EEI & AGA Executive Accounting News Flash

Issue XIII – December 2014

Colleagues:

The Executive Accounting News Flash for the fourth quarter of 2014 includes the following highlights:

- A recap of the Financial Accounting Standards Board's ("FASB" or "Board") major standard setting projects, including:
    - An update on the implementation efforts for the new revenue standard
    - An update on the recent re-deliberations on the definition of a lease.
- A summary of the December 8th round-table discussion on the IASB's project on accounting for rate regulated activities
- Key highlights from the AICPA conference.

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. Items of interest to note for year-end include:

- The Society of Actuaries' new mortality tables
- EPA rule on Coal Combustion Residuals (CCR)
- Year-end tax changes

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:

Standard setting & financial reporting update

Updates on select FASB, IASB, SEC, and other standard setting activities	
Revenue Recognition Final standard issued in May 2014 Industry implementation groups actively addressing key issues FASB to consider possible delay in effective date during second quarter 2015	Standard setters, industry groups and preparers are continuing the process of implementing the FASB and IASB's revenue recognition guidance, (ASU 2014-09, *Revenue from contracts with customers*, ASC Topic 606). At the second meeting of the Joint Transition Resource Group for Revenue Recognition (TRG), James Kroeker, the Vice Chairman of the FASB, said the Board is exploring whether to propose a delay in the effective date of the new revenue recognition standard and will discuss this project with various stakeholders. Mr. Kroeker said he expects the FASB to decide whether to propose a delay early in the second quarter of 2015. As a reminder, the standard is currently effective for public companies for fiscal years beginning after December 15, 2016 (or beginning in 2017 for entities with a calendar year-end). The TRG also discussed the evaluation of whether a good or service should be considered distinct within the context of a contract. The TRG acknowledged that without more guidance, there most likely would be diversity in practice in this evaluation. The Boards will provide a status update on the issue on or before the next TRG meeting on January 26, 2015. See *Industry Considerations* below. The AICPA utilities group continued to meet to discuss industry implementation issues. Refer to the September 2014 issue of the Accounting NewsFlash for a summary of additional industry issues identified to date. ***Industry considerations:*** *The determination of whether a good or service is distinct within the context of a contract will impact the unit(s) of account for energy contracts. For example, this evaluation will impact whether or not capacity is accounted for separately from energy in power purchase arrangements.* 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 Final clarifications to the definition of a lease could have more significant industry considerations than previously expected	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; however, the Boards 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 lessee classification model (i.e. Type A and Type B) while the IASB is pursuing a single classification model (i.e. Type A). During their December meeting, the Boards concluded their re-deliberations on the definition of a lease. Under the proposed definition, entities would determine whether a contract contains a lease by assessing whether: ▪ The use of an identified asset is either explicitly or implicitly specified. ▪ The contract conveys to the customer the right to control the use of

	the identified asset, throughout the period of use. This criteria is met if: o the customer has the right to both direct the use of the identified asset and, o obtain substantially all of the economic benefits from directing the use of the identified asset. The Boards clarified that if neither the customer nor the supplier controls how and for what purpose the asset is used throughout the period of use, the customer would have the right to direct the use of the identified asset if it either: ▪ Has the right to operate the asset or direct others to operate the asset in a manner that it determines (with the supplier having no right to change those operating instructions) ▪ Designed the asset, or caused the asset to be designed, in a way that predetermines how and for what purpose the asset will be used or operated ***Industry considerations:*** *As a result of the Board clarifying the definition of a lease during the re-deliberation process, more PPAs may meet the definition than some originally expected from the Exposure Draft. However, as a result of the FASB's decision to retain classification guidance similar to existing guidance for determining operating vs capital leases, the potential impact to the income statement and statement of cash flows as a result of these arrangements meeting the definition is mitigated. Specifically, more PPAs that meet the definition of a lease are expected to be classified as Type B leases resulting in straight-line expense recognition within cost of sales.* 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	Classification & Measurement The Board did not reach any significant new major tentative decisions to its proposal on classification and measurement during the quarter. As a reminder, the FASB tentatively 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.*

Impairment No date set for final standard *Hedging* No date set for final standard	<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. The Board tentatively decided that there would be no changes to the impairment model applied to equity method investments and that entities would continue to evaluate them using existing US GAAP. ***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.* <u>Hedging</u> The FASB made a preliminary decision to address hedge effectiveness requirements, the potential elimination of the shortcut and critical terms match methods and simplifying hedge documentation as part of its hedge project. As a reminder, the Board previously determined it would work to make targeted improvements to existing hedge requirements rather than overhaul it as was previously planned. ***Industry considerations:*** *As the Board has just begun determining which aspects of hedging it will target as part of this 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 Q1 2015	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 EY's summary of the project **here** or 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 hosted a forum on Dec ember 1, 2014 to solicit input on how it should proceed with its disclosure effectiveness project. Panelists included representatives from the SEC, preparers and users of financial statements as well as representatives from each of the Big 4. While most panelists agreed that today's disclosures are ineffective, they expressed differing views on the cause. For the most part, preparers of financial statements and auditors said disclosure overload makes disclosures ineffective. However, panelists representing users of financial statements said volume was not a concern. The panel also discussed: ▪ The role of technology in providing disclosures, ▪ The assumed level of sophistication of 'financial statement users' ▪ Legal and regulatory hurdles to disclosure effectiveness ▪ The concept of materiality applied to disclosures The Board is currently reviewing the disclosure requirements for topic specific areas (e.g. fair value) and plans to propose changes to the requirements to allow companies to apply discretion in which disclosures to make. ***Industry considerations:*** *Companies should prepare for changes in disclosure requirements especially in the areas targeted for change by the FASB in the near-term; including: defined benefit plans, fair value measurement, income taxes and inventory.* For further project details, visit EY's summary of the project **here** or the FASB's project page **here**.
Simplification Initiatives *Accounting for Income Taxes: Intra-Entity Asset Transfers and Balance Sheet Classification of Deferred Taxes* Exposure draft expected Q1 2015 *Employee share-based payment*	The FASB continued to develop proposals 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. As part of this effort, the FASB added the following projects to its agenda: ▪ a project to simplify the accounting for share-based payments to propose changes to the accounting for transactions in which an employee uses shares to satisfy the employer's minimum statutory income tax withholding obligation, forfeitures and income taxes when awards vest or are settled. ▪ a project that would eliminate the exception for the income statement recognition of income taxes on intercompany transactions and would require all deferred tax assets and liabilities to be classified as noncurrent. In recent months, the FASB has received comments on proposals on the presentation of debt issuance costs, the measurement date for defined benefit plan sponsors, the accounting for fees paid in a cloud computing arrangement and the subsequent measurement of inventory. The Board also voted to issue final guidance to simplify income statement presentation

accounting improvements No date set for an exposure draft *Other simplification projects* No date for final standards	by eliminating extraordinary items. ***Industry considerations:*** *The Board's proposals on presentation of debt issuance cost could result in presentation differences between US GAAP and FERC regulatory filings. Companies should put in place controls to ensure any classification differences are appropriately presented in both US GAAP and FERC filings.* *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 drafted a comment letter to the Board recommending that the proposal not be issued as proposed.* For a copy of the EEI and AGA comment letter on the cloud computing proposals visit **here.** For further details of the Board's open simplification projects, visit the FASB's project page **here**.
Emerging Issues Task Force (EITF) *Application of the Normal Purchases and Normal Sales Scope Exception to Certain Electricity Contracts within Nodal Energy Markets (EITF 15-A)* Initial EITF consideration in first quarter 2015 *Fair Value Hierarchy Levels for Certain Investments Measured at Net Asset Value (EITF 14-B)* Comment period deadline January 15, 2015	<u>Normal purchase and normal sales</u> The FASB has added to the EITF agenda 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. As a reminder, 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. Representatives of EEI and AGA continue to work with the FASB staff to assist in their understanding of the industry's power transportation practices and the implications for this issue. The EITF is expected to hold an education session on this issue at its January 2015 meeting and begin to consider the issue itself no early than the March 2015 meeting. <u>Fair value disclosures</u> The Board proposed eliminating the requirement that entities that measure investments using the net asset value practical (NAV) expedient categorize them in the fair value hierarchy table. Instead, investments measured using the practical expedient would be disclosed as a reconciling item between the fair value table and the balance sheet amounts. The proposal is expected to provide relief to financial statement preparers that use the NAV expedient to measure certain mutual funds that area included in benefit plan or nuclear decommissioning trusts. Representatives of the EEI and AGA are currently drafting a comment letter in support of the Board's proposal. 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 in 2014 (for calendar year-end public companies)
ASU 2014-07, Business Combinations (Topic 805), Pushdown Accounting - Effective immediately (November 18, 2014) ASU 2013-11, Income Taxes (Topic 740), Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists - Effective for fiscal years, and interim periods within those years, beginning after December 15, 2013 ASU 2013-04, Liabilities (Topic 405), Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date - Effective for fiscal years, and interim periods within those years, beginning after December 15, 2013
Finalized standards and effective dates after 2014 (for calendar year-end public companies)
ASU 2014-09, Revenue from contracts with customers (Topic 606) – Effective for annual reporting periods beginning after December 15, 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 – Effective for annual periods beginning on or after December 15, 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 - Effective for annual periods ending after 15 December 2016, and interim periods within annual periods beginning after December 15, 2016 ASU 2014-05 Service Concession Arrangements (Topic 853) – Effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014
Open for public comment
Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent) – January 15, 2015

Other updates

IASB Rate-Regulated Activities (RRA) Update	The EEI and AGA hosted a roundtable with members of the IASB staff, IASB board members, financial statement preparers and users, representatives from the FERC and NARUC, as well as each of the Big 4 accounting firms to discuss the IASB's Discussion Paper (DP) on rate regulated activities. The roundtable focused on the rights and obligations created by rate regulation, the DP's definition of rate regulation and current practice in applying ASC 980 to regulated entities under US GAAP. As a reminder, the IASB issued its DP on rate regulated activities in September 2014 which 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 possible approaches to reporting the effects of rate regulated activities, including an approach to develop specific IFRS requirements for rate regulation. Comments on the DP are due January 15, 2015. For further details of the RRA project, visit **here**.
Highlights from the AICPA conference	On December 8, 2014 representatives of the SEC, PCAOB, FASB, and IASB participated in the AICPA National Conference to share their views on various accounting, auditing and reporting topics. Highlights from the conference include: **SEC comments on IFRS alternatives for US registrants** James Schnurr, the new SEC Chief Accountant, said he is exploring the possibility of allowing US registrants to voluntarily disclose IFRS financial information as a supplement to their US GAAP financial statements and asked for feedback and is open to other recommendations as to how to address the issue of IFRS in the US capital markets. He said he hopes to make a recommendation to the Commission in the near future about whether and how to further incorporate IFRS into the US financial reporting system. **Internal control considerations** SEC representatives discussed internal control over financial reporting and emphasized the need for management to appropriately evaluate control deficiencies. SEC representatives continued to question whether companies are identifying all material weaknesses and whether they are identifying and evaluating control deficiencies appropriately. They said companies should carefully consider the potential magnitude of undetected errors that could have occurred **Disclosure effectiveness and simplification** Representatives of the SEC provided an update on the Commission's disclosure effectiveness initiative, highlighting key focus areas related to Regulations S-X and S-K. FASB officials discussed the Board's simplification and disclosure initiatives and discussed how the Board analyzes costs and benefits of new standards. In several panels, preparers, auditors, lawyers and standard setters discussed ways to make disclosures more effective under existing rules. **PCAOB matters** PCAOB representatives discussed recent standard-setting efforts related to

	both audit performance and auditor reporting standards. SEC representatives questioned the slow pace of the PCAOB's standard-setting process and urged the PCAOB to focus on audit performance standards. PCAOB representatives said they are looking for ways to make their standard-setting process more efficient. They also provided updates on audit firm inspections, enforcement matters and initiatives to measure audit quality. For further information on the AICPA conference, click **here**.
PCAOB updates	<u>Related party</u> The SEC approved a new PCAOB standard and related amendments intended to increase the auditor's focus on a company's transactions with related parties, significant unusual transactions, and a company's financial relationships and transactions with its executive officers, which are associated with risks of error or fraud. Auditors will now be required to make a number of inquiries of management and others inside a company, make certain communications to the audit committee and perform certain specific procedures, including reading executives' compensation agreements. Companies should revisit the controls they have in place to identify, account for and, if necessary, disclose these transactions. The standard and amendments are effective for audits of financial statements for fiscal years beginning on or after December 15, 2014, including reviews of interim financial information within those years. <u>Audit transparency</u> The PCAOB is expected to issue a supplemental request for comment to consider the possibility of naming the audit engagement partner and other firms that participate in the audit in a new form that would be filed with the PCAOB. The PCAOB also plans to issue a new proposal in the coming months on how to make the auditor's report more meaningful by including more information than today's pass/fail model.
New Mortality Tables	The Society of Actuaries has issued new mortality tables and a new improvement scale that reflect today's longer life expectancies. Companies that use them (or use them as a starting point) for developing their assumptions could see an increase in their benefit obligation. Companies will need to disclose any significant changes in benefit obligations and the general approach used to estimate mortality rates in management's discussion and analysis. Companies that do not use the tables should be considering longer life expectancies and should be prepared to support their assumptions with credible data. For further information, click **here** for a publication which provides further background on the new tables and the accounting implications.
EPA rule on Coal Combustion Residuals (CCR)	December 19, 2014 the EPA signed a rule on Coal Combustion Residuals (CCR). When finalized, these federal regulations will have an impact on current CCR disposal practices (e.g., groundwater protection and monitoring provisions, disposal facility design standards (*e.g.*, liners, location criteria) and closure and post-closure care requirements), potentially resulting in significant compliance costs and may lead to the closure of certain existing

	disposal facilities. Representatives of the EEI and AGA technical accounting groups have analyzed this rule with the assistance of experts on environmental regulations as well as legal staff and determined that the signing of a rule by EPA does not constitute a final rule and therefore is not a legal obligation that should be recognized in the financial statements as of December 31, 2014. Companies should evaluate whether disclosure of the rule should be included in the notes to the financial statements. The EEI and AGA are in process of evaluating when the effects of the rule should be recognized in the financial statements (i.e. when it is published in the Federal Registrar which is expected in Q1 2015 or upon the rule's effective date). Click here for a **link** to a draft of the legislation.
Tax considerations	On December 19, 2014 President Barack Obama signed tax legislation that retroactively reinstated expired tax provisions known as tax extenders. These provisions include the research and development tax credit, a host of renewable energy incentives and bonus depreciation. The income tax accounting effect, including the retroactive effect, of a tax law change is accounted for in the period of enactment, which in this case is the fourth quarter of 2014 for a calendar-year company. Beginning on 1 January 2015, companies should not include the effects of the extenders in their estimated annual effective tax rate or in the calculation of deferred tax balances because the extenders generally will expire again on 31 December 2014. For additional information on the tax legislation and the accounting implications, visit EY's summary of the ruling **here**.

Industry trends

Please click **here** to view a copy of the SEC Chief Accountant's speech at the AICPA conference.
Click **here** for a report by EY that discusses recent utility business valuations.
Click **here** for an article on the future of the utility industry.

Upcoming EEI & AGA Accounting Committee events

Date	Location	Description
May 17 – 20, 2015	Boston, MA	AGA-EEI Spring Accounting Conference
May 20 – 21, 2015	Boston, MA	EEI Property Accounting & Depreciation Training
June 1 – 2, 2015	Chicago, IL	Revenue Recognition Training
June 14 – 17, 2015	Austin, TX	AGA-EEI Accounting Leadership Conference & Chief Audit Executives' Conference
August 17 – 19, 2015	Ashville, NC	AGA Accounting Principles Committee
August 24 – 26, 2015	Washington DC	AGA-EEI Utility Internal Auditors' Training
August 24 – 27, 2015	Washington DC	AGA-EEI Public Utility Accounting Courses
September 16 – 18, 2015	Chicago, IL	AGA-EEI Accounting for Energy Derivatives
September 27 – 30, 2015	Seattle, WA	EEI Accounting Standards Committee
November 15 – 18, 2015	Phoenix, AZ	AGA-EEI Fall Accounting Conference