EEI & AGA Executive Accounting News Flash

March 2019

Dear Colleagues:

In January 2019, calendar year-end public companies adopted the leases standard (ASC 842) and other standards intended to simplify or clarify accounting requirements. Also during the quarter, the FASB finalized amendments to the leases standard and continued its deliberations on the financial instruments standards.

The first quarter of 2019 was marked by the longest partial federal government shutdown in US history. Consequently, the SEC staff operated with limited personnel for most of January, and shifted its focus from its 2019 rule-making agenda to addressing emergency filing and regulatory situations.

Herein, we summarize these and other accounting and financial reporting developments potentially affecting you in the current period or near term.

Robert Wilson, Industry Accounting Fellow, **rgwilson@kpmg.com** or 267-446-4570

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

Joe Martin, Controller – AGA, **jmartin@aga.org** or 202-824-7255

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Current quarter financial reporting matters

Public companies adopt the leases standard

The mandatory adoption date for the new leases standard (ASC 842) is here. Calendar year-end public companies are required to adopt ASC 842 in the first quarter of 2019. At this time, most public companies have assessed the effect the standard may have on their business operations, made their accounting policy and transition elections, and estimated the financial statement effect.

The adoption work does not end there, however. Companies also must turn their attention to developing quarterly disclosures, including new and expanded qualitative and quantitative disclosures for lessees. SEC registrants must provide the same disclosures for interim and annual periods in the year of adoption. Companies should dedicate sufficient time and attention to their 2019 financial reporting to ensure their lease-related disclosures are complete and accurate.

Financial reporting and transition reminders

Disclosure requirements

Although ASC 842 requires companies to include only certain disclosures in interim financial statements, Article 10 of Regulation S-X requires SEC registrants to provide the annual and interim disclosures in each quarterly report in the year they adopt a new accounting standard.

In addition, companies adopting the leases standard using the effective date transition option (i.e., the effective date = date of initial application) are required to carry forward their final 2018 ASC 840 lease disclosures into their interim and annual filings during 2019. Even though companies typically do not include prior year-end lease maturity tables in interim and annual financial statements for the current year, companies electing this transition option must include them in each set of interim and annual financial statements issued during the adoption year.

In contrast, companies adopting the leases standard using the comparative method (i.e., the earliest period presented = date of initial application) will provide the required annual and interim ASC 842 disclosures for all periods presented in each of their interim and annual filings during the year of adoption.

KPMG resources: KPMG's webpage on Leases; Handbook, Leases; and Defining Issues, FASB issues ASU changing lessor accounting

SEC headlines

SEC solicits input on quarterly reporting

In December 2018, the SEC staff issued a request for comment on the nature, content and frequency of periodic reporting, and the relationship, if any, between Form 10-Q and interim earnings releases.

Although the debate is ongoing about whether quarterly reporting causes companies to focus on short-term results, the SEC issued its request for comment following remarks made by President Donald Trump, who asked the SEC to consider replacing quarterly reporting with semiannual reporting to avoid 'short-termism.'

The SEC staff asked for input about how it can promote efficiency and flexibility in the existing periodic reporting system, and how current requirements affect corporate decision-making and strategic planning. The request for comment highlighted four key themes.

— **Information from quarterly reporting.** The SEC wants to know whether an earnings release provides beneficial information to investors that is incremental to the information disclosed in Form 10-Q, and which document investors use as their primary source of information.

— **Timing of quarterly reporting.** The SEC wants to understand what drives the timing of information released to the public and how that timing affects investors and other market participants.

— **Earnings release as a core quality disclosure.** The SEC wants to understand the overlap that may exist between quarterly reports filed on Form 10-Q and quarterly earnings releases voluntarily provided to the public.

— **Reporting frequency.** The SEC wants to better understand how reporting frequency affects the benefits and costs to stakeholders. The SEC also asked whether the frequency of reporting should depend on company size.

On March 21, 2019 EEI and AGA submitted a comment letter to the SEC which addressed certain aspects of the request for comment.

In addition to other items, the comment letter generally supported the following:

— Maintaining the flexibility currently afforded under the current financial reporting framework,

— Continuing to allow companies to determine when to publish their earnings release,

— Continuing to identify synergies as it relates to quarterly reporting, and

— The Commissions' efforts to review semi-annual reporting depending on the level of disclosure.

KPMG resources: KPMG's Defining Issues, SEC solicits input on quarterly reporting requirements

Reminder – SEC interim disclosure requirements for changes in stockholders' equity

Registrants are reminded that under the SEC's new disclosure update and simplification rule, they are required to disclose in interim financial statements on Form 10-Q:

— the changes in each caption in stockholders' equity and noncontrolling interest for the "current and comparative year-to-date periods, with subtotals for each interim period," and
— the amount of dividends per share for each class of shares.

Although the rule became effective November 5, 2018, the SEC staff released Compliance and Disclosure Interpretation 105.09 advising that it will not object to a registrant's adopting this requirement for the first quarter beginning after the effective date – e.g., the first quarter of 2019 for a calendar year-end company.

KPMG resources: KPMG's Hot Topic: SEC, Interim disclosure requirement for changes in stockholders' equity and Defining Issues, SEC simplifies and updates disclosure requirements

US tax reminders

SAB 118 measurement period has ended

In December 2017, the SEC staff issued SAB 118, which allowed a company to recognize provisional amounts for the effects of the Tax Cuts and Jobs Act (TCJA) when it did not have the necessary information to complete its accounting for the change in tax law. A company could continue reporting provisional amounts during a one-year measurement period.

Registrants are reminded that the measurement period for accounting for the TCJA ended December 22, 2018 and they should now apply the provisions of ASC 740 on how to account for changes in tax law and tax uncertainties.

Reclassifying residual tax effects from AOCI

ASU 2018-02 is now effective for all companies. The amendments permit companies to reclassify residual tax effects from accumulated other comprehensive income (AOCI) to retained earnings in each period in which they recognize the corporate tax rate change under the TCJA. The amendments also require companies to disclose:

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

KPMG resources: KPMG's Handbook, Accounting for income taxes and Q&A, Tax reform – Supplement to KPMG's Handbook, Income Taxes

New standards and guidance

Financial instruments – standard setting activity

Proposed amendments

In November 2018, the FASB issued a proposed Codification improvements ASU that would clarify and address the guidance on and implementation issues associated with the financial instruments standards on hedge accounting (ASU 2017-12), credit impairment (ASU 2016-13) and recognition and measurement (ASU 2016-01). The comment period ended January 18 and redeliberations are ongoing.

Ongoing credit impairment discussions

The FASB issued a proposed ASU that would allow companies, on adoption of the credit impairment standard (ASU 2016-13), to irrevocably elect the fair value option for existing financial assets on an instrument-by-instrument basis. With the exception of existing held-to-maturity debt securities, the alternative would be available for all instruments in the scope of ASC Subtopic 326-20 that also are eligible for the fair value option in ASC Subtopic 825-10. If a company elects the fair value option under the proposal, the difference between the instrument's fair value and its carrying amount would be recognized as a cumulative-effect adjustment.

Hedge accounting standard effective in 2019

Calendar year-end public companies are reminded that the hedge accounting standard (ASU 2017-12) became effective in 2019. The ASU allows companies to better align their hedge accounting and risk management activities, potentially reducing the cost and complexity of applying hedge accounting. The ASU:

— eliminates the requirements to separately measure and report hedge ineffectiveness; and
— requires companies to present all hedge accounting elements that affect earnings in the same income statement line as the earnings effect of the hedged item.

The ASU also permits hedge accounting for certain strategies previously not permitted, and includes new alternatives for measuring the hedged item in fair value hedges of interest rate risk.

Separately, the FASB has two projects on its standard-setting agenda related to hedge accounting:

— a narrow-scope project about the 'last-of-layer method', specifically about how to account for the basis adjustments and multiple-layer hedging strategies; and
— a Codification improvement project clarifying whether a company can change the hedged risk and/or the hedged forecasted transaction during the term of the hedging relationship.

KPMG resources: KPMG's webpage on financial instruments

PCAOB adopts new estimates standard and amendments related to using the work of specialists

In December 2018, the PCAOB adopted (1) a new standard to enhance the requirements for auditing accounting estimates, including fair value measurements and (2) amendments to certain standards to strengthen the requirements when auditors use the work of specialists in an audit. If approved by the SEC, the new standard and the amendments will be effective for audits of financial statements conducted under PCAOB standards for fiscal years ending on or after December 15, 2020.

Critical audit matters – Phase 2

Implementation of Phase 2 of PCAOB AS 3101 about communication of critical audit matters (CAMs) is quickly approaching. The CAM requirements of AS 3101 are effective:

- for audits of large accelerated filers: for fiscal years ending on or after June 30, 2019; and
- for audits of all other companies to which the requirements apply for fiscal years ending on or after December 15, 2020.

Phase 2 requires auditors to communicate the CAMs identified in the audit of the current period's financial statements. CAMs are matters that were communicated, or required to be communicated, to the audit committee; relate to accounts or disclosures that are material to the financial statements; and involve especially challenging, subjective or complex auditor judgment.

The auditor identifies the CAM in the auditor's report and describes the:

- principal considerations in concluding the matter was a CAM;
- primary procedures performed to address the CAM; and
- relevant financial statement accounts or disclosures that relate to the CAM.

It is expected that in most audits, the auditor will identify at least one CAM. However, in the infrequent circumstances that no CAMs are identified, the auditor is required to state that in the auditor's report.

Early engagement between the auditor, management and the audit committee will be key to successfully implementing the CAM requirements. Management and the audit committee should talk with their auditor about potential CAMs, including how the specific matters and related descriptions compare with information already disclosed by the company.

While the standard does not prohibit the auditor from providing original information in its report, it should limit that information to describing the principal considerations in concluding that a matter was a CAM and how it was addressed in the audit.

External resources: CAQ publications, Critical Audit Matters: Lessons Learned, Questions to Consider, and an Illustrative Example and Critical Audit Matters: Key Concepts and FAQs for Audit Committees, Investors, and Other Users of Financial Statements; PCAOB standard and related amendments

Projects and agenda priorities

Proposed amendments for the accounting for share-based consideration payable to a customer

The FASB issued a proposed ASU that would require companies to measure and classify share-based payments to a customer using the guidance in ASC 718 (stock compensation). The amount that would be recorded as a reduction in revenue would be measured using the grant-date fair value of the share- based payment determined under ASC 718. The classification and subsequent measurement of the award would be subject to ASC 718 unless the share- based payment award is subsequently modified and the grantee is no longer a customer.

The comment period ends April 18.

KPMG resources: KPMG's web article

Recent EEI & AGA Trainings and Other Events

Accounting EAC/Committee Leadership Meeting (Dallas, TX)

During March 11th and 12th, EEI's Accounting Executive Advisory Committee (EAC) and the EEI and AGA subject area accounting committee leaders met in Dallas, TX to discuss 2019 agenda items and reflect on the main takeaways from 2018.

Upcoming EEI & AGA Accounting Committee Events

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

Date	Location	Event
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	Accounting Leadership and Chief Audit Executives Conference
August 11-14, 2019	Denver, CO	AGA Accounting Principles Committee
August 19-21, 2019	Cleveland, OH	Utility Internal Auditor's Training Course
August 19-22, 2019	Cleveland, OH	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