EEI & AGA Executive Accounting News Flash

Issue XI – June 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, 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

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Revenue Recognition Final standard issued in May 2014	The FASB and International Accounting Standards Board (IASB) issued final revenue recognition guidance (ASU 2014-09, Revenue from contracts with customers, ASC Topic 606) which will supersede virtually all revenue recognition guidance in US GAAP and IFRS. The standard is effective for annual reporting periods beginning on or after January 1, 2017. Early adoption is not permitted under US GAAP. Preparers may elect to adopt the standard using a full retrospective or modified retrospective approach. Under the modified retrospective approach, an entity would apply the new guidance to contracts that are in effect at the date of adoption with any difference recorded as a cumulative adjustment to retained earnings. With the final standard being issued, the standard setters, industry groups and preparers are beginning the implementation process. To that end, the Boards have formed the Joint Transition Resource Group (TRG) to identify and propose resolutions to application issues that arise from the final standard prior to its effective date. However, the TRG will not issue guidance. In addition, the AICPA's Financial Reporting Executive Council (FinREC) is forming industry groups (including utilities) to assist with the publication of industry specific implementation guidance prior to the final standard becoming effective. Representatives of EEI, AGA, each of the Big 4 accounting firms along with several EEI and AGA member companies, are participating in development of the AICPA publication, and EEI and AGA technical accounting committees are supporting this effort. *Industry considerations: While the majority of the ASU's proposals are not expected to result in significant changes to existing industry revenue accounting practices, several implementation issues have arisen that the industry and/or standard setters will need to address. These implementation issues include:* • *Whether revenue from fixed price contracts that escalate over time will be recognized on a straight-line basis or whether it will be continue to be recognized as billed;* • *Whether blend-and-extend contract modifications will result in revenue recognition at the new 'blended' price or if the original quantities will be recognized using the original contract price;* • *Whether "bundled" energy sales involving the delivery of multiple goods/services (energy, ancillaries, REC's, capacity, etc.) may require separate price allocation and revenue recognition timing for the individually delivered items.* *Companies should begin to evaluate the potential impact of the new standard on each of their individual revenue streams to identify other potential implementation issues. Further, as SEC registrants begin to prepare their next annual or interim reports they are reminded of the SAB 74 requirement to disclose the impact of recently issued accounting standards on the financial statements upon such standard being adopted.* For further details of the final standard, visit EY's summary of the project here or the FASB's page here.
Leases Project No date set for final standard	The IASB and FASB continued to meet 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. However, it remains unclear if the Boards will revisit their fundamental decision on whether lessee accounting should follow a single or dual classification model. As a

	reminder, the FASB is pursuing a dual classification model for lessee accounting (i.e. Type A and Type B) while the IASB is pursuing a single classification model (i.e. Type A). During their May meeting, the Boards reached a tentative decision to provide a practical expedient that would allow lessees to make an accounting policy election (by class of asset) to account for lease and non-lease components within a contract as a single lease component. The Board also discussed providing additional guidance for determining whether more complex arrangements, in which both the supplier and customer have decision-making rights, meet the definition of a lease. During their June meeting, the Boards made a tentative decision that Type A and Type B right-of-use assets should be presented separately from other assets (e.g. owned assets) either in the balance sheet or in the notes to the financial statements. The Boards will continue to re-deliberate these and other issues (e.g., lease scope, definition) at future meetings throughout 2014. *Industry considerations: The definition of a lease is of added importance because it will also determine which transactions and arrangements are subject to the new revenue recognition standard (ASC 606) and the derivatives and hedging standard (ASC 815).* *The Boards tentative decision to allow lease and non-lease components to be accounted for as a single lease component should provide relief for many lease arrangements that also contain multiple elements (e.g. vehicle, copier and building leases with a maintenance component).* 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 *Classification & Measurement* Second half of 2014 *Impairment* Second half of 2014 *Hedging* - Project on hold	<u>Classification & Measurement</u> The FASB decided to amend certain provisions of current US GAAP guidance on classifying and measuring financial instruments rather than completely over-hauling it as originally proposed. The Board determined there would be no change in how companies classify and measure debt securities; however all equity securities would be measured at fair value through net income. *Industry considerations: The tentative decisions reached by the Boards during the re-deliberation will allow entities to continue their historical practices for classifying and measuring debt securities. However, entities will experience increased earnings volatility as a result of equity investments being recorded at fair value through net income. Further, investments in mutual funds will have to be treated as equity securities. Accordingly, a fund that invests in debt instruments that would otherwise qualify for FV-OCI treatment would be measured at FV-NI.* <u>Impairments</u> The Board did not reach any significant new major tentative decisions to its proposal on impairments during the quarter. Under the proposal, an entity would apply a single impairment model to account for credit losses on loans, debt securities, and trade, lease and other receivables being measured at either amortized cost or fair value through OCI (FV-OCI). The proposal would remove the 'probable' threshold for recognizing credit losses and requires an estimate of credit losses to be made on all relevant information, including reasonable and supportable forecasts, at each reporting period. *Industry considerations: The proposal to require companies to separately measure changes in fair value due to credit could represent a potentially significant challenge for entities to track and measure such changes for instruments measured at FV-OCI.*

	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 Board's 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 propose guidance to entities on how to decide which disclosures they need to provide. *Industry considerations: The EEI and AGA technical accounting committees are in the process of drafting a comment letter to the FASB on the conceptual release. The committees support the Board's goal of making disclosures more effective and less redundant. However, it is not clear how the conceptual release will be used by the Board to accomplish that goal or how it will result in a change in the Board's process.* For further project details, visit EY's summary of the project here or the FASB's project page here.
EITF - NPNS No date has been set	We understand that the SEC staff has reviewed a no-name inquiry regarding the ability to apply the Normal Purchase Normal Sale election under ASC 815 to physical electricity forward contracts within nodal energy markets (ISO/RTO) at a location other than the purchaser's load zone. The issue relates to whether the form of the ISO agreement and related pricing and billing practices represent a transportation service versus net settlement and repurchase of the electricity. We understand that the SEC staff expects to forward this issue to the EITF due to diversity in practice and lack of explicit guidance for the fact pattern in question.
Going concern Final standard expected second half of 2014	The FASB tentatively decided to require management of public and private companies to evaluate and disclose whether there is substantial doubt about a company's ability to continue as a going concern. The assessment would be similar to the one auditors are required to make today. The Board also determined that, when making this assessment, management should consider relevant conditions or events that are known or reasonably knowable on the date the financial statements are issued. In addition, the entity's ability to meet its obligations would be assessed for a period of one year from that date. The FASB also decided that a final standard would be effective beginning January 1, 2016 for calendar year end entities. *Industry considerations: Companies will need to incorporate into their financial reporting activities a process to evaluate their ability to continue as a going concern through the date the financial statements are issued.*

Upcoming standard implementation & comment deadlines

Updates on select FASB, IASB, SEC, and other standard setting activities
Finalized standards and effective dates
ASU 2014-09, Revenue from contracts with customers (Topic 606). In May 2014 the FASB issued its final guidance on revenue recognition. See section above for a summary of the standards impact on the industry. The guidance is effective for annual reporting periods beginning after 15 December 2016, including interim reporting periods within that reporting period. **ASU No. 2014-8, Presentation of Financial Statements (Topic 205), and Property, Plant and Equipment (Topic 360), Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity** In April 2014 the FASB published guidance that raises the threshold for a disposal to qualify as a discontinued operation and requires new disclosures for both discontinued operations and disposals of individually significant components that don't qualify as discontinued operations. It also allows entities to have significant continuing involvement and continuing cash flows with a discontinued operation and eliminates substantially all of the scope exceptions that currently exist. The effective date for all disposals (or classifications as held for sale) of components of an entity, and all businesses or nonprofit activities that, on acquisition, are classified as held for sale, that occur within annual periods beginning on or after 15 December 2014, and interim periods within those years.
Open for public comment
▸ Disclosure framework – July 14, 2014

Other updates

IASB Rate-Regulated Activities (RRA) Update	In an address at the EEI and AGA Accounting Leadership/Chief Audit Executives Conference in San Francisco, FASB member Tom Linsmeier, voiced support for the ASC 980 (FAS 71) accounting model for rate regulated activities. In the speech, Mr. Linsmeier stated that the Board would work with the IASB to educate them about the reasoning behind the FASB model and the support it receives from stakeholders. Separately, the IASB pushed back the issuance of its discussion paper on rate regulated activities. The IASB staff had planned to issue a discussion paper in Q2 or Q3 of 2014; however the IASB decided that it needed further discussion to clarify the purpose of the Discussion Paper and to clarify the nature of the feedback that it is seeking from stakeholders. No updated timeline has been provided for Discussion Paper. For further details of the RRA project, visit here. For a copy of the full text of Mr. Linsmeier's speech, visit here.
SEC Updates	**SEC Chief Accountant Paul Beswick to leave agency** The SEC said Chief Accountant Paul A. Beswick will leave the agency to return to the private sector after a transitional period. His successor has not yet been named. Mr. Beswick, who joined the SEC staff as senior adviser in 2007 has served as Chief Accountant since 2012. He also served as Deputy Chief Accountant in both the accounting and professional practice groups in the Office of the Chief Accountant and as staff director for the SEC staff's work plan for the consideration of incorporating IFRS into the US financial reporting system. Before joining the SEC staff, Mr. Beswick was a partner with Ernst & Young LLP. **2014 XBRL taxonomy** The SEC approved the use of the 2014 XBRL US GAAP, which adds tags for accounting standards updates, eliminates industry views and makes other changes. The 2012 version of the taxonomy is now unavailable for use, and companies that have been using it will need to use a newer version in their next periodic reports. Companies that use the 2013 taxonomy may continue to do so, but the SEC staff strongly encourages adoption of the latest version. For further details of the XBRL update, visit here.
PCAOB updates	None of note.

Industry trends

Please click **here** to view the EEI 2013 annual financial review of US investor-owned electric utilities.
Click **here** for a report on utility industry trends, including an article on emerging technology for recycling nuclear fuel.
Click **here** for the EEI Annual Energy Outlook report.

Upcoming EEI & AGA Accounting Committee events

Date	Location	Description
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 Intro and Advanced Accounting Training
September 15-17, 2014	Chicago, IL	AGA/EEI/EY Accounting for Energy Derivatives
September 21-24, 2014	New Orleans, LA	EEI Accounting Standards Committee Meeting
October 2, 2014 (tentative)	Norwalk, CT	AGA/EEI FASB Liaison Meeting
October 20-21, 2014	Chicago, IL	EEI Intermediate Tax School
November 16-19, 2014	San Francisco, CA	AGA/EEI Fall Accounting Conference
November 17-19, 2014	Charleston, SC	AGA/EEI Fall Tax Committee meeting