AGA Executive Accounting News Flash

December 2018

Dear Colleagues:

The effective date of the leases standard for many companies is now here and many calendar year-end companies are finalizing the impact that the standard will have on their financial statements.

On SEC matters, a new rule became effective in November that primarily eliminated or reduced certain disclosure requirements of various SEC rules and regulations, and provides relief to registrants in preparing their year-end filings.

Herein, we summarize the impact of these items and more. For more detail on any of the information provided herein, please click the related links contained within or reach out to:

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Contents

Current Quarter Financial Reporting Matters

2018 AICPA Conference highlights

The AICPA held its annual Conference on Current SEC and PCAOB Developments, featuring speakers from regulators, standard setters, preparers, auditors and others who discussed recent developments in accounting, auditing and financial reporting.

The overarching theme from SEC leadership was that high-quality financial reporting and reliable audits are a shared responsibility among all participants in the financial reporting architecture, which includes management, audit committees, auditors, standard setters and regulators.

SEC Chairman Jay Clayton and Chief Accountant Wes Bricker shared the Office of the Chief Accountant's blueprint of the US Financial Reporting Structure for Public Issuers, emphasizing that each participant in this architecture has a role and responsibility in preserving and advancing the quality of financial reporting for investors.

The conference devoted significant time to emerging issues, risks and upcoming changes in financial reporting that will affect the roles and responsibilities of management, audit committees and auditors during the 2018 calendar year-end financial reporting process and in 2019 including:

- **Preparing for new accounting standards** – Implementing the revenue recognition, leases and credit impairment standards.
- **Assessing internal controls over financial reporting (ICFR) and best practices** – ICFR in the context of implementing new accounting standards, evaluating control deficiencies and disclosing material weaknesses.
- **Emerging issues and risks** – Cybersecurity, Brexit and the transition away from LIBOR as a benchmark reference for short-term interest rates.
- **SEC focus areas** – Non-GAAP financial measures, the Disclosure Update and Simplification rule, modification or waiver of financial statement requirements, auditor independence matters and the SEC's 2019 rule-making agenda.
- **Audit developments and their effect on financial reporting** – Audit quality and regulators' access to audit and other information internationally, the approach of the newly constituted PCAOB and the auditor's reporting model.

Resources: KPMG's SEC Issues & Trends, AICPA Conference on Current SEC and PCAOB Developments

SEC Headlines

SEC releases investigative report on cybersecurity

The SEC released an investigative report warning companies about cyber-related threats involving spoofed or manipulated electronic communications (email schemes). Companies should consider these threats when creating and maintaining a system of internal controls.

The SEC's investigation focused on nine companies that were victims of two types of email schemes.

- **Emails from fake executives** – persons pretending to be company executives sent electronic communications requesting large wire transfers to foreign bank accounts controlled by the perpetrator(s).
- **Emails from hacked vendor accounts** – the perpetrator(s) (1) hacked a vendor's e-mail account and (2) inserted illegitimate requests for payments (including payment processing details) into electronic communications for otherwise legitimate transaction requests.

Resources: KPMG's Defining Issues, SEC releases investigative report on cybersecurity frauds; SEC Report

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Observations related to adopting the revenue recognition standard

Throughout 2018, regulators, standard-setters and others in the financial reporting community learned many lessons from the adoption of the revenue recognition standard. To date, there have not been any common themes identified within the utility industry.

- **SEC staff focus areas.** The SEC staff is focused on disclosure requirements and areas of potential misapplication of the new standard. Aside from disclosures, the most common themes in SEC staff comment letters issued over the past year relate to:
  - identifying the performance obligations in the contract;
  - determining the transaction price; and
  - recognizing revenue when (or as) an entity satisfies a performance obligation.

  The SEC staff cautioned registrants not to:
  - take false comfort because the registrant did not yet receive comments from the staff;
  - assume that the staff reviews all registrant filings;
  - assume that comments received to-date represent all potential comments that the registrant could receive; and
  - benchmark themselves to other registrants when determining the sufficiency of their disclosures.

- **Disclosure requirements.** The SEC staff has expressed disappointment in the quality of ASC 606 disclosures, and observed that registrants are

Insufficiently describing the significant judgments they made in applying ASC 606 to their specific transactions. This includes significant judgments about determining performance obligations; principal versus agent conclusions; determining transaction price and assessing transfer of control, including measures of progress.

The SEC staff also has inquired about registrants' disaggregated revenue disclosures and how those disclosures reconcile to segment disclosures and information provided outside of the financial statements (e.g. earnings reports, MD&A and investor presentations). The SEC staff encouraged registrants to continually assess the adequacy and specificity of the disclosures required under ASC 606 and to enhance their disclosures as needed.

Resources: KPMG's webpage on Revenue

US tax matters

SAB 118 reminder

Since the SEC staff issued SAB 118, many registrants have been recognizing provisional income tax amounts for the effects of the US federal income tax law change (commonly referred to as the Tax Cuts and Jobs Act, or TCJA) enacted in 2017. SAB 118 allows a company to recognize provisional amounts during a measurement period when it does not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete its accounting for the change in tax law. The measurement period ends when a company has obtained, prepared and analyzed the information necessary to finalize its accounting, but it cannot extend beyond one year from the TCJA enactment date. Registrants are reminded that the one-year limit ended December 22, 2018.

Reclassifying residual tax effects from AOCI

Earlier this year, the FASB issued ASU 2018-02, which permits companies to reclassify residual tax effects from accumulated other comprehensive income (AOCI) to retained earnings in each period in which the effect of the corporate tax rate change under the TCJA is recognized. The ASU also requires companies to disclose:

- their accounting policy for releasing income tax effects from AOCI;
- whether they elected to reclassify the residual income tax effects that arose under the TCJA; and
- information about other income tax effects that are reclassified.

The Codification amendments are effective in 2019 for all companies.

FASB developments

The FASB recently discussed at a Board meeting its proposed ASU about changes to the disclosure requirements for income taxes.

A forthcoming proposed ASU would require...	to disclose...
all entities...	— income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign. — pretax income (or loss) from continuing operations before intracompany eliminations. — income tax expense (or benefit) and income taxes paid disaggregated between domestic and foreign.
public business entities...	— the line items in the statement of financial position in which unrecognized tax benefits are presented and the related amounts of those unrecognized tax benefits. — the amount and explanation of the valuation allowance recognized or released during the reporting period. — any reconciling item that amounts to more than 5 percent of the amount computed (i.e. consistent with SEC Regulation S-X). — the valuation allowance associated with the tax-effected amounts of federal, state and foreign carryforwards.
all entities other than public business entities...	— the non-tax-effected amount of credit carryforwards and to show credit carryforwards separate from loss carryforwards.
all entities that prepare interim financial statements...	— interim taxes paid.

The proposed ASU also would **remove existing requirements** for all entities to disclose:

- the cumulative amount of each type of temporary difference when a deferred tax liability is not recognized because of the exceptions to comprehensive recognition of deferred taxes related to subsidiaries and corporate joint ventures; and
- unrecognized tax benefits that could change in the next 12 months.

The Board directed the staff to incorporate its decisions into a proposed ASU.

Resources: KPMG's Handbook, Accounting for income taxes; KPMG's Q&A, Tax reform – Supplement to KPMG's Handbook, Income Taxes; SAB 118; ASU 2018-02

2018 financial reporting reminders

As discussed in previous issues of the Quarterly Newsflash, in addition to ASC 606, calendar year-end public companies were required to adopt several standards in the first quarter of 2018. As a reminder, please see the following list of those that may impact your company.

- Financial instruments – recognition and measurement (ASU 2016-01)
- Accounting for income taxes on intercompany transfers (ASU 2016-16
- Restricted cash (ASU 2016-18)
- Clarifying the definition of a business (ASU 2017-01)
- Accounting for derecognition of nonfinancial assets (ASU 2017-05)
- Presentation of net periodic pension cost and net periodic postretirement benefit cost (ASU 2017-07)
- Scope of modification accounting (ASU 2017-09)

New Standards and Guidance

Leases – the final countdown

In December, the FASB issued 'narrow- scope improvements' for lessor accounting proposed two further amendments to ASC 842. These items are discussed below.

FASB update: New ASU

The FASB issued ASU 2018-20 on 'narrow-scope improvements' for lessors:

- permits lessors, as an accounting policy election, to present sales and other similar taxes that arise from a specific leasing transaction on a net basis;
- requires lessors to present lessor costs paid by the lessee directly to third party on a net basis, regardless of whether the lessor knows, can determine or can reliably estimate those costs;
- requires lessors to present lessor costs paid by the lessee to the lessor on a gross basis; and
- clarifies that lessors should recognize variable payments allocable to non-lease components as revenue under other relevant US GAAP (e.g. ASC 606).

Because the ASU changes certain requirements that generally must be adopted concurrently with the leases standard, lessors should understand the requirements now and prepare for the effect of those requirements on their adoption efforts. Importantly, these changes generally simplify the lessor accounting requirements.

FASB update: Forthcoming proposals

The FASB proposed the following amendments to the leases standard

- **Fair value of underlying asset.** For lessors that are not manufacturers or dealers, the fair value of the underlying asset at lease commencement would not be based on the definition of fair value in ASC 820. Instead, the fair value of the underlying asset would ordinarily be its cost, reflecting any volume or trade discounts that may apply, and include costs incurred to acquire the asset (e.g. sales taxes and delivery costs). However, if a significant amount of time has elapsed from the asset acquisition date to lease commencement, the fair value would be based on the definition of fair value in ASC 820, which would generally result in a fair value that is different from the cost of the asset.

The FASB expects to issued a proposed ASU with a comment letter period ending on January 15, 2019.

Resources: KPMG's Defining Issues, FASB approves changes to lessor accounting for sales and similar taxes and certain lessor costs; KPMG's web article; ASU 2018-20

SAB 74 disclosures

Quantitative information companies might disclose include the new lease liabilities and right of use assets that they will recognize on the balance sheet (or an estimated range thereof).

Qualitatively, companies should discuss their expectations about the effect that adoption may have on the financial statements.

When the adoption effect of a new standard is not known or reasonably estimable, companies should consider disclosing additional qualitative information to assist users in understanding the significance of the effect on the financial statements when adopted.

In addition, companies should disclose the transition method and practical expedients that they intend to elect on adoption, their anticipated adoption date, progress remaining toward implementation and significant implementation matters that they still must address.

FERC Lease Accounting Guidance

In late December 2018, FERC Staff provided limited guidance on the interaction between ASC 842 and FERC reporting. See FERC Docket No. AI19-1-000 in the Inventory of Standard Setter Activity later in this issue.

Resources: KPMG's Handbook, Leases; KPMG's Executive View, ASC 842, Leases – Transition disclosures

Projects and Agenda Priorities

Proposed changes to balance sheet debt classification

In October, the FASB redeliberated its proposed ASU on simplifying balance sheet debt classification and continued its discussion on unused long-term financing arrangements. The Board directed the staff to conduct additional research, specifically to identify a potential alternative that considers the contractual linkage between certain debt arrangements and unused long-term financing arrangements in place at the balance sheet date.

The FASB expects to issue an ASU in the first quarter of 2019 that would be effective for:

— **public companies** – For annual and interim periods in fiscal years beginning after December 15, 2020; and

— **all other entities** – For annual periods in fiscal years beginning after December 15, 2021, and interim periods in fiscal years beginning after December 15, 2022.

Resources: KPMG's Defining Issues, FASB proposes to simplify debt classification; Proposed ASU

Recent EEI & AGA Trainings and Other Events

EEI/AGA Fall Accounting Conference (San Antonio, TX)

EEI and AGA conducted their annual fall accounting conference in San Antonio, TX from November 11th and November 14th. The conference included breakout sessions for corporate accounting and property accounting. Topics covered include: lease standard update, SEC/FASB updates, implementation issues related to ASC 715, robotics, recent FERC audits, rate case management, electric & gas industry updates. The conference was attended by 145 individuals.

EEI/AGA Property Accounting & Depreciation Training Seminar (San Antonio, TX)

EEI and AGA conducted their annual property accounting and depreciation training seminar in San Antonio, TX from November 14th and November 15th. The conference included property accounting and depreciation topics. The conference was attended by 45 individuals.

Upcoming EEI & AGA Accounting Committee Events

Below is a summary of upcoming accounting related events (joint AGA-EEI meetings unless indicated otherwise)

May 19-22, 2019	Nashville, TN	Spring Accounting Conference
June 2-5, 2019	Newport, RI	AGA Taxation Committee Meeting
June 23–26, 2019	Newport, RI	AGA/EEI Accounting Leadership and Chief Audit Executives Conference
August 11-14, 2019	Denver, CO	AGA Accounting Principles Committee
August 19-21, 2019	Cleveland, OH	EEI-AGA Utility Internal Auditor's Training Course
August 19-22, 2019	Cleveland, OH	EEI-AGA Introduction to Public Utility and Advanced Public Utility Accounting Training Course
November 17-20, 2019	Tucson, AZ	Fall Accounting Conference
November 20-21, 2019	Tucson, AZ	Property & Depreciation Accounting Training