EEI & AGA Executive Accounting News Flash

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Colleagues:

The second Quarter Executive Accounting News Flash recaps the Financial Accounting Standards Board's ("FASB" or "board") major standard setting projects, proposed rulings from the SEC and PCAOB, as well as an update on the international project on the IFRS Conceptual Framework. 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 FASB voted to defer the effective date of the new standard and proposed amendments to clarify guidance for identifying performance obligations Industry implementation groups making progress on key issues	The FASB issued two exposure drafts that would amend the new revenue recognition guidance. • On July 9, a majority of the FASB voted to approve a one-year deferral of the effective date of the revenue standard for all entities. Thus, the standard now will be effective for annual reporting periods beginning after December 15, 2017 and interim periods therein, with early adoption as of the original effective date permitted. • The second proposal clarifies the guidance on identifying performance obligations within a contract and specifies that an entity would not be required to identify goods or services provided to a customer that are immaterial in the context of the contract. ***Industry considerations:*** *The Board's proposed deferral of the effective date would provide the AICPA utility implementation group the needed time to resolve practice issues in applying the new standard. The Board's proposal on performance obligations may help identify the performance obligation(s) in contracts that 'bundle' capacity, energy and renewable energy credits. EEI and AGA supported the Board's proposals in our comment letters to the FASB which can be found* ***here*** *(effective date) and* ***here*** *(performance obligations).* The AICPA utilities group continued to meet to discuss industry implementation issues. The group submitted its first paper, on accounting for fixed quantity blend and extend (B&E) contract modifications, to the AICPA for review. It is expected that this question will be submitted to the TRG for further review. The group is also expected to submit its second paper on whether tariff sales subject to rate regulation are within the scope of the new standard, to the AICPA in the third quarter of 2015. ***Industry considerations:*** *The B&E contract modification issue relates to whether revenue subsequent to a modification should be recognized at the revised contractual price (as is commonly done under current GAAP), or whether revenue would be recognized at the original contract price throughout the duration of the original contract term. Also, variable quantity B&E contracts (i.e., full requirements) continue to be evaluated.* For further details of the latest revenue recognition updates, visit the FASB's page here and the AICPA revenue project page **here**.

Leases Project Final standard expected in the fourth quarter of 2015 No effective date has been set	The FASB continued to redeliberate various aspects of the lease project including: • modifications to the definition of a lease, • adding a requirement that lessors assess the collectability of lease payments for purposes of lease classification, recognition and measurement, • change its previous decisions about how lessors would account for modifications to Type A leases and evaluate Type A lease assets for impairment, and • carryforward today's guidance on a lessee's accounting for the purchase of a leased asset during the lease term. The Board will set an effective date before issuing the new standard, which is expected to occur in the fourth quarter of 2015. ***Industry considerations:*** *As companies begin to evaluate the new revenue recognition standard, they should also consider the impact of the new leasing rules. As a reminder, if a contract meets the definition of a lease, it would not be subject to the new rules on revenue recognition. If a contract no longer meets the definition of a lease under the new leasing rules, an entity would then need to evaluate it under ASC 815 to determine if it is a derivative. If the contract is not a lease nor a derivative, then the new revenue recognition rules would apply.* For further details of the leasing project, visit the FASB project page **here**.
Accounting for Financial Instruments (AFI) Projects *Classification & Measurement And Impairments* Final standards are expected in the fourth quarter of 2015 *Hedging* Exposure draft expected in Q4 2015	Classification & Measurement and Impairments Projects The FASB has concluded its redeliberations on its classification and measurement project as well as the impairments project. The Board estimates that final standards will be issued for each of these projects in the fourth quarter of 2015. No date has been set for when these standards will be effective. Hedging The FASB made a number of tentative decisions intended to make hedge accounting easier for companies to apply, including provisions that would: • defer the recognition of ineffectiveness for cash flow hedges until the hedged item affects earnings, • allow companies to hedge contractually specified components of nonfinancial items, and • relax certain hedge effectiveness assessment requirements, The FASB plans to issue an exposure draft seeking comment on these proposals during the fourth quarter of 2015.

	Industry considerations: *The tentative decisions reached by the Board could have a significant impact on those entities that apply cash flow hedge accounting to power, gas and other commodity instruments. In effect, the Boards proposal would result in derivatives that qualify for hedge accounting to be treated as perfectly effective until the hedged item impacted earnings. At that time, both the ineffective and the effective portion of the derivative gains or losses would be recognized in earnings. By allowing component hedging for nonfinancial instruments, entities may be able to apply hedge accounting to hedge strategies that previously did not qualify.* For further project details, visit EY's summary of the tentative decisions visit **here** or the FASB project page **here**.
Simplification Initiatives *Accounting for share-based payments* Exposure draft issued *Equity method investments* Exposure draft issued	The FASB proposed changing how companies account for share-based payments to employees as part of its broader simplification initiative. The proposal would change the guidance on: • accounting for an employee's use of shares to satisfy the employer's statutory income tax withholding obligation, • forfeitures, and • income tax effects when awards vest or are settled (i.e., APIC pools would be eliminated). It also would provide classification guidance for awards with contingent repurchase features and clarify the statement of cash flow presentation of certain share-based payments. Comments are due by August 14, 2015. ***Industry considerations:*** *The proposal is expected to simplify the accounting for share-based payments. The EEI and AGA accounting committees are currently evaluating the proposed standard for any unintended consequences and plan to submit a joint comment letter to the Board.* For further project details, visit EY's summary of the project **here** or the FASB's project page **here**. The FASB proposed simplifying the equity method of accounting by eliminating the requirement that an investor identify, account for and make disclosures about the difference between its cost basis of an investment and its proportional interest in the equity of the investee (i.e., the basis difference). As a result, entities would no longer have to estimate the acquisition date fair value of an investee's assets and liabilities to allocate basis differences. The FASB also proposed eliminating the requirement that an investor account for an equity method investment retrospectively when it increases its ownership to a level that initially qualifies for the equity method. Comments are due by August 4, 2015. ***Industry considerations:*** *While the proposal would decrease the complexity of accounting for equity method investments, the proposed rule would have an impact on companies' significance tests performed under Rule 3-09 of Regulation S-X. Further, the proposed rule could impact the timing and amount of any future other-than-temporary impairments recognized under ASC 323. Due to minimal industry impact and diversity in views, the EEI and*

	AGA Accounting Committees are currently not planning on commenting on this proposal. For further details of the rule, see EY's summary of the proposal **here** or the FASB's proposed rule **here.**
Simplifying the accounting for measurement-period adjustments Comment period closed	The FASB proposed eliminating today's requirement that an acquirer in a business combination account for a measurement-period adjustment retrospectively. Instead, an acquirer would recognize a measurement-period adjustment during the period in which the amount of the adjustment is determined. ***Industry considerations:*** *In practice, many entities do not retrospectively present measurement-period adjustments based upon the materiality of those adjustments to the financial statements. However, this proposal would eliminate the need to perform a materiality assessment of these adjustments on previously issued financial statements.* See EY's summary of the new rule **here**, or see the FASB project page **here**. Also, refer to AGA's comment letter supporting this proposal **here**.
Presentation of debt issuance costs Final standard	The FASB issued final guidance that requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the debt liability rather than as an asset. The new guidance will make the presentation of debt issuance costs consistent with the presentation of debt discounts or premiums. The standard applies to all entities. ***Industry considerations*** - *When companies adopt the new guidance, which requires retrospective application, they will need to assess whether the year-end financial statements incorporated by reference or included in a new or amended registration statement (other than Form S-8) should be revised to reflect the standard. If the accounting change is material, a company must file revised historical annual financial statements reflecting the retrospective application of ASU 2015-03 (often included in Form 8-K that is incorporated by reference into the registration statement).* See EY's summary of the new rule **here**, or see the FASB project page **here**.
Customer's Accounting for Fees Paid in Cloud computing Arrangements Final standard	The FASB amended its guidance on internal use software to clarify how customers in cloud computing arrangements should determine whether the arrangement includes a software license and to eliminate today's requirement that customers analogize to the leases guidance to determine the asset acquired in a software licensing arrangement. Effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. ***Industry considerations*** – *See the March 2015 Accounting NewsFlash for details of how this standard is expected to impact the utility industry.* For further details of the rule, see EY's summary of the proposal **here** or the FASB's proposed rule **here.**

Fair value practical expedient Final standard issued	The FASB issued final guidance that eliminates today's requirement to categorize investments measured using the net asset value practical expedient in the fair value hierarchy table. The new guidance is effective for public business entities for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted. ***Industry considerations*** *– EEI and AGA supported this proposal in a joint comment letter. It is expected that this proposal will result in better fair value disclosures and will take companies less time and effort to develop such disclosures.* See EY's summary of the new rule **here**, or see the FASB project page **here**.
Emerging Issues Task Force (EITF) *Normal purchase and sales election within nodal markets* *Impact of derivative novations* on hedge relationships	At its June meeting, the EITF ratified 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 also ratified a final consensus that novations of derivative instruments would not require an entity to de-designate such derivative if it was in a cash flow hedge relationship. It is expected that the FASB will approve these proposals at its next meeting in the third quarter of 2015. ***Industry considerations****: The approval of the EITF to allow energy contracts within nodal markets to be elected as NPNS and for derivative novations not to impact hedge accounting is a significant step towards preserving the accounting treatment currently being used by many entities within the industry and eliminating diversity in practice for others.*
Updates on select SEC, PCAOB, and other regulatory activities	
SEC updates *Proposal on Audit Committee Disclosure Rules* Proposal on Incentive Compensation Clawback Rules	The SEC issued a concept release on possible revisions to its audit committee disclosure rules that explores whether audit committees should provide more qualitative disclosures about how they execute their existing audit oversight responsibilities. The SEC has requested comments by 60 days of publication in the Federal Register. For further details on the concept release, see the SEC's project page here. The SEC proposed rules that would require companies to have policies to "claw back" incentive-based compensation from current and former executive officers in the event of a financial restatement. The proposal would generally require companies to recover incentive compensation executive officers earned for up to three years prior to a restatement, with no consideration of whether the executive was at fault. The proposal would apply to incentive compensation based on accounting-related measures, stock price or total shareholder return. The comment period will end 60 days after the proposal is published in the Federal Register. For further details of the proposed rule, visit the SEC's project page **here**.

Proposal on 'pay versus performance' disclosure	The SEC proposed rules requiring companies to disclose the relationship between their executive compensation and their total shareholder return (TSR). The so-called pay versus performance disclosures would be included in proxy or information statements in which executive compensation disclosures are required. For further details of the Pay versus Performance, visit EY's summary of the proposal **here** SEC's proposal **here.**
PCAOB updates *Proposals on Audit Quality Indicators and Disclosing Engagement Partners* *Audit Committee Dialogue*	The PCAOB issued a concept release seeking input on 28 possible audit quality indicators (AQI) and how they might be used by audit committees, audit firms, investors, regulators and others. The PCAOB indicated that the AQI's are not intended to be used as scores or grades but would need context in order to be understood. . The Board also proposed requiring audit firms to file a new form with the PCAOB that would name the engagement partner (i.e., the partner with primary responsibility for the audit) and disclose information about certain other public accounting firms that participated in the audit. Comments on the concept release and the engagement partner proposal are due 29 September 2015 and 31 August 2015, respectively. For further details of the PCAOB's concept release, visit EY's summary **here** or the PCAOB's project page **here**. For further details on the engagement partner disclosure proposal, visit EY's summary **here** or the PCAOB's project page **here**. In addition to the proposals above, the PCAOB has also developed a publication to provide audit committees insights from the PCAOB's work. This initiative, called the 'Audit Committee Dialogue' highlights areas of recurring concern in PCAOB inspections, discusses emerging risks to financial statement audits and provides example questions Audit Committee members may want to ask their external auditor. For further information, a copy of the Audit Committee Dialogue can be found **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)
- 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 December 15, 2016, and interim periods within annual periods beginning after December 15, 2016

- ASU 2015-02, Consolidation – Principal vs Agent Analysis
- ASU 2015-07, Fair Value Measurement (Topic 820), Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)
- ASU 2015-05, Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40), Customer's Accounting for Fees Paid in a Cloud Computing Arrangement
- ASU 2015-03, Interest-Imputation of Interest (Subtopic 835-30), Simplifying the Presentation of Debt Issuance Costs
    - Effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years

Open for public comment

August 14, 2015: Improvements to Employee Share-Based Payment Accounting
August 4, 2015: Simplifying the Equity Method of Accounting
October 26, 2015: IASB Conceptual Framework

Other updates and industry trends

IASB Conceptual Framework Exposure Draft issued	In May, the IASB issued an Exposure Draft (ED) which proposes comprehensive changes to its Conceptual Framework. Among other items, the ED proposes revisions to the definitions of assets and liabilities in the financial statements. Comments are due October 26, 2015. ***Industry** considerations* - Given the importance of the definition of assets and liabilities under IFRS to the rate regulated activities (RRA) project, the EEI and AGA RRA task force is evaluating the ED for implications to the RRA project. For further details on the Conceptual Framework project, visit EY's summary **here** or the IASB project page **here**.
EPA rule on Coal Combustion Residuals (CCR) *Final rule has been published*	The Coal Combustion Residuals Rule (CCR) was published in the Federal Register on April 17, 2015 and therefore does require recognition as of June 30, 2015 for accounting purposes. For further details of the rule, visit **here**.
Industry trends	
Please click **here** to view a copy of a letter from the Chamber of Commerce to the PCAOB regarding unintended consequences of PCAOB inspection activities.	
Click **here** for the latest version of the EEI Financial Review - an annual report on the financial performance and strategic direction of the electric utility industry, including policy developments that continue to shape the industry.	
Click **here** for the latest version of the AGA's online magazine.	

Upcoming EEI & AGA Accounting Committee events

Date	Location	Description
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
June 27 - 29, 2016	Asheville, NC	AGA-EEI Accounting Leadership Conference and Chief Audit Executives Conference