EEI & AGA Executive Accounting News Flash

Issue XVIII – Q1 2016

Dear Colleagues:

Welcome to the 2016 first 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 final issuance of the highly anticipated new leasing standard, and various other updates to the Financial Accounting Standards Board's ("FASB") major standard setting projects. We also provide an overview of recent SEC and PCAOB activity 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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Standard Setting & Financial Reporting Update

Updates on select SEC, PCAOB, and other regulatory activities

Revenue Recognition	
New Revenue Recognition Standard – *Recent Developments*	A final Accounting Standards Update (ASU) related to principal versus agent considerations (reporting revenue gross versus net) was issued in March 2016. The final ASU is consistent with the exposure draft. Click here for a copy of joint EEI-AGA comment letter submitted.
Additional Clarity on Contract Modifications	One of the potential implementation issues identified relates to certain "blend-and-extend" contract modifications common in the power and utilities industry. An initial read of the new standard would require entities to recognize revenue at the old contract price for its remaining term and then at an implied lower price for the extension period, in contrast to the current industry practice of recognizing revenue under a contract modification at the new, blended contract price. This issue was submitted to the TRG in 2015, who subsequently decided to refer the issue to the FASB staff to be addressed as a technical inquiry. The staff concluded that either method of recognizing revenue could be appropriate but also indicated that current industry practice (using the blended price) was more consistent with their interpretation of the new revenue standard. The staff also indicated that there is no presumption that such contract modifications do or do not include a financing element (that the new standard would require to be accounted for separately); rather, each contract's facts and circumstances should be evaluated under the framework of the standard itself as a matter of judgment. ***Industry Considerations:*** *The additional clarity provided supports the industry's historical practice for revenue recognition of blend-and-extend contracts. This is an accounting policy election and would be expected to be applied consistently to similar contracts.*
Mark Your Calendars - Transition Resource Group Schedules Additional Meetings	The TRG has scheduled additional meeting dates for 2016 to continue its efforts to address issues arising from implementation of the new guidance. The additional meetings have been scheduled for April 18, July 25, and November 7.
AICPA Power and Utility Revenue Recognition Task Force Updates	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 contract modifications) – see above • Scope clarification regarding tariff sales to regulated customers – submitted to the AICPA for finalization • Revenue Recognition for Fixed Price Contracts (Consideration of Different Pricing Conventions) – submitted to the AICPA The group is currently addressing the implications of the standard on Contributions in Aid of Construction, the application of the series guidance to storable commodities, and the impacts (if any) on revenue versus bad debt expense for potentially uncollectible amounts. It discussed these issues at its most recent meeting on March 30 and expects to submit papers to the AICPA later in 2016.

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Revenue Recognition	
	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	Final ASU's of the following exposure drafts are expected in the second quarter of 2016: • Narrow-Scope Improvements and Practical Expedients • Identifying Performance Obligations and Licenses The AICPA task forces also continues 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. Please communicate regularly with your representatives on the relevant power and utilities implementation group for the latest information on the status of open issues.*
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*

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Leasing	
Lease accounting: The long-awaited FASB standard has arrived	On February 25, 2016, the FASB issued the new standard, Leases (ASC 842). There are elements of the new standard that should impact almost all entities to some extent, although lessees will likely see the most significant changes. Lessees will need to recognize virtually all of their leases on the balance sheet, by recording a right-of-use asset and lease liability. Public business entities are required to adopt the new leasing standard for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. For calendar year-end public companies, this means an adoption date of January 1, 2019. Early adoption is permitted. The new leasing standard requires modified retrospective transition, which requires application of the new guidance at the beginning of the earliest comparative period presented in the year of adoption. For calendar year public business entities, this means retrospective application to previously issued annual and interim financial statements for 2018 and 2017. ***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. The changes to lease accounting could also affect some debt covenants.*
Next steps	The FASB has previously indicated that it does not intend to form a TRG equivalent to deal with implementation issues for the new lease standard. The AICPA is closely following the development of the FASB's Leases standard and is in the process of creating resources that will help members implement the new standard. EEI and AGA are working with KPMG to develop industry-focused training on the standard, including a May webcast that overviews the standard and a potential training seminar in the future. The EEI leasing task force has commenced its assessment of the final standard to identify potential implementation issues for the industry.
For more information	For additional background and a comprehensive summary of the proposed amendments, please visit the following PwC resources: In depth US2016-02, *The leasing standard - A comprehensive look at the new model and its impact* Alert 2013-9, *Power and Utilities Alert -An industry perspective on the lease accounting proposal* Lease Accounting Site

Net Periodic Pension and Postretirement Benefit Cost	
FASB contemplates changes in presentation of pension and postretirement benefit costs	On January 26, the FASB issued an exposure draft of a proposed ASU that is expected to impact net periodic pension and postretirement benefit cost. The proposed 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. The FASB is also proposing certain changes to benefit plan disclosures in a separate exposure draft as part of the targeted improvements under its disclosure framework project. The proposed ASU removes certain disclosures that are not considered useful or are out-of-date (e.g., disclosure about the 2001 *Japanese Welfare Pension Insurance Law*) while also proposed adding several new disclosures. These additional disclosures include: • a description of the nature of the benefits provided • the employee groups covered • the type of benefit plan formula used • the weighted-average interest crediting rate for cash balance plans • quantitative and qualitative disclosures about assets measured at net asset value ***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	Comments on the exposure drafts are due April 25, 2016. EEI and AGA are currently drafting a joint comment letter. Please feel free to contact Randall Hartman, Joe Martin, a member of your respective Association's Accounting Leadership team, or me if you need more information.
For more information	For a copy of the exposure drafts issued click on the links below: *Improving the Presentation of Net Periodic Benefit Cost and Net Periodic Postretirement Benefit Costs* *Changes to the Disclosure Requirements for Defined Benefit Plans* For additional background please refer to the following PwC publication: In brief US2016-04, *FASB proposes changes to several aspects of pension accounting*

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Statement of Cash Flows	
Classification of Certain Cash Receipts and Cash Payments	On January 29, the FASB issued an exposure draft related to the classification of certain cash receipts and payments. The proposed changes are aimed at reducing diversity in practice and would provide specific guidance on the following eight specific cash flow issues: • Debt Prepayment or Debt Extinguishment Costs • Settlement of Zero-Coupon Bonds • Contingent Consideration Payments Made after a Business Combination • Proceeds from the Settlement of Insurance Claims • Proceeds from the Settlement of Corporate-Owned Life Insurance Policies, including Bank-Owned Life Insurance Policies • Distributions Received from Equity Method Investees • Beneficial Interests in Securitization Transactions • Separately Identifiable Cash Flows and Application of the Predominance Principle The effective date of the proposed ASU will be determined after stakeholder feedback is received and considered. ***Industry Considerations:*** *The proposed clarifications may result in changes from historical practice for some entities but are not expected to have significant impacts on the industry overall.*
Next steps	Comments on the proposed ASU are due by March 29, 2016. However, since the clarifications are not expected to have a significant impact on companies, and in many cases are consistent with current practice, EEI and AGA have decided not to comment on the exposure draft.
For more information	For additional background refer to the FASB's exposure draft and project summary.

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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:

- Equity investments (not 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.

Industry Considerations: *The new guidance is expected to impact companies with large equity investment portfolios that are not currently being measured at fair value through net income may also be significantly impacted, which may include companies in our industry that have rabbi trusts or nuclear decommissioning trusts with equity investments not accounted for at fair value (e.g., as available-for-sale securities).*

Refer to In depth US 2016-01, *New guidance on recognition and measurement to impact financial instruments,* for additional details.

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

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FASB PERMITS CONTINUATION OF HEDGE ACCOUNTING IN A DERIVATIVE NOVATION

On March 10, 2016, the FASB issued Accounting Standards Update 2016-05, Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships, a consensus of the FASB Emerging Issues Task Force. The new guidance clarifies that a change in the counterparty to a derivative contract, in and of itself, does not require the de-designation of a hedging relationship. An entity will, however, still need to evaluate whether it is probable that the counterparty will perform under the contract as part of its ongoing effectiveness assessment for hedge accounting. Therefore, a novation of a derivative to a counterparty with a sufficiently high credit risk could still result in the de-designation of the hedging relationship.

Industry Considerations: *Most entities within the power and utilities industry regularly enter into derivative contracts. For those that apply hedge accounting, the new ASU provides added flexibility in continuing to apply hedge accounting if there is a change in counterparty. For entities that have elected not to apply hedge accounting due to the onerous requirements, this may provide an opportunity to re-evaluate the cost-benefit of making the election.*

Refer to the links below for additional details:

ASU 2016-05, *Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships*
In brief US2016-08, *FASB permits continuation of hedge accounting in a derivative novation*

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FASB ISSUES NEW GUIDANCE ON EMPLOYEE SHARE-BASED PAYMENT ACCOUNTING

On March 30, 2016, the FASB issued Accounting Standards Update 2016-09 Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The new guidance is intended to improve the accounting for employee share-based payments by simplifying several aspects of the accounting for share-based payment awards, including:

- Income tax consequences
- Classification of awards as either equity or liabilities
- Classification on the statement of cash flows

For public companies, the amendments in this ASU are effective for annual periods beginning after December 15, 2016.

Industry Considerations: *The new ASU will affect all entities that issue share-based payment awards. While the elimination of "APIC pools" should promote simplification, there will also be more income statement volatility from the requirement to flow all tax effects through earnings.*

Refer to the links below for additional details of the ASU, a summary of the changes, and the EEI-AGA joint comment letter submitted:

EEI-AGA Joint Comment Letter

ASU 2016-09 - *Improvements to Employee Share-Based Payment Accounting*.

In brief US2015-17, *FASB proposes to simplify the accounting for share-based payments*

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

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.

Industry Trends and 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***
March 29, 2016	Proposed Accounting Standards Update – *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*
April 25, 2016	Proposed Accounting Standards Update – *Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Changes to the Disclosure Requirements for Defined Benefit Plans*
April 25, 2016	Proposed Accounting Standards Update – *Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*

Comment Letters Recently Submitted

Date Submitted	***Description***
January 22, 2016	Proposed Accounting Standards Update – *Business Combinations (Topic 805): Clarifying the Definition of a Business* Click here for a copy of the comment letter submitted.
February 29, 2016	Proposed Accounting Standards Update – *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement* Click here for a copy of the comment letter submitted.

Accounting Standards Committee Updates

Date	*Location*	*Description*
May 11, 2016 (TENTATIVE)	Webcast	EEI-AGA-KPMG Lease Standard Webcast – Details to be announced in the near future
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 26 – 29, 2016	Asheville, NC	EEI-AGA Accounting Leadership Conference and Chief Audit Executives Conference
August 15 – 17, 2016	Kansas City, MO	AGA Accounting Principles Committee Annual Meeting
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
Week of September 12-16 (TENTATIVE)	TBD – One-Day Seminar	EEI-AGA-Deloitte FERC Accounting and Reporting – Details to be announced in the near future
September 18 – 21, 2016	Charleston, SC	EEI Accounting Standards Committee Annual Meeting
September 26 – 27, 2016	Fort Worth, TX	Accounting for Energy Derivatives Training
November 13 – 16, 2016	Clearwater Beach, FL	EEI-AGA Fall Accounting Conference