EEI & AGA Executive Accounting News Flash

September 2019

Dear Colleagues:

This quarter was marked by a number of proposals by standard-setters on various topics, including goodwill and intangible assets, balance sheet classification of debt, and modernization of Regulation S-K. Among other things, regulators, standard-setters and stakeholders also have been focusing on LIBOR reference rate reform. The SEC staff issued a statement on LIBOR transition.

Additionally, regulators' actions evidenced a focus on auditor independence. The Office of the Chief Accountant updated its FAQs on application of the SEC's auditor independence rules. The PCAOB also issued staff guidance for auditors and audit committees on the topic.

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

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New standards and guidance

Credit losses – FASB proposals and other developments

FASB staff issues additional Q&As on credit losses

The FASB staff issued a second Q&A document that addresses questions about the credit losses standard. The questions relate to (1) using historical loss information, (2) making reasonable and supportable forecasts and reverting to historical loss information. The FASB staff issued its first Q&A on credit losses in January.

FASB proposes narrow-scope credit loss improvements

The FASB issued a proposed ASU that would address credit loss implementation issues raised by stakeholders. The FASB previously decided to include (1) expected recoveries of financial assets *previously* written off and (2) expected recoveries of financial assets *expected to be* written off in the estimate of expected credit losses. The proposed ASU clarifies that:

- the scope of that guidance also extends to purchased financial assets with credit deterioration;
- expected recoveries cannot exceed the aggregate amount previously written off or expected to be written off; and
- this guidance would not apply to available-for-sale debt securities.

The comment period ended July 29. It is not expected that this ASU will have a material impact to our industry.

KPMG resources: KPMG's web page on Financial instruments and Handbook: Credit impairment

Current quarter financial reporting matters

Leases – standard-setting developments

FASB staff responds to technical inquiry on lessor accounting for operating lease receivables

The FASB staff recently responded to a technical inquiry on lessor accounting for operating lease receivables after the adoption of ASC 842. Many aspects of the inquiry arose because of the FASB's decision to exclude operating lease receivables from the scope of the credit losses guidance under ASC 326. The following are the key takeaways from the staff response.

- The collectibility guidance in ASC 842-30 requires an ongoing lease-by-lease assessment of the collectibility of the lease payments for operating leases throughout the lease term.
- For operating leases where collectibility of substantially all the lease payments is not probable (i.e. subject to the 'collectibility constraint'), operating lease receivables – including those arising from the straight-line recognition of operating lease revenue – should be fully reserved for in the lessor's financial reporting.
- For operating leases not subject to the collectibility constraint, lessors are permitted to establish and maintain a general collectibility reserve under ASC 450-20 (loss contingencies) for those lease receivables, but are not required to do so.

Although the FASB has excluded operating lease receivables from the scope of ASC 326, trade receivables and contract assets arising from non-lease components subject to ASC 606 (revenue recognition) are included in its scope. Because many operating lease contracts include non-lease components, the FASB's different decisions about operating lease receivables and non-lease receivables may create operational complexity for those lessors that enter into operating lease contracts that include non-lease components and account for the non-lease components separately. A lessor in that situation will be subject to two different credit impairment models for the receivables arising from the contract.

KPMG resources: KPMG's web page on Leases; Handbook: Leases; and Hot Topic: Lessor accounting for operating lease receivables

A renewed focus on auditor independence matters

OCA updates FAQs on application of the SEC's rules on auditor independence

The SEC's Office of the Chief Accountant (OCA) recently updated its FAQs on the SEC's rules on auditor independence. The FAQs follow the structure of the SEC's rules that define (or relate to) auditor independence, including Rules 2-01 and 2-07 of Regulation S-X and Schedule 14A, Item 9 of the Securities Exchange Act of 1934.

PCAOB issues staff guidance for auditors and audit committees

The PCAOB issued staff guidance to auditors on how to comply with certain provisions of PCAOB Rule 3526(b). Rule 3526(b) serves to protect the interests of investors by requiring auditors to provide audit committees with sufficient information to understand how a relationship between the auditor and the audit client might affect the auditor's independence. Specifically, the staff guidance indicates that audit committees should separately evaluate the auditor's conclusions and decide whether to continue the audit engagement.

KPMG resources: KPMG's Defining Issues, PCAOB issues new guidance for auditors and audit committees

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SEC Rules and Other Actions

SEC proposes further changes to Regulation S-K

The SEC issued a proposed rule to modernize the description of business, legal proceedings and risk factor disclosures that registrants are required to make under Regulation S-K. The proposed amendments are intended to improve these disclosures for investors and simplify compliance for registrants. The comment period ends October 22. EEI and AGA plan to file a joint comment letter to the SEC.

Earlier this year, the SEC issued a final rule that amended Regulation S-K to modernize and simplify certain disclosure requirements. Among other things, the amendments affect MD&A, treatment of confidential information in exhibits, and the manner of delivery and tagging of cover page data.

KPMG resources: KPMG's web article, SEC proposes further changes to Regulation S-K

SEC updates the Financial Reporting Manual

The SEC staff updated sections of its Financial Reporting Manual to remove guidance related to the effects of adopting new accounting standards on selected financial data and to clarify application of Rule 3-13 and Note 5 of Rule 8-01 of Regulation S-X. The update also included technical amendments about certain new accounting standards.

SEC approves new PCAOB auditing standards

The SEC approved the PCAOB's new standard and amendments on auditing accounting estimates and amendments to its standards on using the work of specialists in an audit. The new standard and amendments will be effective for audits of financial statements for fiscal years ending on or after December 15, 2020.

The PCAOB also issued a suite of staff guidance documents to raise awareness and assist auditors in advance of the effective date of the new requirements.

KPMG resources: KPMG's Defining Issues, SEC approves new PCAOB auditing standards

PCAOB staff releases additional resources on CAMs

The PCAOB staff released two resource documents informing audit committees and investors about the requirement for auditors to communicate critical audit matters (CAMs) in the auditors' report. The audit committee resource document includes questions that audit committees could consider asking their auditors.

Auditors of large accelerated filers are required to comply with the communication of CAMs requirements in PCAOB AS 3101 for the first time for fiscal years ending on or after June 30, 2019. The requirements become effective for audits of all other companies to which the CAM requirements apply for fiscal years ending on or after December 15, 2020.

Other resources:

PCAOB staff guidance. Implementation of Critical Audit Matters:

— The Basics
— Staff Observations from Review of Audit Methodologies
— A Deeper Dive on the Determination of CAMs
— A Deeper Dive on the Communication of CAMs

CAQ publications. Critical Audit Matters:

— Lessons Learned, Questions to Consider, and an Illustrative Example
— Key Concepts and FAQs for Audit Committees, Investors, and Other Users of Financial Statements

Projects and agenda priorities

FASB seeks feedback on the accounting for identifiable intangible assets and goodwill

The FASB issued an Invitation to Comment on the accounting for identifiable intangible assets and subsequent accounting for goodwill. Specifically, the Board would like constituent feedback on whether it should:

— change the subsequent accounting for goodwill:
  - from an impairment model to an amortization model, or
  - by simplifying the impairment test

— modify the guidance on recognition of intangible assets in a business combination;

— add or change disclosures; and

— offer comparability and consistency between public business entities and all other entities.

The FASB will consider all feedback before proceeding with a broader standard-setting project.

The comment period ends October 7. EEI and AGA plan to file a joint comment letter to the FASB.

KPMG resources: KPMG's web article

Balance Sheet Classification of Debt

The FASB issued a Revision of Exposure Draft: Debt (Topic 470) *Simplifying the Classification of Debt in a Classified Balance Sheet (Current versus Noncurrent)* the contents of which is summarized in an Overview posted to the EEI Workroom. The Board is not seeking specific comments on all matters in this revised proposed Update. Rather, the Board is asking for comment on the questions on unused long-term financing arrangements (Questions 1 and 2), grace periods (Questions 3 and 5), debt arrangements settled entirely in equity (Question 4), and the costs and benefits of the proposed amendments (Question 6).

— Potential industry-specific issues that have been identified include:
  - the classification of certain tax-exempt revenue bonds with variable interest rates that reset daily or weekly. These debt arrangements could contain provisions where the debt holder can redeem or demand repayment of the bonds on short notice (7 to 30 days). The revised proposed Update clarified that these debt arrangements would be classified as current liabilities because companies would be precluded from considering unused long-term financing arrangements (for example, 3 to 5 year revolving credit agreements) when determining classification.

  - impacts to capital structures and allowance-for-funds-used-during-construction (AFUDC) rates approved by regulators.

Comments on the Exposure Draft are due October 28, 2019. EEI and AGA are currently evaluating whether to file a comment letter to the FASB.

FASB proposes changes to convertible debt accounting

The FASB issued a proposed ASU to simplify accounting for convertible instruments and contracts indexed to an entity's own equity.

The most significant proposals would:

- require a company to account for a convertible instrument either as debt with a bifurcated embedded derivative or as a single unit under the traditional convertible debt model;
- eliminate the ASC 470-20 cash conversion, beneficial conversion and substantial premium accounting models for convertible instruments;
- enhance disclosures about convertible instruments including:
  - adding information about events or conditions that significantly affect conversion, and
  - requiring existing fair value disclosures at the instrument, not aggregate, level; and
- require more contracts indexed to an entity's own equity currently accounted for as derivatives to be classified as equity by:
  - disregarding remote contingent events that could cause net cash settlement, and
  - removing certain existing criteria requiring derivative accounting.

The proposal also would amend certain earnings per share guidance under ASC 260.

The comment period ends October 14.

KPMG resources: KPMG's web article

Other FASB Activity

At its June meeting, the Emerging Issues Task Force (EITF) addressed three items on its technical agenda. The two main items which could impact the industry:

Revenue contract liabilities assumed in a business combination (EITF 18-A)

The EITF previously reached a consensus-for-exposure that would require companies to use the ASC 606 performance obligation definition to determine whether to recognize a contract liability from a revenue contract with a customer acquired in a business combination. The FASB subsequently ratified the consensus-for-exposure and issued a proposed ASU.

In conjunction with the proposed ASU, it also issued an Invitation to Comment to solicit feedback on the measurement of the assumed contract liability and the effect of payment terms on the recognition of revenue for the contract after the acquisition.

At its June meeting, the EITF decided to defer a decision about whether to affirm its consensus-for-exposure until the FASB considers the feedback on the Invitation to Comment.

Segment reporting.

FASAC members discussed potential improvements to segment reporting, centering on the approach to require additional disclosure by reportable segment. Overall, council members preferred a principles-based approach to requiring additional disclosure by reporting segment.

Joint meeting of the FASB and IASB

The FASB and IASB met in July for an education session and discussed these topics:

- segment reporting;
- primary financial statements/financial performance reporting;
- financial instruments with characteristics of equity/distinguishing liabilities from equity;
- interest rate reference reform;
- goodwill and impairment/identifiable intangible assets and subsequent accounting for goodwill;
- disclosure initiative/framework;
- implementation of the revenue recognition and leases standards; and
- the FASB's project regarding the effective dates for recent major accounting standards.

No decisions were made.

Recent EEI & AGA meetings and training

FERC Accounting Workshop

AGA and EEI along with Deloitte held a workshop in September that helped participants understand the logic, implications, problem areas and major changes around lease accounting for power and utility companies. Topics covered include: lease definition, components and key concepts; power and utility contracts and issues; lessee accounting; lessor accounting; key implementation issues, diagnostics, and best practices; interactions with current GAAP including ASC 980; and presentation, disclosures and transition. The workshop had record attendance of over 120 industry professionals.

AGA Accounting Principles Committee Meeting

AGA conducted its annual Accounting Principles Committee meeting in August. The courses and topics were taught by expert utility instructors and various members of the Big 4, FASB and industry professionals. The topics discussed included updates on FASB, SEC and PCAOB guidance, statement of cash flow preparation and industry updates.

Public Utility Training Courses

EEI and AGA conducted their annual industry training program in August which includes the following courses:

- Utility Internal Auditor's Training Course
- Introduction to Public Utility Accounting Course
- Advanced Public Utility Accounting Training Course

The courses are taught by expert utility instructors and respected leaders in the field. The accounting courses cover the fundamentals of the utility business and public utility accounting, as well as more complex and specific advanced accounting and industry topics plus timely accounting issues. The audit course consists of a wide range of audit topics in areas affecting the regulated utility, competitive business operations, information technology and corporate services. The training program was attended by 200 industry professionals.

FASAC Nomination

EEI nominated Kirk Crews of NextEra Energy, a former Accounting EAC member, to serve on the Financial Accounting Standards Advisory Council (FASAC) beginning in 2020. The primary function of FASAC is to advise the FASB on issues related to projects on the Board's agenda, possible new agenda items, project priorities, among other matters. Thus, FASAC operates as a window through which the Board can obtain and discuss the representative views of the diverse groups the FASB affects. FASAC will act on all nominations received later in 2019.

FASB Liaison Meeting

Representatives of the EEI Accounting EAC and the AGA Accounting Leadership Council met with FASB Board Vice Chair Kroeker, Board members Botosan and Cosper, and various FASB staff at our annual industry liaison meeting on September 27. The discussion covered a variety of topics of interest to the industry, including reaffirmation of the ASC 980 framework for accounting for rate regulation, recent technical issues, and outstanding FASB proposals. A separate summary of the meeting and potential industry actions will be circulated in the future.

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
November 17-20, 2019	Las Vegas, NV	AGA/EEI Tax Committee Meeting
November 17-20, 2019	Tucson, AZ	Fall Accounting Conference
November 20-21, 2019	Tucson, AZ	Property & Depreciation Accounting Training
May 17-20, 2020	Denver, CO	Spring Accounting Conference
June 14-17, 2020	Santa Ana Pueblo, NM	AGA/EEI Accounting Leadership Conference
August 24-27, 2020	Atlanta, GA	AGA/EEI Introduction to Public Utility Accounting Training Courses
August 24-27, 2020	Atlanta, GA	AGA/EEI Advanced Public Utility Accounting Training Courses
November 15-18, 2020	TBD	Fall Accounting Conference
November 18-19, 2020	TBD	Property & Depreciation Accounting Training

Inventory of Standard-Setter Activity for Potential Comment as of September 30, 2019

Organization	Status	Key Date/Event	Description
SEC	Proposed Rule Issued (comment period has ended)	Comments were due July 29, 2019	***SEC Proposes Changes to Disclosures About Acquired and Disposed Business*** As part of its disclosure effectiveness initiative, the SEC issued a proposed rule that would improve the information investors receive about business acquisitions and dispositions. See further discussion above.
SEC	Final Rule	March 20, 2019	***SEC Adopts Rules to Implement FAST Act Mandate to Modernize and Simplify Disclosure*** On March 20, 2019, the SEC voted to adopt amendments to simplify disclosure requirements for public companies. The amendments relating to the redaction of confidential information in certain exhibits will become effective upon publication in the Federal Register. The rest of the amendments will be effective 30 days after they are published in the Federal Register, except that the requirements to tag data on the cover pages of certain filings are subject to a three-year phase-in. EEI/AGA jointly commented in favor of the proposal as a whole.

Organization	Status	Key Date/Event	Description
SEC	Comment letter submitted	March 21, 2019	***SEC Release No. 33-10588, Request for Comment on Earnings Releases and Quarterly Reports*** On December 18, 2018, the SEC 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. The SEC wants to better understand how reporting frequency affects the benefits and costs to investors, companies and other stakeholders and compare the differences between quarterly and semiannual reporting. The SEC also asked whether the frequency of reporting should be different depending on the size of the company.
FASB	Comment letters due	October 7, 2019	***Identifiable Intangible Assets and Subsequent Accounting for Goodwill*** FASB issued an Invitation to Comment on the accounting for identifiable intangible assets and subsequent accounting for goodwill. Specifically, the Board would like constituent feedback on whether it should: • change the subsequent accounting for goodwill: • from an impairment model to an amortization model, or • by simplifying the impairment test; A joint EEI-AGA task force has drafted a comment letter which is under review by the EEI Accounting EAC and the AGA Accounting Leadership Council.
FASB	Potential future comment opportunities from research projects	TBD	Monitoring the following projects: • Income taxes – backwards tracing • Inventory and cost of sales • Simplifications to accounting for income taxes • Targeted improvements to the statements of cash flows • Variable interest entity related party guidance • Segment reporting

Organization	Status	Key Date/Event	Description
FASB	Exposure draft issued May 14, 2019	Comment period ended June 28, 2019	As part of its simplification initiative, the FASB issued a proposed ASU that would remove certain exceptions from and add new guidance to ASC 740 (income taxes) to reduce complexity. See further discussion above. The primary industry issue is allowing companies the option to continue to allocate taxes to its single member LLCs which are disregarded entities. FASB recently voted to reaffirm the retention of that option in the final standard.
FASB	Exposure draft issued March 25, 2019	Comment period ended May 31, 2019	In July 2016, the FASB issued a proposed ASU that set forth enhanced disclosure requirements for income taxes. The proposed ASU is part of the FASB's broader disclosure framework project to improve the effectiveness of disclosures in notes to financial statements. The Board delayed finalizing the proposal because of potential tax reform. The federal government subsequently passed the Tax Cuts and Jobs Act in December 2017, which substantially changed how U.S. businesses are taxed. As a result, the FASB decided to revise its original proposal. The resulting proposed ASU reflects these revisions, as well as stakeholder input on the original July 2016 proposal. 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/AGA jointly commented in favor of the proposal as a whole on May 31, 2019.

Organization	Status	Key Date/Event	Description
IASB	Ongoing deliberations	2019 IASB Future Board Meetings – Exposure Draft or Discussion Paper	***Accounting for Rate Regulation*** In December 2018, KPMG Canada hosted a webcast with Jane Pike, the IASB Staff who has been leading the rate regulation project for some time. Staff's update indicates that the IASB continues to move toward issuing an exposure draft that would provide a framework under IFRS for recognition of regulatory assets and liabilities. While there still appear to be some differences versus ASC 815, overall this remains very good news considering the significant efforts that the Consultative Group (on which we were represented) undertook to obtain ANY recognition of regulatory assets and liabilities. Based on this link (RRA Project Update) and the KPMG commentary below, the key next steps appear to be: • Determine how to address regulatory items offset to AOCI (IASB approach would require inclusion in P&L) • Possible Exposure Draft in the second half of 2019 We periodically touch base with the IASB staff, and we will keep you updated as we learn more information. When the IASB issues due process documents, we will evaluate them with you for possible comment.