EEI & AGA Executive Accounting News Flash

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Dear Colleagues:

Welcome to the 2015 fourth quarter edition of the Executive Accounting News Flash.

In this quarter's edition we recap the latest developments in the new revenue recognition standard, the recently announced effective date for the new leasing standard, 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	
The new revenue standard – changes on the horizon *Transition Resource Group for revenue recognition holds it last scheduled meeting* *Potential for future meetings if need arises – see below*	At its November 9 meeting, the Transition Resource Group (TRG) discussed implementation issues for the new revenue standard, including: • *Customer options for additional goods and services* – how to distinguish between customer options and variable consideration and when, if ever, "optional" goods or services represent performance obligations • *Licenses* – specific application issues about license restrictions and renewals • *Pre-production activities* – how to assess whether pre-production activities represent a performance obligation, and how to account for costs in the scope of specific US GAAP TRG members generally agreed with the FASB and IASB staff's views on the framework for identifying when a contract includes an option to purchase additional goods or services. Further discussion or clarification is expected related to the accounting for restrictions in a license of intellectual property based on the TRG's feedback.
AICPA Power and Utility Revenue Recognition Task Force submits contract modifications to FASB Staff for consideration	The AICPA Power & Utilities task force continues to evaluate industry implementation issues. The group has submitted position papers on the following issues to date: • Accounting for contract modifications (e.g., blend-and-extend modifications) – submitted to FASB staff for possible consideration by the TRG • Scope clarification regarding tariff sales to regulated customers – submitted to the AICPA • Revenue Recognition for Fixed Price Contracts (Consideration of Different Pricing Conventions) – submitted to the AICPA The group is currently addressing the application of the series guidance to storable commodities, and expects to submit this paper to the AICPA in early 2016. Refer to the AICPA's website for a complete list and current status of the implementation issues identified to date for the Power & Utilities industry.
Next steps	Currently, there are no additional TRG meetings scheduled. The boards are considering whether to schedule future meetings, which could depend on the number of implementation questions they receive. The AICPA task forces also continue to discuss industry-specific implementation issues, and are expected to issue drafts of industry guidance later this year. These drafts will be posted for public comment on the AICPA's website when available. ***Industry Considerations:*** *Given the principles based nature of the standard, it is not expected that the FASB will issue prescriptive guidance addressing every implementation issue raised. Therefore, companies are strongly encouraged to commence their implementation activities rather than delay until all implementation issues have been addressed.*

Revenue Recognition	
For more information	For additional background and a comprehensive summary of the proposed amendments, please visit the following PwC publications: In transition US2015-08, *The new revenue standard – changes on the horizon* In transition US2015-07, *TRG discusses optional purchases, licenses, and other topics* In depth US2014-01 (supplement), *Revenue from contracts with customers – Power and Utilities industry supplement*

Net Periodic Pension and Postretirement Benefit Cost	
FASB contemplates changes in 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 separately 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. At its November 2, 2015 meeting, the Board discussed comments received from reviewers (including EEI and AGA) of a pre-issuance draft of the proposed ASU on the following issues: • Presentation of prior service cost or credit • Capitalization of net benefit cost for a rate-regulated entity • Separate line item or items outside operating items, if applicable No specific decisions were made with respect to these issues. The Board has directed the staff to draft a proposed ASU for comment. ***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 in early 2016. It is expected to have a 90-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.

Net Periodic Pension and Postretirement Benefit Cost	
Pension plan discount rates – some adopt new methodology	Recently, several actuarial firms have proposed alternative approaches to the present value technique used in the calculation of the service cost and interest cost components of pension expense. An entity that adopts such an approach will likely see a relative decrease in the overall interest and/or service cost; however, the measure of the plan's benefit obligation is unaffected. This topic has been the subject of numerous discussions among the Big 4 accounting firms, various actuarial firms, the SEC staff, and the FASB staff and board members. It is expected that the SEC staff would not object to a registrant that historically has used a yield curve approach to determine the present value of its PBO and a single weighted-average discount rate for service and interest cost to change to a disaggregated (i.e., duration-specific) discount rate approach to determine interest and service cost. In addition, the SEC staff has indicated in recent conversations that it would not object to a registrant treating this change as a change in accounting estimate. However, they cautioned that entities that financial statements and Management's Discussion and Analysis about the effects of the change. There are ongoing discussions on this topic as it relates to entities that utilize a bond-matching approach to compute their benefit obligation. At the recent National AICPA Conference, Ashley Wright (Professional Accounting Fellow, Office of the Chief Accountant) commented that while she would be willing to discuss an individual registrant's facts and circumstances and its rationale for changing to an alternative discount rate development approach, there are a number of criteria that should be considered in that assessment, including: • The measurement of the pension obligation and determination of interest costs are integrated concepts, however the pension obligation should be considered the relevant starting point • A company should change its methodology only if the change results in better information • A company's decision to select, or to change the selection of, a particular methodology should align with the requirement to select the best rate(s) for which the obligation could be effectively settled Companies should carefully consider the original basis for changing from a yield curve to a bond matching approach in determining whether a change in methodology is appropriate. Click here to read the full text of Ms. Wright's remarks.
For more information	Refer to the following PwC publication for additional details and considerations: Insights from Human Resource Services: Using multiple discount rates to develop benefit plan cost

Leasing	
FASB finalizes effective date for the proposed leasing standard	On November 11, the FASB deliberated the effective date for the proposed new leasing standard. The standard will be effective for calendar year-end public companies beginning after December 15, 2018. Early adoption is permitted. The IASB previously voted for an effective date of January 1, 2019. The IASB will also permit early adoption, but only on or after adoption of the new revenue standard. ***Industry Considerations:*** *Companies are likely to see a significant increase in balance sheet assets and liabilities. In particular, certain purchase power agreements that are not accounted for as leases under current guidance may meet the definition of a lease under the new standard. However, the dual model for income statement classification is expected to limit the impact of proposed changes on the income statement and statement of cash flows. Identifying which arrangements contain a lease will require judgment and may not always be a straightforward determination.*
Next steps	The FASB is expected to issue the final standard in early 2016. EEI and AGA plan to offer industry-specific forums for training on the new standard.
For more information	For additional details refer to the FASB's press release.

Business Combinations	
Definition of a business	On November 23, 2015, the FASB issued a proposal that would revise the definition of a business. The definition of a business directly and indirectly affects many areas of accounting (e.g., acquisitions, disposals, goodwill impairment, and consolidation). Under the current guidance, a business generally has three elements: inputs, processes, and outputs. While a business usually has outputs, outputs are not required to be present to qualify as a business. In addition, not all of the inputs and processes are required to qualify as a business. Under the proposal, when substantially all of the fair value of gross assets acquired is concentrated in a single identifiable asset (or a group of similar identifiable assets), the assets acquired would not represent a business. This provision would essentially introduce a gating criterion that, if met, would eliminate the need for further assessment. If further assessment is requried, an acquisition would have to include, at a minimum, an input and a substantive process that together contribute to the ability to create outputs in order to be considered a business. The proposal also removes the current requirement to assess if a market participant could replace any missing elements. ***Industry Considerations:*** *The proposed changes to the definition of a business will likely result in more acquisitions being accounted for as asset acquisitions in certain industries, particularly real estate,*

	pharmaceutical, and oil and gas. The proposal may also result in more transactions in the power and utilities industry, such as acquisitions of power plants, gas storage facilities, or derivative contract portfolios, being accounted for as asset acquisitions, particularly when substantially all of the fair value is concentrated in those assets.
Next steps	Comments on the proposed changes are due on January 22, 2016. EEI and AGA are currently drafting a joint response to the FASB's request for comments.
For more information	For additional background refer to In Brief US2015-38, *FASB proposes a new definition of a business.*

Final Standards Recently Issued

Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued the final accounting standards update ("ASU") related to financial instruments classification and measurement. Key provisions of the final standard are consistent with the exposure draft and include:

- All equity investments (other than those accounted for under the equity method) will be measured at fair value, with changes in fair value recognized in net income.
- The accounting for debt investments (i.e., loans and debt securities) will remain largely unchanged subject to the new proposed impairment model (the final standard is expected in Q1 2016).
- If the fair value option is elected for a financial liability, adjustments to the value due to changes in an entity's own credit risk will be recorded in other comprehensive income.
- Disclosure of the methods and significant assumptions used to estimate the fair value of financial instruments measured at amortized cost for disclosure purposes will no longer be required.

The ASU will be effective for public companies in fiscal years beginning after December 15, 2017, including interim periods within those fiscal years.

Refer to In brief US2015-35, *Classification and measurement of financial instruments date set,* for additional details.

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

Balance Sheet Classification of Deferred Taxes

In November, the FASB issued a final version of the ASU related to the balance sheet classification of deferred taxes. To simplify presentation, the new guidance requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. As a result, each jurisdiction will now only have one net noncurrent deferred tax asset or liability. Importantly, the guidance does not change the existing requirement that only permits offsetting within a jurisdiction – that is, companies are still prohibited from offsetting deferred tax liabilities from one jurisdiction against deferred tax assets of another jurisdiction. The new guidance will be effective for public business entities in fiscal years beginning after December 15, 2016, including interim periods within those years.

Refer to the following PwC publications for additional details:

In brief US2015-37, *FASB simplifies balance sheet classification of deferred taxes,* for additional details.
In depth US2015-14, *FAQ on applying simplified balance sheet classification of deferred taxes*

Standard Setting & Financial Reporting Update
Updates on select SEC, PCAOB, and other regulatory activities

Interview with FASB Vice Chair Jim Kroeker

Click here to watch a recent interview with FASB Vice Chair Jim Kroeker in which he discusses the new revenue standard, the FASB's current and longer term standard setting agenda and more.

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.

Click here for a copy of the EEI-AGA joint response submitted.

SEC Comment Letter and Financial Reporting Trends

PwC recently released its annual report on SEC comment letter and other financial reporting trends in the power and utilities industry. The top 10 topics (listed below) addressed in comment letters were consistent with those in 2014, with the exception of a notable increase in the number of comment on internal controls and assessment of errors.

- Management discussion and analysis
- Financial statement presentation and disclosure
- Business combinations
- Regulatory accounting
- Dividends and restricted net assets
- Internal controls
- Impairment
- Compensation and incentive plans
- Pension and other postretirement benefits
- Segment reporting

Click here for a copy of the PwC Publication

PCAOB adopts final rules to disclose name of partner and others on new form

On December 15, 2015, the Public Company Accounting Oversight Board ("PCAOB") adopted new rules and amendments to its auditing standards requiring disclosure of the name of the engagement partner and information about other accounting firms that took part in the audit, including other firms within the same network as the group auditor. This information will be filed with the PCAOB on a new PCAOB form, Auditor Reporting of Certain Audit Participants ("Form AP") and will be searchable on the PCAOB's website.

Subject to SEC approval, disclosure of the engagement partner will be required for audit reports issued on or after January 31, 2017 (or three months after SEC approval, whichever is later), while disclosure of information about other accounting firms that took part in the audit will be required for audit reports issued on or after June 30, 2017.

For more information
Read In brief US2015-43, *PCAOB adopts final rules to disclose name of partner and others on new form*, for more information, including the specific filing and disclosure requirements.

AICPA National Conference

The 2015 AICPA National Conference on Current SEC and PCAOB Developments was held in December and featured representatives from regulatory and standard setting bodies, along with auditors, preparers, securities counsel, and industry experts. Presenters expressed views on a variety of accounting, auditing, and financial reporting topics. The title of SEC Chair Mary Jo White's speech seemed to capture this year's theme: Maintaining High-Quality, Reliable Financial Reporting: A Shared and Weighty Responsibility. For more details about the conference, refer to PwC's *In depth* publication.

Industry Trends and Other Developments

Momentum of U.S. Investment in Cleantech Continues

Nearly $6.2 billion were invested in "cleantech" industries in Q3 2015. Cleantech is considered to include agriculture and bioproducts, energy efficiency, smart grid and energy storage, solar energy, transportation, water and waste management, wind and geothermal, and other clean technologies. Corporate funding accounted for 51% of this investment, while project funding accounted for the other 49%. Utility-scale solar and wind capacity continue to be added at a rapid pace across multiple regions, and the trend is expected to continue with the ITC reduction looming on the horizon. Additionally, smart grid and energy storage were focus areas for venture investment and corporate M&A.

Click here for a recent PwC report on cleantech investment trends and insights.

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.

Upcoming EEI & AGA Accounting Committee Events

Deadline for Comment	***Description***
January 22, 2016	Proposed Accounting Standards Update – *Business Combinations (Topic 805): Clarifying the Definition of a Business*
February 10, 2016	Proposed Accounting Standards Update – *Government Assistance (Topic 832): Disclosure by Business Entities about Government Assistance*
February 29, 2016	Proposed Accounting Standards Update – *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*

Comment Letters Recently Submitted

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

Upcoming EEI & AGA Accounting Committee Events

January 5, 2016	Sustainability Accounting Standards Board (SASB) October 15, 2015 Exposure Draft Sustainability Accounting Standard for the Electric Utilities Industry[1]

Date	*Location*	*Description*
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	Ft. Worth, TX	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

[1] EEI's accounting and environmental teams coordinated a robust response to SASB's proposal that public companies include numerous, voluminous prescriptive disclosures in their SEC financial reports. Although the SASB has no authoritative standing to prescribe disclosures, we provided comments based on significant concerns with both the process and content of this proposal.