EEI & AGA Executive Accounting News Flash

Issue XVI – October 2015

Dear Colleagues:

Welcome to the 2015 third quarter edition of the Executive Accounting News Flash. Our industry continues to experience unprecedented levels of change including active standard setting by regulators, an active M&A market, and the EPA's issuance of the final rule for its Clean Power Plan.

In this quarter's edition we recap the latest developments in the new revenue recognition standard, proposed changes to debt classification, and various other updates to the Financial Accounting Standards Board's ("FASB") and International Accounting Standards Board's ("IASB") major standard setting projects. We also provide an overview of the SEC and PCAOB proposals currently being considered – all aimed at improving audit quality and providing audit committees and other interested parties with greater transparency into the audit. As always, a summary of upcoming accounting standard implementation dates, near-term comment period deadlines, and select highlights on other industry accounting matters are also included.

For more detail on any of the information provided herein, please click the related links contained within or reach out to:

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Revenue Recognition	
FASB, IASB continue to advance revenue recognition implementation issues *Principal versus agent considerations*	The FASB and IASB's latest efforts to improve the new revenue standard involve amendments to the guidance on assessing whether an entity is a principal or an agent (gross versus net revenue reporting). The boards agreed to the same proposed amendments, which will clarify: • the unit of account for the principal versus agent assessment; • how the indicators help an entity evaluate whether it controls a good or service before it is transferred to a customer; and • how the control principle applies to services performed by another party (e.g., subcontractor). The FASB included these amendments in a proposal released in late August, with a comment deadline of October 15. The IASB incorporated these amendments in a package of proposed amendments issued in July, with a comment period that ends October 28. ***Industry considerations:*** *The proposed clarifications retain the principles based approach of the standard and are not expected to result in significant changes in gross versus net reporting conclusions for our industry.* Refer to the following publication for additional details: In transition US2015-05, *FASB and IASB agree to clarify principal versus agent guidance*
Narrow-scope improvements and practical expedients	On September 30, the FASB proposed further amendments to the new revenue standard, including amendments to the guidance related to collectibility, noncash consideration, and completed contracts at transition, and the addition of new practical expedients. The proposed amendments are intended to address implementation issues discussed by the Transition Resource Group (TRG). Notable amendments in the exposure draft include: *Clarification on assessing collectibility* – Entities should consider, as part of the requirement to assess the collectibility of contract consideration, their ability to cease providing goods or services in the event of nonpayment. ***Industry considerations:*** *Companies have raised questions as to how the probability of collection should be assessed for certain classes of customers for which payment may be less likely to be received (e.g., customers with low credit ratings) and whether they would be required under the new standard to defer recognizing revenue for these customers until payment is collected (versus recognizing bad debt expense).* *The Board has indicated it believes that in most transactions an entity would not enter into a contract with a customer in which there was significant credit risk associated with that customer without also having adequate economic protection to ensure that it would collect the consideration, and therefore would expect many contracts would not fail the collectibility criterion. However, companies should use judgment and consider all of the facts and circumstances, including contractual terms, the entity's customary business practices, and its knowledge of*

Revenue Recognition	
	the customer, in determining whether it is probable that the entity will collect substantially all of the consideration. *Net presentation practical expedient for sales taxes* – Entities would be allowed to make a policy election to present all sales taxes collected from customers on a net basis. If not elected, entities would have to evaluate each type of tax to determine whether to report on a gross or net basis. *"Use of hindsight" practical expedient for contract modifications* – For contracts modified multiple times prior to the adoption of the new standard, entities would be allowed to determine the transaction price based on the terms of the contract in effect at the date of adoption and perform a single allocation between the satisfied and unsatisfied performance obligations (with the benefit of hindsight). This practical expedient would only be available at the date of adoption, and would not be applicable for subsequent contract modifications. ***Industry considerations:*** *The proposed practical expedients are intended to reduce the cost and complexity of applying the new revenue standards. Companies should evaluate whether to apply the practical expedients, in particular the "use of hindsight" expedient as it relates to blend and extend contracts.* Refer to the following publication for a comprehensive summary of the proposed amendments: In brief US2015-30, *FASB proposes further amendments to the new revenue standard (narrow scope improvements and additional practical expedients)*
Boards finalize one-year deferral	The FASB and IASB both finalized the deferral of the effective date of the new revenue standard by one year, which means calendar-year end public companies are required to apply the new guidance beginning in 2018 (with the option to adopt one year earlier). ***Industry Considerations:*** *Companies should not delay their implementation activities as a result of the deferral, but rather use the additional transition time to fully assess the impact of the guidance and effectively implement the necessary changes to processes, controls, and systems.*
AICPA Power and Utility Revenue Recognition Task Force submits contract modifications to FASB Transition Resource Group for consideration	The AICPA utilities continues to evaluate 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 which in turn has now submitted it to the FASB staff for possible Transition Resource Group (TRG) consideration. The group also submitted its second paper on whether tariff sales subject to rate regulation are within the scope of the new standard to the AICPA for consideration by FinREC. Refer to the following publication for a summary of the implementation issues currently being evaluated by the TRG: *In transition US2015-06*, *Transition Resource Group debates revenue recognition implementation issues.*

Standard Setting & Financial Reporting Update
Updates on select FASB, IASB, and other standard setting activities

Revenue Recognition	
Next steps	Comments on the principal versus agent considerations exposure draft were due October 15, 2015. Click here to view a copy of the EEI and AGA joint response submitted. Comments on the narrow-scope improvements and practical expedients exposure draft are due November 16, 2015. EEI and AGA are currently evaluating whether to submit a response to the request for comment.
For more information	For additional background, please visit the following PwC publications: In transition US2015-06, *Transition Resource Group debates revenue recognition implementation issues* In depth US2014-01 (supplement), *Revenue from contracts with customers – Power and Utilities industry supplement* In brief US2015-26, *IASB proposes changes to revenue standard; more FASB proposals coming soon*

Debt Classification	
Debt classification guidance heading for change	The FASB plans to propose a principle-based approach for classifying debt in Q4 as part of its continuing efforts to simplify GAAP. The anticipated proposal will change current guidance, but will not be as dramatically different as the changes originally contemplated by the FASB at the beginning of the year. The upcoming proposal is expected to classify debt as noncurrent if one or both of the following criteria are met as of the balance sheet date: (1) the liability is contractually due to be settled more than 12 months after the balance sheet date, and (2) the entity has a contractual right to defer settlement of the liability for at least 12 months after the balance sheet date.
Additional aspects of the proposal	The FASB also tentatively decided that debt should generally be classified based on facts and circumstances that exist at the balance sheet date only—with one exception: Covenant violations that occur as of the balance sheet date but are subsequently waived before the financial statement issuance date will not cause the debt to be classified as current, provided certain conditions are met. The board provided this exception because debt covenants typically can't be calculated until after the balance sheet date, so it's difficult for a company to get a waiver for such a violation prior to the balance sheet date. Another aspect of the anticipated proposal relates to subjective acceleration clauses (SAC), which give the lender a subjective right to accelerate payment of the debt. Under the proposed guidance, SACs only impact classification when actually triggered. One aspect of the proposal that will create a change in practice relates to refinancing debt on a long-term basis after period end. Under today's guidance, a company can reclassify debt that is contractually short-term as of the balance sheet date, presenting it as noncurrent if the company has the intent and ability to refinance the debt on a long-term basis between the balance sheet and the financial statement issuance date. The

Debt Classification	
	proposed guidance won't permit companies to make that reclassification. ***Industry Considerations:*** *Many companies in our industry utilize short-term borrowings that are eventually replaced with long-term financing. Under the proposed standard, an entity will no longer be able to support noncurrent classification of such borrowings simply based on the ability and intent to refinance short-term obligations on a long-term basis subsequent to the balance sheet date. However, if settlement of the short-term borrowings can be deferred for a period beyond 12 months, based on contractual terms in effect as of the balance sheet date, an entity may be able to classify the debt as noncurrent. An example of this may include short-term borrowings that automatically roll over (e.g., monthly, quarterly) and are drawn on a revolving credit facility that has a term that extends at least 12 months from the balance sheet date.* *Many companies in our industry also have debt instruments that have maturity dates beyond 12 months, but are remarketed periodically or have a put option. Under the proposed standard, these attributes would be treated similar to SAC's which would not impact classification until triggered. Therefore, these types of debt instruments would only be classified as noncurrent unless the remarketing fails or the put option is exercised on or before the balance sheet date. An entity would not be required to assess the probability of such an event occurring.*
Next steps	The FASB is expected to issue an exposure draft in Q4. It is expected to have a 60-day comment period.
For more information	For additional background refer to the FASB's project update.

Financial Instruments	
FASB proposes a series of changes intended to better align entities' risk management efforts with their accounting results and reduce complexity	At its June 29, 2015 meeting, the FASB decided to propose targeted amendments to several aspects of hedge accounting guidance for both financial and nonfinancial hedges. The goal is to better align hedge accounting with a reporting entity's risk management objectives and simplify hedge accounting for preparers. The changes, if finalized, will significantly change what qualifies for hedge accounting, how it is documented, how hedge effectiveness is assessed and hedge ineffectiveness is measured, and how the hedging results are presented and disclosed in the financial statements. An exposure draft is expected by the end of the year. ***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.*
Next steps	The FASB is expected to issue an exposure draft related to this hedging project in Q4. It is expected to have a 60-day comment period.

Standard Setting & Financial Reporting Update
Updates on select FASB, IASB, and other standard setting activities

Financial Instruments	
	There have been no significant developments in the financial instruments projects regarding Classification & Measurement and Impairment since the previous quarter. Exposure drafts related to these projects are expected to be issued in Q4 2015 and Q1 2016, respectively.
For more information	For additional background refer to In brief US 2015-19, *Financial and nonfinancial hedges: Significant changes to be exposed*.

Disclosure Framework Project	
New exposure drafts clarify the definition of materiality and its relevance when preparing footnote disclosures	On September 24, 2015, the FASB issued two exposure drafts related to its Disclosure Framework Project. The proposed changes would apply to all entities and are intended to improve the effectiveness of financial statements by eliminating immaterial disclosures and reducing the overall volume of information contained in the notes by clarifying the following key concepts: • Materiality should be applied to quantitative and qualitative disclosures individually and in the aggregate in the context of the financial statements as a whole; therefore, some, all, or none of the requirements in a disclosure Section may be material. – (*Intended to clarify that preparers should not view disclosure requirements as being "all or nothing")* • Materiality is a legal concept, as defined by the U.S. Supreme Court under U.S. securities law. - *(Intended to align materiality concepts under GAAP with the legal concept of materiality)* • Omitting a disclosure of immaterial information would not be an accounting error. – *(Intended to reduce or eliminate obstacles to omitting immaterial disclosures cited by preparers)* ***Industry Considerations:*** *This may provide an opportunity for companies to increase the effectiveness of their quarterly and annual reports by reducing or eliminating immaterial disclosure (e.g., for example, investments in total may be material for an entity, but level 3 transfers in/out may not be). However, this is going to require an increased level of judgment in determining whether disclosures are material/sufficient. Companies should consider how to make those determinations and make sure those judgments are well documented.*
Next steps	Comments on the proposed changes are due on December 8, 2015. EEI and AGA anticipate submitting a response to the FASB's request for comments.
For more information	For additional background refer to In brief US 2015-29, *Footnote materiality – two FASB proposals related to the Disclosure Framework*.

Net Periodic Pension and Postretirement Benefit Cost	
FASB contemplates changes presentation of pension and postretirement benefit costs	At its June 29, 2015 meeting the Board reached certain decisions that are expected to impact net periodic pension and postretirement benefit cost. The potential changes would require that certain components of pension costs (e.g., interest cost component) be presented separate from operating expenses. The Board is also contemplating limiting the portion of pension costs that can be capitalized (e.g., as plant) to only the service cost component. This would require other components of pension costs, which historically may have also been capitalized by companies, to instead be expensed in the current period. ***Industry Considerations:*** *The proposed changes may result in additional reconciling differences between GAAP reporting and reporting for regulatory purposes (e.g., FERC reporting). If regulators require companies to continue to capitalize pension and postretirement cost consistent with current practice, this may create significant administrative complexities (e.g., changes to accounting systems). In contrast, if regulators require companies to account for these costs under the proposed GAAP revisions, this may impact the timing or amount of costs ultimately allowed to be recovered from ratepayers.*
Next steps	The FASB is expected to issue an exposure draft related to this hedging project in Q4. It is expected to have a 60-day comment period. EEI and AGA are in the process of developing initial points of view based on the decisions reached to date and expect to issue a joint comment letter once the exposure draft is issued.
For more information	Click here for additional background and the latest FASB's project summary.

Final Standards Recently Issued

Application of the Normal Purchases and Normal Sales Scope Exception to Certain Electricity Contracts within Nodal Energy Markets

In August, the FASB issued a final version of the accounting standard update ("ASU") aimed at clarifying whether the normal purchase/normal sales exception can be applied to contracts for the purchase or sale of electricity on a forward basis when either the delivery location is within a nodal energy market or the contract necessitates transmission through a nodal energy market. The provisions of the final standard are consistent with the proposed ASU previously released for comment and are expected to eliminate the diversity in practice that currently exists within our industry. This guidance became effective upon issuance and should be applied prospectively.

Refer to the following link to view the comment letter submitted: EEI Comment Letter

Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements

In August, the FASB issued guidance to clarify how costs associated with a line of credit should be presented and measured. This clarification allows companies to defer debt issuance costs and present them as an asset and subsequently amortize the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. This clarification is not intended to change current practice for companies but rather clarify that this is an acceptable accounting treatment. This guidance became effective upon issuance.

Refer to In brief US2015-18, *SEC weighs in on treatment of costs related to revolving debt arrangements,* for additional details.

Simplifying the Accounting for Measurement Period Adjustments

In September, the FASB issued a final ASU related to measurement period adjustments resulting from a business combination. The update requires an acquirer to recognize adjustments to provisional amounts and the impact to earnings in the reporting period in which the adjustment amounts are determined (vs. current guidance which requires an acquirer to apply such adjustments retrospectively as of the acquisition date). The update also requires an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment had been recognized as of the acquisition date. The provisions of the final standard are consistent with the proposed ASU previously released for comment. This guidance is effective for public companies for fiscal years beginning after December 15, 2015, and interim periods within that year.

Refer to In brief US2015-28, *FASB simplifies accounting for measurement period adjustments*, for additional details.

Refer to the following links for comment letters submitted: AGA Comment Letter

SEC and PCAOB throw in new ideas regarding auditor oversight and transparency

At the end of the second quarter, the SEC issued a concept release asking for input on whether additional disclosure about the audit committee's oversight of the independent auditor could be beneficial to investors. Practically concurrent with that release, the PCAOB issued two separate requests for comment—one asking for input on a group of 28 potential audit quality indicators (AQIs), and the other on disclosing the name of the engagement partner and information about certain other participants in the audit in a new PCAOB form, rather than in the auditor's report (as previously proposed). All of these proposals have a common theme—providing audit committees, investors, and other interested parties with information related to the auditor, audit, or audit firm that may be valuable to these stakeholders.

For more information
Read In brief US2015-22, *PCAOB seeks comment on potential audit quality indicators*, for more information about the AQIs, including examples of those proposed.

SEC adopts rule requiring CEO pay ratio disclosure

The SEC's new pay ratio disclosure rule requires many public companies to disclose the ratio of their CEO's annual total compensation to the median annual total compensation of all employees. Starting in fiscal years beginning on or after January 1, 2017, the pay ratio disclosure is required in registration statements, proxy and information statements, and annual reports that require executive compensation disclosures.

For more information
See In brief US2015-27, *SEC adopts rule requiring CEO pay ratio disclosure*, for additional details on the rule, including the identification of the median employee, determination of total compensation, and disclosure considerations.

SEC seeks comments on first initiative of disclosure effectiveness project

On September 25, 2015, the SEC published a request for comment to solicit public input regarding financial disclosure requirements in Regulation S-X relating to certain non-registrant entities. The request for comment represents the first release on Regulation S-X from the SEC's disclosure effectiveness initiative.

For more information
See In brief 2015-31, *SEC seeks comments on first initiative of disclosure effectiveness project*, for additional details on the specific rules and comments requested. Refer also the following link for the full text of the SEC's request for comment.

Industry Trends and Other Developments

Clean Power Plan – Final Rule Issued

In August, the EPA issued a final rule for its proposed Clean Power Plan (CPP), which requires significant reductions in CO_2 emission from existing power plants by 2030 (a 32% reduction from 2005 levels). The CO_2 emission reduction targets are phased in over an eight year period separated into three interim periods; 2022-2024; 2025-2027; and, 2028-2029. To provide maximum flexibility to states in meeting the targets, the rule allows states to achieve targets through a combination of "building blocks" taking into account strategies, technologies, and measures already being used. These building blocks include: (1) implementing heat-rate improvements at coal-fired power plants; (2) replacing coal with natural gas-fired generation; and, (3) replacing coal with renewable energy. States are required to submit their plans for compliance by September 2018. In its plan, a state must define its interim milestones and demonstrate how it will achieve them, as well as how it will meet the CPP's final goals.

Industry Considerations: *Companies should monitor the status of proposed compliance plans for states in which they operate and evaluate the potential impact of each state's plan which may include:*

- *Potential plant retirements, including impairment considerations*
- *Increased capital expenditures*
- *Recoverability of stranded assets*
- *Impacts to rate payers*
- *Increases in state mandated renewable energy standards*

Other Developments

Click here for the latest edition of EEI's publication Electric Perspectives.

Click here for the latest edition of the AGA's online magazine.

Exposure Drafts Open for Comment

Deadline for Comment	***Description***
October 26, 2015	IASB Conceptual Framework Click here for a copy of the EEI-AGA joint response submitted.
November 16, 2015	Proposed Accounting Standards Update, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*
November 30, 2015	SEC Publishes Request for Comment on Regulation S-X
December 8, 2015	FASB's Proposed Updates to Conceptual Framework Qualitative Characteristics of Useful Financial Information – Proposed Materiality Clarifications
December 8, 2015	FASB's Proposed Updates to Accounting Standards Assessing Whether Disclosures Are Material

Upcoming EEI & AGA Accounting Committee Events

Date	*Location*	*Description*
November 15 – 18, 2015	Phoenix, AZ	EEI-AGA Fall Accounting Conference
May 15 – 18, 2016	New Orleans, LA	EEI-AGA Spring Accounting Conference
May 18 – 19, 2016	New Orleans, LA	EEI-AGA Property Accounting & Depreciation Training Seminar
June 27 – 29, 2016	Asheville, NC	EEI-AGA Accounting Leadership Conference and Chief Audit Executives Conference
August 22 – 24, 2016	Atlanta, GA	EEI-AGA Utility Internal Auditor's Training Course
August 22 – 25, 2016	Atlanta, GA	EEI-AGA Introduction to Public Utility Accounting and Advanced Public Utility Accounting Training Courses
August 15 – 17, 2016	Kansas City, MO	AGA Accounting Principles Committee Annual Meeting
September 12 – 14, 2016	Chicago, IL	Accounting for Energy Derivatives Training
September 18 – 21, 2016	Charleston, SC	EEI Accounting Standards Committee Annual Meeting
November 13 – 16, 2016	Clearwater Beach, FL	EEI-AGA Fall Accounting Conference