. Over 140 member-company representatives attended and 15 hours of CPE were offered.

Derivatives and Hedge Accounting Training

AGA and EEI partnered with EY to deliver two separate webcasts in September and December discussing a variety of issues related to derivatives, hedge accounting, market risks, and risk management. The two sessions reached over 900 participants and provided opportunity for four CPE hours.

EEI & AGA Accounting Meetings and Events

Below is a summary of upcoming accounting related events (joint AGA-EEI meetings unless indicated otherwise) scheduled as of the issuance of this news flash. However, given the uncertainty surrounding the COVID-19 pandemic and rapidly changing circumstances, please check EEI's and AGA's websites for the most recent information on scheduled in-person meetings.

Check with Randall Hartman, Joe Martin, or Dave Dougher for more information, and watch for email announcements about future webcasts.

Date	Location	Event
December 16, 2020	Virtual	CAO Let's Talk Accounting
May 23-26, 2021	New Mexico (tentative)	EEI-AGA Spring Accounting Conference
June 6-9, 2021	La Jolla, CA (tentative)	AGA-EEI Taxation Committee Meeting
June 13-16, 2021	New Mexico (tentative)	EEI-AGA Accounting Leadership Conference
June 13-16, 2021	New Mexico (tentative)	EEI-AGA Chief Audit Executives Conference
August 16-18, 2021	Napa, CA (tentative)	AGA Accounting Principles Committee Meeting
August 23-26, 2021	Atlanta, GA (tentative)	AGA-EEI Introduction and Advanced Public Utility Accounting Training
August 23-25, 2021	Atlanta, GA (tentative)	AGA-EEI Utility Internal Auditor Training
November 14-17, 2021	Orlando, FL (tentative)	AGA-EEI Fall Accounting Conference
November 14-17, 2021	TBD	AGA-EEI Taxation Committee Meeting

Inventory of Relevant Standard Setter Activity as of December 7, 2020

Organization	Title	Key Date and Status	Description
SEC	Management's Discussion and Analysis, Selected Financial Data, and Supplementary Financial Information	Final Rule adopted on November 19, 2020, but pending publication in Federal Register	Refer above for a summary of the Final Rule compared to the Comment Letter jointly filed by EEI and AGA.
SEC	Modernizing SEC Regulation S-K Items 101, 103, and 105	Final Rule issued August 26, 2020	Refer to the Q3 2020 News Flash for a summary of the Final Rule. The amendments became effective November 9, 2020, which requires them to be adopted in filings made subsequent to November 9.
FASB	Leases – Targeted Improvements	Exposure Draft Issued October 20, 2020; EEI filed comments December 4, 2020	Refer above for a summary of the Exposure Draft and EEI comments .
FASB	FASB Concepts Statement No. 8, <i>Conceptual Framework for Financial Reporting – Chapter 4,</i>	Exposure Draft issued July 16, 2020 and comments were due November 13, 2020 (evaluated,	This chapter defines 10 elements of financial statements: assets, liabilities, equity (net assets), revenues, expenses, gains, losses, investments by owners, distributions to owners, and comprehensive income. These elements provide a foundation for information that is relevant to the objective of financial reporting. The proposed chapter defines elements of financial statements to

	Elements of Financial Statements	but decided not to comment)	<p>be applied in developing standards for both businesses and not-for-profit organizations. When finalized, these elements will become a basis for the Board when creating requirements in future standards.</p> <p>The industry evaluated the Exposure Draft and determined none of our criteria for comment were met.</p>
FASB	Simplifying Accounting for Income Taxes	Final ASU (2019-12) issued on December 18, 2019	<p>As part of its simplification initiative, the FASB issued a final ASU intended to simplify the accounting for income taxes. For public business entities, the ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. For all other entities, the ASU is effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early adoption is permitted.</p> <p>Most relevant to our industry is that the ASU specifies that an entity is not required to allocate the consolidated amount of current and deferred tax expense to a legal entity that is not subject to tax in its separate financial statements. However, an entity may elect to do so (on an entity-by entity basis) for a legal entity that is both not subject to tax and disregarded by the taxing authority.</p>
FASB	Codification Improvements	Comments were due on December 26, 2019 (evaluated, but decided not to comment)	<p>The FASB issued an Exposure Draft proposing Codification Improvements that would remove references to various concept statements, improve consistency by including all disclosure guidance in the appropriate Disclosure Section (Section 50), and make other miscellaneous minor improvements.</p> <p>The FASB staff plans to discuss stakeholder feedback on the proposed Update at a future Board meeting.</p>
FASB	Derivatives and Hedging	Comments were due on January 13, 2020 (comment letter filed)	<p>Refer to the Q1 2020 EEI & AGA Executive Accounting News Flash for a summary of the Comment Letter jointly filed by EEI and AGA.</p>
FASB	Intangibles and Goodwill	Comments were due on October 7, 2019 (comment letter filed)	<p>Refer to the Q4 2019 EEI & AGA Executive Accounting News Flash for a summary of the comment letter jointly filed by EEI and AGA.</p> <p>At its July 15, 2020 meeting, the Board discussed feedback received from stakeholders and the general directions of the project. The</p>

			next steps are for the staff to 1) explore adding amortization to the goodwill impairment model, including the amortization method and period, 2) explore other changes to the goodwill impairment model, 3) consider the accounting for identifiable intangible assets and 4) address presentation, disclosure, and transition.
FASB	Balance sheet classification of debt	Comments were due October 28, 2019 (comment letter filed)	Refer to the Q4 2019 News Flash for a summary of the comment letter jointly filed by EEI and AGA. The Board is considering comment letter feedback on the revised proposed Update. There are no updates to report in Q2 2020.
FASB	Income Taxes Disclosure	Comments were due May 31, 2019 (comment letter filed)	The revised proposed ASU would (1) remove disclosures that no longer are considered cost beneficial or relevant and (2) add disclosure requirements identified as relevant to financial statement users. EEI and AGA jointly commented in favor of the proposal as a whole on May 31, 2019. The Board discussed comment letter feedback at a meeting on February 12, 2020. No Board decisions were made and there are no updates to report in Q2 2020.
FERC	AFUDC	Order issued June 30, 2020	Refer to the Q3 2020 News Flash for a summary of the order in Docket No. AC20-127-000 .
FERC	XBRL Project	Order issued July 17, 2020	Refer to the Q3 2020 News Flash for a summary of the order in Docket No. RM19-12-000 .

IASB	General Presentation and Disclosures	Comments were due on September 30, 2020 (comment letter filed)	Refer above for a summary of the Comment Letter filed by EEI.
IASB	Accounting for Rate Regulation	Exposure draft expected in Q1 2021 with a four- month comment period	IASB is developing an accounting model for regulatory assets and liabilities (Agenda Paper 9). When the IASB issues due process documents, we will evaluate them for possible comment.