

EEI & AGA Executive Accounting News Flash

April 2020

Dear Colleagues:

This is the 2020 first quarter edition of the Executive Accounting News Flash. We acknowledge that you all are receiving an exorbitant volume of COVID-19 communications, both work and non-work related. For this reason, we have focused this edition primarily on other recent accounting and reporting developments that are relevant to our industry.

For this quarter's industry hot topic, we have featured EEI's day-one loss Agenda Request that the FASB added to their agenda for the leasing roundtable.

We summarized the industry-relevant standard setting activity that occurred in the first quarter, most notably the issuance of the SEC's Final Rule related to Regulation S-X Rule 3-10 and 3-16.

EEI and AGA filed one joint comment letter during the first quarter in response to guidance proposed by the FASB. EEI filed comments with FERC on its proposed timetable for implementing XBRL. We are currently in the process of drafting a comment letter in response to the SEC's Proposed Rules relating to MD&A, Selected Financial Data, and Supplementary Financial Information. We expect to file this letter at the end of April 2020 prior to the deadline.

Although we will not be able to be with each other live at the Spring Accounting Conference, EEI and AGA are planning a number of webcasts to supplement. We have included an updated listing of upcoming EEI and AGA accounting meetings and events for your consideration as you plan for 2020.

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Industry Hot Topics

Lessor Accounting for Sales-type Leases with Significant Variable Lease Payments

FASB Agenda Request

Although all public companies with calendar year-ends are now on the other side of adopting ASC Topic 842, *Leases*, companies across industries continue to face challenges in applying the new standard. The FASB will hold a Public Roundtable Meeting on Leases, previously scheduled for May 18, 2020, to discuss some of these issues with users, preparers, auditors, and certain industry representatives. EEI, on behalf of its members, submitted the [Agenda Request](#) for one of the issues that will be discussed at the roundtable. NextEra Energy CAO Jim May, a member of the EEI Accounting EAC, will represent the industry at the rescheduled roundtable when FASB is able to return to its offices.

EEI requested the FASB to consider addressing a narrowly focused but increasingly pervasive anomaly under Topic 842, regarding the lessor accounting treatment for sales-type leases with significant variable payments. For sales-type leases with wholly or significant variable lease payments, the application of Topic 842 will result in the recognition of a day-one loss at lease commencement by the lessor for profitable arrangements, and subsequent payments received by the lessor will be recognized as income in their entirety as opposed to being split between lease income and recovery of a lease receivable.

This is a pervasive emerging issue for the electric industry for arrangements involving renewable generation facilities paired with battery storage systems, which are becoming increasingly common as the technology becomes more scalable and commercially competitive. These arrangements are profitable to the project owner-lessor, but derecognizing the leased asset with little to no offsetting net investment in the lease creates a severe disconnect between the accounting and economics of the transaction. The reporting outcomes are not representationally faithful, either at lease commencement or over the lease term, and fail to provide relevant, useful information to users. Lessors are considering non-GAAP measures to explain the inconsistent financial results, which is burdening users because they now have to determine which measures are most meaningful. Expanded use of non-GAAP measures could also lead to diversity in practice as companies adjust the initial day one loss and the subsequent period lease revenues in different ways.

EEI evaluated two alternatives in the agenda request for addressing this issue. Refer to the [Agenda Request](#) for the analysis of the two alternatives.

Recent Standard Setting Activity

FERC Holds XBRL Technical Conference via Webcast

The FERC Staff held a Technical Conference on the XBRL Draft Taxonomy Code on March 24 – 26, 2020 via webcast. [PowerPoint slides](#) used by the FERC staff during the conference are posted on the FERC's website. One highlight from the conference is that FERC staff commented that software development can be started using the draft taxonomy even though the final version will be available later.

During the conference FERC staff reiterated their goal to require companies to file their 2020 Form 1 or 2 in April 2021 using XBRL. FERC staff invited comments on the timeline to implement as part of the docket. Many participants commented that the proposed timeline is too aggressive and unrealistic.

EEI filed comments with FERC urging it to defer the required XBRL implementation deadline to at least one year after it issues an Order adopting a final XBRL taxonomy in order to allow sufficient time for companies to implement the necessary software and processes. AGA is evaluating whether it will file comments.

FERC Delays Filing Deadline for 2019 Forms 1, 2, and 60 to May 1, 2020

On March 19, 2020, FERC issued a [Notice of Granting Extension of Time](#) (Docket no. AD20-11-000) which states that there is good cause to extend until May 1, 2020 the following deadlines for filings required by the Commission that occur on or before May 1, 2020 for those entities that are unable to meet deadlines due to steps they have taken to meet the emergency conditions: (1) the deadline for filing forms required by the Commission, with the exception of the FERC Form No. 6, Annual Report of Oil Pipeline Companies;¹ (2) the deadline for entities to make other non-statutory filings required by the Commission (e.g., compliance filings, responses to deficiency letters, rulemaking comments); and (3) the deadline for entities to make filings required by their tariffs or rate schedules.

SEC Issues Final Rule to Simplify Disclosure Requirements of Reg. S-X Rule 3-10 and 3-16

The SEC issued the final rule on March 2, 2020. The final rule is generally effective for filings on or after January 4, 2021; however, early adoption is permitted. We expect many companies to early adopt the rule due to the significant relief it provides to registrants who have historically been tasked with preparing condensed consolidating financial information required for certain of its subsidiary issuers or subsidiary guarantors. EEI and AGA submitted a joint [Comment Letter](#) in 2018 fully supporting the Commission's

Proposal. The [Final Rule](#) is consistent with what the Commission proposed in 2018. Deloitte's [Heads Up](#) provides a helpful comparison of the existing Rule 3-10 requirements to the Final Rule.

SEC Provides Conditional Regulatory Relief for Companies Affected by COVID-19

The SEC issued [Order 34-88465](#) on March 25, 2020 that, subject to certain conditions, provides companies with a 45-day extension to filing certain disclosure reports that would otherwise have been due between March 1, 2020 and July 1, 2020. Among other conditions, companies must convey through a current report a summary of why the relief is needed in their particular circumstances for each periodic report that is delayed. The Commission may provide extensions to the time period for the relief, with any additional conditions it deems appropriate, or provide additional relief as circumstances warrant. Companies and their representatives are encouraged to contact SEC staff with questions or matters of particular concern.

SEC Issues Public Company Disclosure Guidance Topic No. 9

The SEC issued [Disclosure Guidance: Topic No. 9](#) on March 25, 2020 that, provides the Division of Corporation Finance's current views regarding disclosure and other securities law obligations that companies should consider with respect to COVID-19 and related business and market disruptions.

On April 8, the SEC [issued a statement from Chairman Jay Clayton and Director of the Division of Corporation Finance Bill Hinman](#) on disclosure guidance and expectations as companies start releasing earnings and conducting investor and analyst calls amid coronavirus.

FASB Meets via Webcast on April 8, 2020

At the Board meeting FASB made adjustments to its scheduled activities and deadlines indicating that other than a few specific matters that are not applicable to our industry, they have deferred much of their technical agenda to the second half of 2020. The Staff communicated answers to several technical inquiries and will post a Q&A document on their website. A variety of technical issues were discussed at the meeting and two of them may be relevant to some in our industry.

- **Hedge accounting:** With respect to the amounts deferred in AOCI pending occurrence of a forecasted transaction, such amounts can remain in AOCI as long as the forecasted transaction is probable within two months of the forecasted time period. If COVID-19 causes the forecasted transaction to be delayed beyond two months, FASB Staff indicated that it was appropriate to keep deferral in AOCI as long as the forecasted transaction remains probable to occur. This provides relief from flushing AOCI for delays in forecasted transactions due to COVID-19.

- Fair Value: FASB has received requests to suspend fair value accounting due to market volatility and liquidity issues. FASB staff referred to existing guidance in ASC 820-10-35-54c through j and stated that they believe it remains applicable for determining a fair value estimate in these situations and that fair value accounting is not suspended.
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EEI & AGA Comment Letters

Derivatives and Hedging (Topic 815), Codification Improvements to Hedge Accounting

EEI and AGA filed a [Comment Letter](#) on January 23, 2020, in response to the FASB's Exposure Draft (ED), which expressed support for the overall intent of the ED, specifically the Board's work to simplify and streamline the hedge accounting provisions of Topic 815. However, we identified one aspect of the ED, as written, that could be interpreted to impose additional conditions on typical hedge designations historically used by our industry. Under that interpretation, the potential exists that certain of those historically valid designations would no longer be permitted.

In analyzing this concern the industry performed outreach with representatives from the Big4 accounting firms and spoke directly with the FASB staff involved in the project. The FASB staff indicated that their intention was not to restrict or invalidate any existing hedging relationships.

Our comment letter included recommendation to add further clarity to address this concern. We also suggested summarizing the Board's intent clearly and succinctly in the Basis for Conclusions in the final Accounting Standards Update.

EEI & AGA Trainings and Other Events

FERC Accounting and Reporting Webinar

Deloitte's industry practice group, in cooperation with AGA and EEI, held a 90-minute webinar on March 18, 2020. The webinar covered FERC accounting and reporting requirements, FERC-to-GAAP differences, FERC audit findings, and FERC accounting and reporting hot topics. The webinar was attended by over 1,400 participants and was an abbreviated version of the live FERC Accounting and Reporting Workshop held by EEI, AGA, and Deloitte the past two years.

COVID-19 Quarter-End Accounting and Reporting Implications

PwC's industry practice group, in cooperation with EEI and AGA, held a 90-minute COVID-19 accounting and reporting roundtable webcast on March 27, 2020. Topics discussed during the webcast were: 1) the potential accounting and reporting implications, 2) Q1 2020 disclosure considerations, and 3) considerations around internal control and conducting interim reviews/ audits remotely. Participants were given the opportunity to ask live questions. The [PowerPoint slides](#) for the presentation are available on PwC's website.

A follow-up webcast focused on addressing industry questions is scheduled for 4-5 pm eastern time on Thursday, April 16, 2020.

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.

EEI and AGA are arranging webcasts to enable some of the speakers scheduled for the Spring Accounting Conference to present their materials. Check with Randall Hartman, Joe Martin, or Dave Dougher for more information, and watch for email announcements about future webcasts.

Date	Location	Event
Cancelled	Denver, CO	Spring Accounting Conference
May 14, 2020 2-3:30 pm eastern time	Webcast	EEI Accounting Standards Committee Meeting
May 19, 2020 2-3 pm eastern time	Webcast	Adopting Cloud Technologies presented by Lucasys
June 9, 2020 2-3 pm eastern time	Webcast	Best Practices Regarding Design, Planning, and Governance of RPA Implementation – Center of Excellence
June 14-17, 2020	Santa Ana Pueblo, NM	Accounting Leadership Conference and Chief Audit Executives Conference
August 17-19, 2020	Napa, CA	AGA Accounting Principles Committee Meeting
August 24-26, 2020	Atlanta, GA	Public Utility Internal Auditor Training Course
August 24-27, 2020	Atlanta, GA	Intro. to Public Utility Accounting Training Course
August 24-27, 2020	Atlanta, GA	Advanced Public Utility Accounting Training Course

September, 2020	TBD	FERC Accounting and Reporting Workshop
November 15-18, 2020	Orlando, FL	Fall Accounting Conference
November 18-19, 2020	Orlando, FL	Property & Depreciation Accounting Training

Inventory of Relevant Standard Setter Activity as of April 10, 2020

Organization	Title	Key Date and Status	Description
SEC	Management's Discussion and Analysis, Selected Financial Data, and Supplementary Financial Information	Comments are due April 28, 2020 which is 60 days after publication in the Federal Register	<p>The SEC issued a Proposed Rule on January 30, 2020 that would modernize and simplify Management's Discussion and Analysis (MD&A) and certain financial disclosure requirements in SEC Regulation S-K, including eliminating Items 301 (Selected Financial Data) and 302 (Supplementary Financial Information), amending portions of Item 303 (MD&A of Financial Condition and Results of Operations), and make conforming changes to the forms used by foreign private issuers.</p> <p>Refer to Deloitte's Heads Up for a summary of the Proposed Rule.</p> <p>EEI and AGA are in the process of drafting a joint response, which we plan to submit in late-April 2020. We continue to be in favor of principles-based disclosure of information that is material to investors, and we are in favor of the Commission eliminating duplicative disclosure requirements.</p>
SEC	Modernizing SEC Regulation S-K	Comments were due on October 22, 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>There are no updates to report in Q1 2020.</p>
FASB	Conceptual Framework - Elements	Exposure Draft Estimated Completion: Q2 2020	<p>At a meeting on January 22, 2020, the Board discussed the definitions of several elements to be included in a proposed Concepts Statement chapter on elements of financial statements. A summary of decisions reached to date can be found here. The Board also decided on a comment period of 120 days.</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	<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>We evaluated the Exposure Draft for potential comment and determined that the proposed amendments are minor and do not have any specific utility industry implications so no comment letter was submitted.</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)	Refer above for a summary of the Comment Letter jointly filed by EEI and AGA.
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>There are no updates to report in Q1 2020.</p>

FASB	Balance sheet classification of debt	Comments were due October 28, 2019 (comment letter filed)	Refer to the Q4 2019 EEI & AGA Executive Accounting 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.
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, but they did direct the staff to perform research and outreach on potential alternatives to disclose certain disaggregated income tax information and to perform additional research on various other proposed amendments.
IASB	General Presentation and Disclosures	Comment are due by June 30, 2020	IASB issued an Exposure Draft in December 2019 proposing improvements to the way information is communicated in the financial statements, with a focus on financial performance. Specific proposals would require more comparable information in the statement of profit and loss such as new profit subtotals and would require companies to disclose management-defined performance measures ("non-GAAP") in a single note to the financial statements. EEI and AGA are monitoring this project and are evaluating for comment. As of the date of this News Flash, only three respondents have submitted comment letters .
IASB	Accounting for Rate Regulation	Initial Deliberations	IASB is developing an accounting model for regulatory assets and liabilities (Agenda Paper 9). The Board met on January 30, 2020 and the oral update provided at the meeting stated that there has been significant progress; however, the exposure draft will not be ready until the second half of 2020. 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.