EEI & AGA Executive Accounting News Flash

Issue X – March 2014

Colleagues:

For this quarter's Executive Accounting News Flash update, we provide a recap of the Financial Accounting Standards Board's ("FASB" or "board") major standard setting projects, proposed rulings from the SEC and the PCAOB, as well as an update on the international project on accounting for rate regulated activities. As always, we also provide updates on upcoming accounting standard implementation dates, near-term comment period deadlines, and select highlights on other industry accounting matters. For more detail on any of the information provided herein, please click the related links in blue contained within or reach out to:

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Standard setting & financial reporting update

Updates on select FASB, IASB, SEC, and other standard setting activities	
Revenue Recognition Final Standard expected Q2 2014	The FASB and International Accounting Standards Board (IASB) continued their work on finalizing the revenue standard and expect to issue the final ASU in April 2014. As previously noted, the standard will outline a single model for all entities to use in accounting for revenue contracts regardless of industry. The effective date of the final standard remains unchanged and is expected to be effective for annual reporting periods beginning on or after January 1, 2017. Upon issuance of the final standard, the Boards plan to organize a revenue implementation group to identify and propose resolutions to application issues that arise from the final standard prior to its effective date. The AICPA's Financial Reporting Executive Council (FINREC) is likewise forming industry groups (including utilities) to assist with the publication of industry specific implementation guidance prior to the final standard becoming effective. EEI and AGA, along with several of their members, are participating in development of the AICPA publication. *Industry considerations: While the majority of the ASU's proposals are not expected to result in significant changes to existing industry revenue accounting practices, we are looking forward to the issuance of the final standard so any application issues may be resolved in advance of the effective date.* For overall details of the Revenue Recognition project, visit EY's summary of the project **here** or the FASB's project page **here**.
Leases Project No date set for final standard	The IASB and FASB met to discuss ways to simplify the 2013 proposal on leases in response to feedback that the accounting would be too costly and complex to implement. The Boards reiterated their commitment to putting most leases on the balance sheets of lessees and to reaching a converged solution. Notably, the Boards discussed the following two approaches for lessees to subsequently measure the lease asset and obligation: • A single model that would require lessees to account for all leases (except certain leases excluded from the scope of the guidance) as Type A leases (i.e., a financing) and recognize interest and amortization expense separately on the income statement; • A dual model that would classify leases as Type A (i.e., financings) or Type B (leases with a generally straight-line lease expense pattern) using the classification principles in IAS 17, which are similar to current US GAAP but without the bright lines. The IASB overwhelmingly supported the single-model approach. However, the FASB expressed similar support for the dual-model approach. The Boards also considered a simplified lessor accounting model that would use today's IAS 17 dual classification approach, which is similar to ASC 840 but without the 'bright lines'. Leases that transfer substantially all of the risks and rewards of ownership would be classified as Type A (similar to today's sales-type or direct financing leases). All other leases would be classified as Type B (similar to today's operating leases). Additionally, the Boards discussed other methods of reducing the cost and complexity that many expected would result from the 2013 proposal, including providing a portfolio approach to account for high volume, low value leases (i.e. a fleet of cars) or additional specific scope exceptions for certain small ticket leases based on materiality. The Boards instructed the staff to research how these proposals would affect financial information across various industries. The Boards will continue to re-deliberate these and other issues (e.g., lease scope, definition) at future meetings throughout 2014. *Industry considerations: It is unclear at this time when, whether, or in what form a final standard will be issued.* For further details of the Lease project, visit EY's summary of the project updates **here** or the FASB's project page **here**.
Accounting for Financial Instruments (AFI) Project *Impairment* No date set for final standard (expected in Q3 or Q4 2014)	The FASB tentatively decided to abandon the cash flow characteristics test it had proposed in 2013 for classifying and measuring loans and debt securities. Alternatively, the Board determined there would be no change in how companies classify and measure debt securities. The Board also re-confirmed that equity securities would be measured at fair value through net income as originally proposed. No significant decisions were reached regarding the impairments project which provides guidance on how to measure credit losses on debt instruments. Further, no progress was made on the hedging component of the financial instruments project. The FASB expects to finish re-deliberations on the classification and measurement and impairment projects in the coming months and issue a final standard in the second half of 2014. *Industry considerations: The tentative decisions reached by the Boards during the re-deliberation process should provide entities the ability to classify many more financial assets at FV-OCI or amortized cost. However, entities will still experience increased earnings volatility as a result of equity investments being recorded at fair value through*

Classification & Measurement No date set for final standard (expected in Q3 or Q4 2014) *Hedging* - Project on hold	*net income. Further, investments in mutual funds and other trusts that invest only in debt instruments that would otherwise qualify for FV-OCI treatment would be measured at FV-NI.* For further project details, visit EY's summaries of the projects **here** or the FASB's project page for both **here**.
Disclosure framework Comment letter deadline – July 14, 2014	The FASB proposed a new chapter for its conceptual framework that is intended to improve the Boards process for establishing disclosure requirements. The proposal relates to one part of the project, in which the Board is addressing how it decides what information should be included in the notes to the financial statements. In another part of the project, the Board will provide guidance to entities on how to decide which disclosures they need to provide. The proposed chapter would indicate that the primary purpose of notes to the financial statements is to supplement information on the face of the financial statements. The chapter would state that the notes to the financial statements should contain information about the following matters: 1) Financial statement line items, 2) The reporting entity and 3) Past events and current conditions and circumstances that have not met the criteria for recognition that can affect an entity's cash flows. The chapter also would include a series of questions to help the Board evaluate disclosures. *Industry considerations: The proposal would provide a framework by which the Board will evaluate future and existing disclosure requirements. While the objective of the project is not to reduce the number of required disclosures, improving the effectiveness of disclosures by communicating information that is most useful and relevant to investors will likely result in fewer disclosures.* The industry's technical accounting committees are considering whether to comment. For further project details, visit EY's summary of the project **here** or the FASB's project page **here**.

Upcoming standard implementation & comment deadlines

Updates on select FASB, IASB, SEC, and other standard setting activities

Finalized standards and effective dates

ASU 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists

The FASB issued final guidance requiring unrecognized tax benefits to be offset against a deferred tax asset for a net operating loss carryforward, similar tax loss or tax credit carryforward in certain situations. The guidance will likely change the balance sheet presentation of certain unrecognized tax benefits and deferred tax assets but will not change the way entities assess deferred tax assets for realizability or disclose tax uncertainties.

The guidance is effective for fiscal years and interim periods within those years beginning after 15 December 2013 for public entities and a year later for nonpublic entities. Early adoption is permitted.

ASU No. 2013-7, Presentation of Financial Statements (Topic 205), "Liquidation Basis of Accounting"

In April 2013, the FASB issued ASU No. 2013-7, which requires an entity to prepare financial statements on a liquidation basis when liquidation is imminent, unless the liquidation is the same as the plan specified in an entity's governing documents created at its inception. Under the liquidation basis of accounting, an entity will measure and present assets at the estimated amount of cash proceeds or other consideration that it expects to collect in settling or disposing of those assets in carrying out its plan for liquidation. ASU No. 2013-7 is effective for annual reporting periods beginning after December 15, 2013.

ASU No. 2014-5, Service Concession Arrangements (Topic 853) (a consensus of the FASB Emerging Issues Task Force)

In January 2014, the FASB issued ASU No. 2014-5 stating the certain service concession arrangements with public-sector grantors are not within the scope of lease accounting. Operating entities entering into these arrangements should not recognize the related infrastructure as its property, plant and equipment and should apply other accounting guidance. The guidance is effective for interim periods beginning after December 15, 2014. Early adoption is permitted.

Open for public comment

- Disclosure framework – July 14, 2014

Other updates

IASB Rate-Regulated Activities (RRA) Update	The IASB continued making progress on the research phase of the RRA project and currently expects to issue a Discussion Paper in Q2 2014. To assist the IASB with the RRA research project, a Consultative group was established to provide expert analysis and thought leadership on rate regulation matters. The group held two meetings in 2013 to evaluate responses to the Board's Request for Information (RFI). Additionally, the IASB staff issued a series of agenda papers to the Board proposing a scope for the exposure draft which shares many similarities to the scope of ASC 980. However, in more recent discussions, the Board focused somewhat more narrowly on rate regulation schemes that involve true-up mechanisms. The Board plans to further discuss the scope of the project at its next meeting. The IASB issued final guidance, originally proposed in April 2013, to allow entities that currently recognize regulatory assets and liabilities under existing GAAP to continue to do so upon initial adoption of IFRS. The impact of the final guidance is not expected to extend significantly beyond certain Canadian rate regulated entities that did not adopt IFRS in 2011. For further details of the interim standard and RRA project, visit here and here, respectively.
SEC Updates	The staff of the SEC issued its Report on Review of Disclosure Requirements in Regulation S-K. The Study was mandated by the Jumpstart Our Business Startups Act, which required the SEC to (1) comprehensively analyze the current registration requirements of Regulation S-K and (2) determine how those requirements could be modernized to simplify the SEC's registration process and reduce the cost of compliance for emerging growth companies (EGCs). The SEC staff recommended that the Commission undertake a comprehensive, rather than a targeted, review of current SEC disclosure requirements. The SEC staff said that the Study is merely a starting point toward disclosure simplification, and more research and outreach must be performed before the SEC proposes specific changes. Pursuant to the JOBS Act mandate, the Study identifies potential areas for scaled disclosure by EGCs but supports a broad review that reconsiders disclosures by all public companies. The SEC staff also recommended a comprehensive review of the financial reporting requirements of Regulation S-X. Such a review also would consider financial statement disclosures that have been added under US GAAP and changes needed in Regulation S-X to eliminate redundancies. The staff of the SEC is expected to perform additional outreach to constituents in the coming months as part of this project. For a copy of the SEC's report visit here or view a summary of the report here. *Industry considerations: Significant momentum is building on efforts to make financial statement disclosures more effective and efficient as evidenced by the SEC study mentioned above and the FASB's disclosure framework project. Both the SEC and FASB have made comments in speeches that they will work to coordinate efforts on disclosure projects.*
PCAOB updates	In a recent speech, James Doty, chairman of the Public Company Accounting Oversight Board, said the agency no longer wants to impose auditor term limits on public companies. This course of action is consistent with EEI and AGA recommendation in our comment letter to the Board's proposal on term limits a copy of which can be found here and here.
Society of Actuaries	During Q1 2014, the Society of Actuaries (SOA) issued an exposure draft with a proposed revised mortality table for use by actuaries, insurance companies, governments, benefit plan sponsors and others in setting assumptions regarding life expectancy in the United States. Comments are due by May 31st, and it is expected that the new table would be finalized and available for use during 2014. The last update to the mortality tables was made in 2000 (referred to as RP 2000) and is used by many plan sponsors to determine mortality assumptions for accounting purposes. The newly proposed mortality tables indicate substantial life expectancy improvements since the 2000 study. Adoption of the new table for accounting purposes would therefore increase, perhaps significantly, pension and retiree welfare obligations (estimates range from 5-10%). That would also result in increased costs and required contribution amounts. *Industry considerations:* Plan sponsors should be aware of the proposed mortality table and its implications for the mortality assumed in pension and retiree welfare plan valuations. Accounting departments should work with the relevant human resource and budgeting departments to determine whether a revised table would be adopted if issued in 2014 and if so, the potential impact to pension accounting.

Industry trends

Please click **here** to access EEI's 2013 Q4 Financial Updates for Stock Performance, Dividends and Rate Case Summary.
Click **here** for an EEI report on physical grid security.
Click **here** for an EY article on recent power transactions and trends.

Upcoming EEI & AGA Accounting Committee events

Date	Location	Description
May 18 – 21, 2014	San Antonio, TX	AGA/EEI Spring Accounting Conference
May 21-22, 2014	San Antonio, TX	AGA/EEI Property Accounting & Depreciation Training
June 22-25, 2014	San Francisco, CA	AGA/EEI Accounting Leadership Conference AGA/EEI Chief Audit Executives Conference
August 18, 2014	Portland, OR	AGA Accounting Principles Committee Meeting
August 25-27, 2014	Denver, CO	AGA/EEI Internal Audit Training AGA/EEI Public Utility Accounting Training
September 15-17, 2014	Chicago, IL	AGA/EEI Accounting for Energy Derivatives
September 21-24, 2014	New Orleans, LA	EEI Accounting Standards Committee Meeting
October 20-21, 2014	Chicago, IL	EEI Intermediate Tax School
November 16-19, 2014	San Francisco, CA	AGA/EEI Fall Accounting Conference