EEI & AGA Executive Accounting News Flash

Issue XII – September 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:

Tyler Dorn, Industry Accounting Fellow – EEI/AGA, tyler.dorn@ey.com or 703-747-0708

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

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

In this issue:

EEI & AGA annual FASB liaison meeting

On October 2, 2014 members of EEI and AGA attended the annual liaison meeting at the FASB's offices in Norwalk, CT. The closed (non-public) meeting was attended by several EEI and AGA Chief Accounting Officers, EEI and AGA representatives, FASB Vice Chair Jim Kroeker and board member Marc Siegel, Technical Director Susan Cosper, and several of the FASB staff. Highlights from the meeting include:

- **IASB's rate regulation project.** Board Vice-Chair Kroeker encouraged EEI and AGA to continue to engage with the IASB as they work through their rate regulation project to inform them of the key aspects of rate regulation within the United States.
- **ASC Topic 606, *Revenue from Contracts with Customers*.** The FASB staff in charge of facilitating the Transition Resource Group (the FASB's and IASB's revenue implementation group) encouraged the industry to submit questions or practice issues directly to the Board in addition to working through implementation issues as part of the AICPA's planned revenue recognition guide. The Board also encouraged the industry to maintain a principle-based focus as it evaluates the impact of the new standard on industry transactions, including interpreting specific provisions in light of the overall objective of the standard in total.
- **Normal purchase and sales.** EEI Director Randall Hartman gave an overview of how transportation of electricity is effected within nodal zones of an ISO and the potential impact on an entity's election of the normal purchase and sale exception within ASC 815. EEI and AGA reaffirmed their commitment to working with the Board as it determines whether (and how) to address the current diversity in practice on this issue within the industry. Subsequent to the meeting, Randall Hartman and EEI Manager Dave Dougher met with FASB Fellow Mark Pollock and Assistant Project Director Jaime Dordik to discuss questions and status of the issue in detail. Staff presently is working to present the issue to the Board for agenda action at the November 5 meeting.
- **Disclosure framework.** The Board discussed next steps on its disclosure framework project and noted that it will be conducting additional outreach regarding its project on the entity's decision making process in the coming months. The staff also stated that it was working to modify the language of select topics (e.g. pensions, income taxes, and fair value) to remove the prescriptive language that is included in current codification when describing disclosure requirements.
- **Lease project.** The FASB staff gave an update on the leasing project and indicated that the Board will re-deliberate the definition of a lease at its coming October meeting. The staff further indicated it is targeting to complete re-deliberations in 2014 and to issue a final standard in 2015. The Board does not plan to re-expose the lease project. It appears that the FASB plans to retain the dual lease classification model it has proposed, which ultimately may diverge from the IASB approach.
- **Hedge project.** The staff indicated that it has reactivated the hedge project and plans to present it to the Board in the 4th quarter to be formally added to the FASB's technical agenda. The EEI and AGA participants reiterated the views expressed in our last comment letter and reemphasized the importance of retaining the ability to dedesignate and redesignate hedges due to the nature of instruments available for commodity hedging.

Each of the projects discussed at the meeting are included in the Standard setting and financial reporting update section below.

At the conclusion of the meeting, the Board members complimented our industry on its valuable participation in the standard-setting process, noting that "this group has been extremely constructive" and they value our input and the dialogue we have with them.

Standard setting & financial reporting update

Updates on select FASB, IASB, SEC, and other standard setting activities	
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 and early adoption is not permitted under US GAAP. Preparers may elect to adopt the standard using a full retrospective or modified retrospective approach. Standard setters, industry groups and preparers are continuing the implementation process. The utility subgroup of the AICPA's Financial Reporting Executive Council (FinREC) held initial meetings to identify industry issues that are not clear within the standard and that may require implementation guidance. As a reminder, this subgroup is comprised of representatives of EEI, AGA, each of the Big 4 firms as well as several EEI and AGA member companies and will assist with the development of industry-specific implementation guidance. This implementation guide is expected to be published prior to the standard becoming effective in 2017; however no date has been set. *Industry considerations: To date, the AICPA utility subgroup has identified the following five issues for inclusion in the revenue implementation guide:* *Scope: Evaluation of whether regulated cost-of-service-tariff sales to customers are within the scope of Topic 606 or whether these arrangements are contracts with a regulator and therefore out of scope. If it is determined that these contracts are within the standard's scope, rate regulated utilities will need to separately track and report those revenues earned from alternative revenue arrangements[1] from those revenues earned under traditional tariff programs. As a result, Companies may need to modify revenue tracking systems, processes and controls to capture this data. If these contracts are not determined to be within the scope of Topic 606, no significant changes are expected. Discussion at the liaison meeting indicated that the Board and Staff view tariff sales to customers as being within the scope of Topic 606.* *Contract modifications: It is unclear in the standard whether revenue for blend-and-extend contracts would be recognized at the modified, blended rate after the modification or whether an entity would recognize revenue in the same manner as it was recognized prior to the modification. Under the latter view, contractual billings under the arrangement would not match the pattern of revenue recognition and would also call into question whether an entity would need to separately evaluate whether a significant financing element exists within the contract that should be accounted for separately.* *Variable consideration: It is unclear in the new standard whether fixed-price contracts with shaping (e.g. escalating or stepped price contracts) would be recognized on a straight-line basis or whether the guidance would allow for revenue to generally be recognized based upon invoicing.*

[1] As defined by ASC 980-605-25-1 to 4 alternative revenue arrangements include revenue from weather related riders, conservation efforts, or other incentive-based regulatory programs.

	Recognizing revenue on a straight-line basis would often result in timing differences between billings and revenue recognized and would call into question whether a significant financing element exists within the arrangement that should be accounted for separately. Discussion at the liaison meeting indicated that this question has arisen in other industries as well. While the Board and Staff did not specifically endorse the industry's presentation, they did not take issue with the explanation of why the same commodity could be sold using different bona fide pricing arrangements that each would qualify for recognition based on the contract terms. *Multiple-element arrangements: It is unclear in the new standard whether the timing of revenue recognition for multiple-element arrangements (e.g. capacity, energy, RECs) will continue to match the timing of the energy delivery. Companies will need to assess each of the performance obligations within a contract and determine when the transfer of control of each item has occurred. For example, a Company may need to analyze whether RECs are transferred upon the energy being delivered or upon the REC being certified and deposited to the customer's account. Board members observed that the evaluation of RECs should consider when both parties have an enforceable right and whether the certification process involves objective criteria that can be evaluated prior to formal certification.* *Sales of real estate: It is unclear in the new standard how the unit of account is determined when an entity has a partial sale of real-estate. Further, the concept of 'continuing involvement' for real estate sales has been eliminated which may accelerate the timing upon which an entity may recognize gains from the sale of power plants and other asset sales deemed to be integral equipment.* For further details of the final standard, visit EY's summary of the project **here** or the FASB's page **here**.
Leases Project Final standard expected in 2015	The IASB and FASB continued to meet to discuss ways to complete the 2013 proposal on leases. The Boards remain committed to putting most leases on the balance sheets of lessees and to reaching a converged solution. However, the Boards appear to have diverged on the 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 July meeting, the Boards reached a tentative decision to retain many of the lessor disclosure requirements included in the 2013 proposal and also decided that a seller-lessee would use the definition of a sale in the new revenue recognition guidance to determine whether a sale has occurred in a sale and leaseback transaction. *Industry considerations: As noted in FASB liaison meeting section above, the staff indicated that the Board will re-deliberate the definition of a lease at its upcoming October meeting. The definition of a lease is of significant importance to the industry 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 Board does not plan to re-expose the lease standard before it is finalized.*

	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* No date set for final standard *Impairment* No date set for final standard *Hedging* Agenda decision on reactivating project expected in Q4 2014 No date set for final standard	Classification & Measurement The FASB continued to discuss ways 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.* Impairments 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.* Hedging During its first meeting in some time on this phase of its financial instruments project, the Board discussed feedback received on its May 2010 proposal. After discussing two approaches to the project, the Board expressed a preference for the staff to develop a plan to build on the current hedging framework rather than overhaul it, by addressing specific practice issues, minimizing certain hedge accounting differences with IFRS and potentially requiring companies to provide more information about their risk management programs through enhanced presentation and disclosure. *Industry considerations: As the Board did not discuss what practice issues will be addressed as part of the hedging project, it is too early to tell what impact there will be on the industry.* For further project details, visit EY's summaries of the projects here or the

	FASB's project page for both **here**.
Consolidation project Final standard expected Q4 2014	The FASB has finished re-deliberations on its consolidation project and plans to issue a final standard after certain constituents review a draft to make sure there are no unintended consequences. The standard is expected to relax the criteria in US GAAP for determining when fees paid to a decision maker or service provider do not represent a variable interest by focusing on whether those fees are "at market." The standard also is expected to amend the criteria for determining whether a limited partnership (or similar entity) is a variable interest entity by allowing a general partner to consider kick-out rights held by a simple majority of partners in its analysis. In addition, the standard is expected to eliminate the current presumption that a general partner controls a limited partnership in the voting model. The standard is expected to be effective for annual periods and interim periods within those annual periods beginning after 15 December 2015. The FASB plans to permit early adoption. *Industry considerations: While the proposal is aimed at asset managers within the financial services industry, it could affect electric and gas utilities that have involvement with master limited partnerships (MLPs), tax-equity arrangements, limited partnerships or similar entities. Companies with such involvement should review previous consolidation conclusions in light of the new guidance.* For further project details, visit the FASB's project page **here**.
Disclosure framework Board's decision framework – timing has not been determined Entity's decision making framework – timing has not been determined	The FASB staff evaluating the feedback received from the comment letter process on the Board's proposed 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 provide *entities* a framework to determine which disclosures to include in the financial statements. *Industry considerations: The EEI and AGA technical accounting committees submitted a joint comment letter to support the Board's goal of making disclosures more effective and less redundant. However, the EEI and AGA commented that it was 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**.
Simplification Initiatives *Extraordinary items and Inventory* No date set for final	The FASB issued three proposals as part of its simplification initiative to improve US GAAP by moving quickly to address narrow issues identified by stakeholders. The FASB launched the initiative earlier this year to reduce the cost and complexity of financial reporting by making targeted changes to US GAAP while maintaining or improving the usefulness of information for investors. One would eliminate the concept of extraordinary items from US GAAP. Another would simplify the subsequent measurement of inventory by

standard *Customer's accounting for fees paid in cloud computing arrangements* Comments due November 18, 2014 *Other simplification projects* No date set for an exposure draft	requiring entities to measure it at the lower of cost or net realizable value (i.e., estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation). The third would require customers in cloud computing arrangements to apply the framework used by software vendors to determine whether they are acquiring a software license or just paying for a service. Additionally, the Board added several projects to its agenda and expects to issue proposals in the near future on simplifying the presentation of debt issuance costs on the balance sheet and allowing employers to measure defined benefit plan assets and the related projected benefit obligation as of the closest calendar month end to their fiscal year end. The FASB also added projects to its agenda to (1) simplify the balance sheet classification of debt and (2) simplify income tax accounting by requiring all deferred tax assets and liabilities to be classified as noncurrent and eliminating the exception for recognition of income taxes on intercompany transactions. *Industry considerations: The EEI and AGA technical accounting committees submitted a joint comment letter to support the Board's proposals on eliminating extraordinary items from US GAAP and simplifying the determination of inventory impairments. While these proposals are not expected to have a significant impact to the industry, the EEI and AGA fully support the Board's initiative to reduce the cost and complexity of financial reporting through its simplification initiative.* *The Board's proposal on a customer's accounting for fees paid in cloud computing arrangements may result fewer costs being eligible for capitalization than current industry practice. Specifically, because the proposal appears to narrow the definition of what would qualify as software in a cloud computing arrangement, costs incurred to customize or integrate cloud based computing solutions with an entity's existing IT infrastructure may no longer be eligible for capitalization under the proposal. The EEI and AGA technical accounting committees are in the process of drafting a comment letter to the Board and plan to recommend the Board modify the proposal to allow for these costs to continue to be capitalized.* For a copy of the EEI and AGA comment letter on the inventory and extraordinary proposal, visit **here.** For further details of the Board's open simplification projects, visit the FASB's project page **here**.
EITF - NPNS Agenda decision expected in Q4 2014	The SEC staff has referred to the EITF a practice issue 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. As noted above in the discussion of the recent FASB Liaison Meeting, representatives of EEI met with FASB staff to assist in their understanding of the industry's power transportation practices and the implications for this issue. We expect the FASB to discuss the addition of this issue to the EITF agenda at its November 2014 meeting.
Service concession	The Financial Accounting Standards Board (FASB) issued final guidance stating that certain service concession arrangements with public-sector

arrangements Final standard issued January 2013	entity grantors are not in the scope of Accounting Standards Codification (ASC) 840, *Leases*. As a result, an operating entity that enters into such an arrangement with a public-sector entity grantor should not account for the arrangement under ASC 840 and should not recognize the related infrastructure as its property, plant and equipment. Instead, the operating entity should apply other GAAP (e.g., revenue recognition), as applicable. A service concession arrangement is defined as an arrangement with a public-sector grantor that meets the following two conditions: 1) the grantor controls or has the ability to modify or approve the services that the operating entity must provide with the infrastructure, to whom it must provide them and at what price and 2) the grantor controls, through ownership, beneficial entitlement or otherwise, any residual interest in the infrastructure at the end of the term of the arrangement. The FASB did not specify which aspects of US GAAP should be applied except to say that service concession arrangements meeting the scope criteria in ASC 980, *Regulated Operations*, should be accounted for using that guidance. The standard is effective for annual periods, and interim periods within those annual periods, beginning after 15 December 2014. *Industry considerations: The guidance is not expected to have a significant impact on electric and gas utilities with operations solely in the United States. However, it is not uncommon in international jurisdictions for power plants and related infrastructure to meet the proposals definition of a service concession arrangement. Entities should evaluate their arrangements to determine if they have any arrangements that would be included in the scope of the new guidance.*

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.

ASU 2014-15 Presentation of Financial Statements — Going Concern (Subtopic 205-40), Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern
The FASB issued final guidance that will require management of public and private companies to evaluate and disclose whether there is substantial doubt about its ability to continue as a going concern (i.e. if it is likely that an entity will not be able to meet its obligations as they become due within one year of the date the financial statements are issued). 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. The standard is effective for annual periods ending after 15 December 2016, and interim periods within annual periods beginning after 15 December 2016.

ASU 2014-05 Service Concession Arrangements (Topic 853)
In January 2013 the FASB issued guidance on service concession arrangements. See section above for a summary of the standards impact on the industry. The standard is effective for annual periods, and interim periods within those annual periods, beginning after 15 December 2014.

Open for public comment

- Customer's accounting for fees paid in a cloud computing arrangement – November 18, 2014

Other updates

IASB Rate-Regulated Activities (RRA) Update	The IASB issued its Discussion Paper (DP) on rate regulated activities in September 2014. The DP outlines certain characteristics that would distinguish 'defined rate regulation' from other types of regulation to establish the scope of its RRA project. Based upon the proposed definition of rate regulated activities, the DP outlines four possible approaches to reporting the effects of rate regulated activities: 1) recognizing the package of rights and obligations as an intangible asset (i.e., a license), 2) adopting the regulatory accounting requirements as an exemption to the general requirements of IFRS, 3) developing specific IFRS requirements for rate regulation, and 4) prohibiting the recognition of regulatory deferral account balances. The IASB has not made any tentative decisions about which approach it prefers. Instead it is seeking feedback about the advantages and disadvantages of each approach and whether there are other approaches it should consider. Likewise, the Board is seeking comment on its proposed definition of rate regulated activities to be included in the scope of any future projects. Comments on the DP are due January 15, 2015. For further details of the RRA project, visit **here**.
SEC Updates	**James Schnurr named Chief Accountant of the SEC** The SEC said James Schnurr will join the agency as Chief Accountant in its Office of the Chief Accountant in October; succeeding Paul Beswick who is leaving the SEC. Mr. Schnurr recently retired from Deloitte LLP, where he served as vice chairman and senior professional practice director in the firm's national accounting office. He was a partner at Deloitte for 29 years and previously served in the firm's mergers and acquisitions group. **SEC issues final rule on money market funds** The SEC issued final rules aimed at minimizing money market funds' exposure to rapid redemptions. Institutional prime money market funds will be required to operate with floating net asset values after a two-year transition period. Additionally, nongovernment money market funds will be required to impose redemption fees and/or delays if certain liquidity events occur. The SEC also said that, in normal circumstances, an investment in an affected money market fund could be considered a "cash equivalent" under US GAAP but that companies would have to assess whether that classification remains appropriate if a fund experiences credit or liquidity issues. For further details of the SEC final ruling, visit EY's publication **here**. **SEC comments on select financial data disclosures related to revenue** At a recent Financial Accounting Standards Advisory Council (FASAC) meeting, a member of the SEC staff said the SEC staff won't object if companies that select a full retrospective approach to adopt the new revenue standard do not recast the earliest two years in their selected financial data disclosures. That is, a company would be required to reflect the accounting change in the summary only for the three years for which it presents full financial statements elsewhere in the filing. The staff also said companies would be required to include clear disclosure about the lack of comparability.
PCAOB updates	The PCAOB issued a staff consultation paper seeking input on whether it should update its rules on auditing accounting estimates and fair value

	measurements in light of significant deficiencies it has found in these areas. The paper seeks comment on whether the PCAOB should develop a new standard that would consolidate existing audit guidance and include new material to address inspection findings, practice issues and changes in accounting guidance. The paper also seeks comment on whether alternative approaches, such as issuing staff guidance, might be more appropriate. Comments on the Board's proposal are due November 3, 2014. Refer to the PCAOB project page **here** for further details.
New Mortality Tables	The Society of Actuaries is expected to soon issue new mortality tables for benefit plan sponsors to use when measuring their benefit plan costs and obligations. The proposed tables, which reflect improved life expectancies, are likely to be finalized in time to affect 2014 year-end benefit plan calculations. If that happens, plan sponsors should consider the changes in life expectancies when determining their best estimate of the mortality rate for measuring defined benefit plan costs and obligations. The effect will vary by plan, but using the new data could cause a significant increase in a sponsor's defined benefit plan obligation.

Industry trends

Please click here to view a US Chamber of Commerce report on disclosure effectiveness and its importance to the formation of capital markets.
Click here for a report by Tapestry Networks on Audit committee chairs discussing internal audit, the revised COSO framework for internal controls, tackling cybersecurity risk through public-private collaboration and analyst perspectives on financial reporting.
Click here for the latest edition of the EEI Electric Perspective Magazine.

Upcoming EEI & AGA Accounting Committee events

Date	Location	Description
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
December 2, 2014	Chicago, IL	EEI Accounting EAC meeting