EEI & AGA Executive Accounting News Flash

Issue XIV – March 2015

Colleagues:

The first Quarter Executive Accounting News Flash recaps 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

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Standard setting & financial reporting update

Updates on select FASB, IASB, SEC, and other standard setting activities	
Revenue Recognition FASB to propose a one year deferral in the effective date TRG Evaluating Implementation Issues Industry implementation groups actively addressing key issues	The FASB proposed a one year deferral in the effective date. Under the proposal, the standard would be effective for annual reporting periods beginning after December 15, 2017 (i.e. beginning in Q1 2018 for calendar year-end companies). The Board plans to issue an Exposure Draft on the proposal to seek public comment in the coming months. 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). The Joint Transition Resource Group for Revenue Recognition (TRG) reached a general consensus on many implementation issues including the identification of performance obligations, accounting for costs to obtain a contract, stand-ready obligations, variable consideration and evaluating collectability. While the TRGs views are nonauthoritative, they represent the latest thinking on each topic, are useful as entities continue to implement the new standard, and in some cases may lead to proposed amendments. ***Industry considerations:*** *The AICPA utilities group continued to meet to discuss industry implementation issues. Refer to the September 2014 issue of the Accounting News Flash for a summary of additional industry issues identified to date.* For further details of the latest TRG consensus, visit EY's summary of the meeting here or the FASB's page here.
Leases Project Final standard expected in the second half of 2015 Final transition provisions are expected to reduce the time and effort of adoption No effective date has been set	The FASB substantially completed its redeliberations on the lease project and the FASB staff will begin to draft a final standard which is expected in the second half of 2015. At its February meeting, the Board decided that lessees and lessors would be required to apply the new standard using a modified retrospective approach at the adoption date and in comparative periods presented, with an option to use certain reliefs. Full retrospective adoption would be prohibited. Notably, the Board provided as a relief, an option whereby entities could elect not to reassess whether existing contracts are or contain leases on the adoption date. The modified retrospective approach would provide a method for recording existing operating leases on the balance sheets of lessees at adoption and in comparative periods that would approximate the results of a full retrospective approach. Based on the Board's final redeliberations, more arrangements involving power purchase arrangements are expected to meet the definition of a lease. Refer to the December 2014 Accounting News Flash for further details. ***Industry considerations:*** *The proposed transition guidance, including the proposed optional reliefs, should result in less time and effort to adopt the standard as compared to the 2013 exposure draft. However, as a result of*

	changes to the definition of the lease more power purchase arrangements are expected to fall within the scope of the new standard. 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* Final standard is expected in the second half of 2015 No date set for final standard	Classification & Measurement The FASB has concluded its redeliberations on its classification and measurement project. The FASB tentatively decided to amend certain provisions of current US GAAP on classifying and measuring financial instruments rather than completely over-hauling it as originally proposed. Under the proposal, all equity investments (other than those that result in consolidation or equity method accounting) will be recognized at fair value with changes recognized in net income. An entity would apply the guidance to all outstanding instruments and record a cumulative-effect adjustment to beginning retained earnings as of the beginning of the first reporting period in which it becomes effective (i.e., a modified-retrospective approach), with limited exceptions. ***Industry considerations:*** *These decisions 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 Final standard is expected in the second half of 2015 No date set for final standard	Impairments The FASB has concluded its redeliberations on its impairment project. Under the proposal, an entity would recognize an allowance for management's current estimate of lifetime expected credit losses for loans, trade receivables, held-to-maturity debt securities and certain other financial assets measured at amortized cost. An entity would apply the guidance by recognizing a cumulative-effect adjustment to the statement of financial position as of the beginning of the first reporting period in which the guidance is effective. An effective date has not yet been determined. ***Industry considerations:*** *The tentative decisions reached by the Board during redeliberations will result in an increase in the timing and amount of allowances taken on trade and other receivables.*
Hedging No date set for final standard	Hedging The FASB began redeliberating its 2010 proposal on derivative and hedge accounting and directed the staff to conduct additional research on assessing hedge effectiveness, component hedging, and presentation of ineffectiveness. 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. No tentative decisions were made at the Board's meeting.

	For further project details, visit EY's summaries of the classification and measurement project and impairment project **here** and **here**, respectively; or visit the FASB's project page **here**. Project details for the impairment and hedging projects can be found **here** and **here**, respectively.
Consolidation project Final standard issued in Q1 2015 Impacts all companies involved with LLCs, MLPs, or similar entities	In February, the FASB issued final guidance on its consolidation project. The ASU changes (1) the identification of variable interests (fees paid to a decision maker or service provider), (2) the VIE characteristics for a limited partnership or similar entity and (3) the primary beneficiary determination. The ASU also eliminates the presumption in today's voting model that a general partner controls a limited partnership or similar entity unless that presumption can be overcome. For public companies, the guidance is effective for annual and interim periods beginning after 15 December 2015 (i.e. beginning in 2016 for calendar year-end companies). Early adoption is permitted. ***Industry considerations:*** *While the new guidance is aimed at asset managers, all reporting entities involved with limited partnerships or similar entities will have to re-evaluate these entities for consolidation and revise their documentation. In some cases, consolidation conclusions will change. In other cases, a reporting entity will need to provide additional disclosures if an entity that currently isn't considered a variable interest entity (VIE) is considered a VIE under the new guidance. Under the new guidance, a general partner will not consolidate a partnership or similar entity under the voting model.* For further project details, visit EY's summary of the project **here** or the FASB's project page **here**.
Proposed disclosures for embedded derivatives Exposure draft issued in Q1 2015	The FASB issued a Proposed Accounting Standards Update that would require an entity to disclose information that would link an embedded derivative that is bifurcated from a hybrid financial instrument to its host contract. The proposed disclosures would include the locations and carrying amounts of the bifurcated derivative and its host contract (as well as the measurement attribute of the host contract) in the statement of financial position, along with the locations and amounts reported in the statement of financial performance. Comments are due by 30 April 2015. ***Industry considerations:*** *While the proposal is directed at embedded derivatives contained in financial instruments (e.g. loan agreements) the Exposure Draft asks respondents for feedback on whether the proposal should also apply to non-financial arrangements. If the project is expanded, it could impact the disclosures of those entities that have embedded derivatives within fuel supply or PPA arrangements.* For further details of the proposal, 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*	As part of its simplification initiative, the FASB issued two proposals to simplify income tax accounting. One would eliminate the exception related to recording the tax effects of intercompany transactions (i.e., deferral) and instead require companies to recognize the tax effects when the intercompany transactions occur. The other would require all deferred tax assets and liabilities to be classified as noncurrent on the balance sheet. Comments on both proposals are due by 29 May 2015.

Balance Sheet Classification of Deferred Taxes

Exposure draft issued in Q1 2015

Industry considerations: *The EEI and AGA accounting committees are currently evaluating the impacts of the proposed standards on the industry.*

For further project details, visit EY's summary of the project **here** or the FASB's project page **here**.

Customer's accounting for fees in a cloud computing arrangement

Final standard expected in the second half of 2015

The proposed ASU on cloud computing arrangements would provide guidance to customers on the accounting for fees paid in a cloud computing arrangement to determine whether the arrangement includes a software license. The FASB affirmed the proposed treatment that, if the arrangement includes a software license, the customer would generally capitalize the arrangement. If an arrangement does not include a software license, the customer would account for it as a service contract and in most cases recognize the costs as expense over the life of the arrangement term. The Board also concluded that companies should no longer analogize to the leasing guidance for those licenses that do meet the definition of software. The Board decided not to provide additional guidance on the accounting for costs incurred to customize or integrate cloud based computing solutions with an entity's existing IT infrastructure.

Industry considerations: *The Board's proposal may result in fewer cloud computing costs being eligible for capitalization than current industry practice. Because the proposal places a high threshold for accounting for cloud services as software, many common cloud computing arrangements would be treated as service contracts and expensed as they are incurred, and companies that analogize to lease accounting would no longer be able to do so. Further, as the Board did not provide additional guidance on the accounting for integration and customization costs incurred in cloud computing arrangements, it is expected that diversity in practice will continue to exist in this area.*

Simplifying the balance sheet classification of debt

Exposure draft expected in Q2 or Q3 of 2015

The FASB tentatively decided to replace today's rules-based guidance for determining whether to classify debt as current or noncurrent with a principle-based approach. Under this approach, debt would be classified as noncurrent when:

1. it is due to be settled more than 12 months after the reporting period or
2. the issuer has a right to defer settlement for at least 12 months after the reporting period.

To determine whether it has a right to defer settlement, the issuer would consider only its legal rights specified in the debt agreement, <u>not</u> its expectations about what the lender may do. Classification would be assessed as of the reporting date.

Industry considerations: *Based upon the Board's tentative decisions, it appears that the presence of subjective acceleration clauses (that are found in most bank financing arrangements) would result in the debt being classified as current. The EEI and AGA accounting committees are monitoring the Boards deliberations and plan to submit a comment letter*

	upon the Exposure Draft being issued.
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)* EITF consensus reached in Q2 2015	Normal purchase and normal sales At its March meeting, the EITF reached a final consensus that electricity purchase and sale contracts within nodal markets should be eligible to qualify for the normal purchases and sales (NPNS) exception from derivative treatment in ASC 815. The EITF approved a consensus for exposure that also would not include any additional disclosures and would require transition on a prospective basis only. The consensus for exposure will next be sent up to the FASB for further discussion and for the staff to draft an Exposure Draft. ***Industry considerations****: The approval of the EITF to allow energy contracts within nodal markets to be elected as NPNS is a significant step towards preserving the accounting elections currently being made by many entities within the industry. The adoption of this consensus culminates and extensive collaborative effort between EEI, its members, and representatives of the Big Four public accounting firms to educate the FASB on this issue.* For further details of the EITF meeting, visit the task force summary here.
2015 US GAAP Taxonomy released	The 2015 US GAAP Financial Reporting Taxonomy is available on the FASB website, along with materials that describe changes from the 2014 version. The 2015 taxonomy may be used for SEC XBRL Exhibit submissions only after it is adopted by the SEC, which is expected in the first half of 2015.
SEC proposes proxy disclosure of policies on hedging by employees, officers, and directors	The Securities and Exchange Commission (SEC) proposed a rule that would require most registrants to disclose whether they permit any employees, officers or directors to hedge their holdings of the company's equity securities or those of certain related entities. The proposal, which is mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act, is intended to help shareholders understand how employees' and directors' interests align with their own. For further details of the rule, see EY's summary of the proposal **here** or the SEC's proposed rule **here**.

Upcoming standard implementation & comment deadlines

Updates on select FASB, IASB, SEC, and other standard setting activities
Finalized standards and effective dates in 2015 (for calendar year-end public companies)
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 2014-05 Service Concession Arrangements (Topic 853) – Effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014
Finalized standards and effective dates after 2015 (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 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 2015-02 Consolidation – Principal vs Agent Analysis – Effective for annual and interim periods beginning after 15 December 2015
Open for public comment
April 30, 2015 • Disclosures about Hybrid Financial Instruments with Bifurcated Embedded Derivatives May 29, 2015 • Income Taxes: Intra-Entity Asset Transfers • Income Taxes: Balance Sheet Classification of Deferred Taxes

Other updates

IASB Rate-Regulated Activities (RRA) Update	The IASB consultative group on rate regulated activities met in March of 2015 to discuss the feedback the Board received on its RRA discussion paper (DP). Highlights from the meeting include: • Overall the comments on the DP were supportive of the IASB moving forward with the RRA project, • Most respondents favored a revenue approach for recognizing regulated assets and liabilities (similar to alternative revenue arrangements under US GAAP. • The IASB project on the conceptual framework is expected to have a significant impact on the RRA project. An Exposure Draft on the conceptual framework is expected in Q2 2015, The next steps on the RRA project are to be determined. The EEI and AGA working groups will continue to monitor developments in the coming months. For further details of the RRA project, visit **here**.
EPA rule on Coal Combustion Residuals (CCR)	The Coal Combustion Residuals Rule (CCR) was not published in the Federal Register prior to April 1, 2015 and therefore does not require recognition as of March 31, 2015 for accounting purposes. However, the rule may be published in the near term and require disclosure in the first quarter Form 10-Q. EEI and AGA are monitoring the status of the rule and will alert the technical accounting committees upon the rule being published.
FERC training opportunity	As part of a multi-phase initiative that will improve AGA/EEI member companies' access to FERC's emerging audit findings, accounting requirements, and formula-rate impacts, AGA/EEI and Deloitte hosted a webinar on March 11^{th} that attracted more than 1,500 participants. Future phases will include training, updates on new issues, and more efficient access to FERC requirements. For access to a replay of the webinar visit **here**.
AICPA technical practice aid	The AICPA issued a nonauthoritative technical practice aid, **Question and Answer 3700.01**, that relates to both employer and plan pension obligations to address how and when nongovernmental employee benefit plans and nongovernmental sponsoring entities consider updated mortality tables if their financial statements have not yet been issued at the time the updated tables are published.

Industry trends

Please click **here** to view a copy of EEI's report to Wall Street on the power industry outlook.
Click **here** for a report by EY that discusses the impact of recent tax regulations, including tangible property regulations, on the industry.
Click **here** for an article on the future of the utility industry.
Click **here** for a webcast hosted by EEI/AGA and PwC that discusses the emerging trend of REITs within the power and 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	AGA-EEI Revenue Recognition Training
June 14 – 17, 2015	Austin, TX	AGA-EEI Accounting Leadership Conference & Chief Audit Executives' Conference
August 17 – 19, 2015	Asheville, 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