EEI & AGA Executive Accounting News Flash

Issue XIX – Q3 2016

Dear Colleagues:

Welcome to the 2016 third quarter edition of the Executive Accounting News Flash.

In this quarter's edition we recap the latest developments in the Financial Accounting Standards Board's ("FASB") project on the presentation of net periodic benefit costs, provide an update on the FASB's Revenue Transition Resource Group, and various other updates on major standard setting projects. We also provide an overview of recent SEC activity aimed at improving disclosure effectiveness. As always, a summary of upcoming accounting standard implementation dates, near-term comment period deadlines, and select highlights on other industry 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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Net Periodic Pension and Other Postretirement Benefit Cost	
FASB moves forward with proposed changes to presentation of net periodic pension and OPBEC costs, no exception granted for regulated entities	At its November 2 meeting, the Board voted to move forward with the proposed ASU, and decided not to grant an exception for regulated entities. The proposed changes will require all employers, including not-for-profit organizations, that offer defined benefit pension plans, other postretirement benefit plans, or other types of benefits accounted for under Topic 715 to: • Separate their net periodic pension cost and net periodic postretirement benefit cost into the service cost component and other components. • Present the service cost component in the same line item (or items) as other compensation costs arising from services rendered by the pertinent employees during the period. *Service cost would be the only component eligible for capitalization, if appropriate, as part of an asset such as inventory or property, plant, and equipment.* • Report in the income statement the other components separately from the service cost component and outside a subtotal of income from operations, if one is presented. The Board affirmed its decisions from the proposed ASU to: • Apply the amendments retrospectively for the presentation in the income statement of the service cost component and other components of net periodic pension cost and net periodic postretirement benefit cost. • Apply the amendments prospectively, on and after the effective date, for the capitalization in assets of the service cost component of net periodic pension cost and net periodic postretirement benefit cost. • Disclose the nature of and reason for the change in accounting principle in the first interim and annual reporting periods in which the entity adopts the amendments. ***Industry Considerations:*** *The proposed changes are expected to have significant impacts on the industry, including:* • *Reduction in the costs eligible to be capitalized as a component of plant* • *Additional reconciling differences between GAAP reporting and reporting for regulatory purposes (e.g., FERC reporting)* • *Changes to systems, processes, and controls necessary to track the components of net periodic pension/OPEB benefit costs* *Companies should begin developing an implementation plan and timeline for adoption of the proposed ASU.*
Next steps	The amendments will be **effective** for public business entities for annual reporting periods beginning **after December 15, 2017**, including interim periods within that reporting period. Early adoption is permitted. The Board directed the staff to draft a final Accounting Standards Update for vote by written ballot by December 26, 2016. The EEI-AGA-FERC Accounting Liaison Group will convene in the near future to discuss possible industry regulatory responses and strategy.

Net Periodic Pension and Other Postretirement Benefit Cost	
For more information	For additional background and a comprehensive summary of the proposed amendments, please visit the following resources: Improving the Presentation of Net Periodic Benefit Cost and Net Periodic Postretirement Benefit Costs *FASB Action Alert - November 2, 2016* PwC In brief US2016-04, *FASB proposes changes to several aspects of pension accounting*

Standard Setting & Financial Reporting Update

Updates on select FASB, IASB, and other standard setting activities

Revenue Recognition	
New Revenue Recognition Standard Recent Developments *Transition Resource Group discusses contract asset treatment in contract modifications and other topics during its first 2016 meeting*	To date, the TRG has met 7 times and discussed more than 55 implementation issues. Those discussions at TRG meetings, as well as the FASB's ongoing dialogue with stakeholders, have resulted in the Board issuing clarifications or practical expedients including the following issued in 2016: • The FASB clarified the guidance on determining whether an organization is a principal or an agent by issuing Accounting Standards Update (ASU) No. 2016-08 in March 2016. The ASU enhances the interaction of the control principle in the new standard with the indicators provided to assist in the principal versus agent evaluation. • The FASB also clarified the guidance on identifying performance obligations and licensing by issuing ASU No. 2016-10 in April 2016. The ASU explains that an organization is not required to assess whether promised goods or services are performance obligations if they are immaterial and it provides additional examples illustrating how the FASB intends for an organization to identify performance obligations. • Lastly, the FASB proposed amendments to the standard that would address challenges raised by some stakeholders related to applying the guidance on collectibility, noncash consideration, contract modifications, and the presentation of sales taxes. The TRG has one more meetings scheduled in 2016 on November 7, at which it plans to discuss the following issues: • Capitalization and Amortization of Incremental Costs of Obtaining a Contract • Sales-Based or Usage-Based Royalty with Minimum Guarantee • Payments to Customers • Over Time Revenue Recognition
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 several of the following issues to date: • Accounting for contract modifications (e.g., blend-and-extend contract modifications) – submitted to the TRG • 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 • Collectibility – in-process of being finalized • Contributions in Aid of Constructions – submitted to AICPA The group is also currently addressing the implications of the application of the series guidance to storable commodities. 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.

Hedge Accounting	
Hedge accounting: significant changes exposed for comment	On September 8, 2016, the FASB issued a proposed Accounting Standards Update to ASC 815 (Derivatives and Hedging). The proposed guidance will impact the hedge accounting guidance for both financial and nonfinancial hedging relationships. The goals are to improve the alignment between hedge accounting and a reporting entity's risk management objectives and to simplify hedge accounting for preparers. The proposed guidance, 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. The proposed changes will permit the application of hedge accounting to more hedge strategies. One of the biggest changes would permit the designation of contractually specified components in cash flow hedges of forecasted purchases and sales of nonfinancial items. In certain circumstances, this would enable entities to avoid the challenges of hedging total changes in price, which can significantly limit the strategies that qualify for hedge accounting.
Next steps	Comments on the proposed ASU are due by November 22, 2016. AGA and EEI have formed a task force that is currently working on drafting a joint comment letter in response to the proposal.
For more information	For additional background refer to the following PwC publication: In brief US2016-37.

<table>
<tr><th colspan="2">FASB Agenda Consultation</th></tr>
<tr><td>FASB seeks feedback on future agenda</td><td>On August 4, 2016, the FASB issued an Invitation to Comment (ITC) to solicit feedback from stakeholders about potential financial accounting and reporting topics that the FASB should consider adding to its agenda.

Over the last year, the FASB has received feedback from its various advisory groups and other stakeholders and has identified the following topics for potential future standard setting:
• Internally generated intangible assets
• Pensions and other postretirement benefit plans
• Distinguishing liabilities from equity
• Reporting performance and cash flows

In each of these areas, the FASB is requesting feedback on:
• Is there a potential for significant improvement to financial reporting in the areas identified?
• What priority should the FASB assign to addressing each issue?
• Which of the alternative approaches should the FASB take to addressing each issue?

In addition, the FASB has asked for feedback on whether there are other major areas of financial reporting that the FASB should consider adding to its agenda.</td></tr>
<tr><td>Next Steps</td><td>Comments were due on October 17, 2016. Additionally, the FASB plans to hold public roundtable meetings to discuss the invitation to comment during the fourth quarter of 2016.

Click here to view the joint comment letter submitted by AGA and EEI.

Additionally, at the request of FASB Staff during our annual liaison meeting, a group of industry representatives responded to FASB questions via conference call regarding the need for additional guidance related to software intangibles, specifically, cloud computing-related costs. The group reiterated support from our 2014 comment letter for FASB addressing ways that the value from cloud computing expenditures could be recognized as assets as part of this agenda project.</td></tr>
<tr><td>For more information</td><td>For more information refer to the FASB's News Release.</td></tr>
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SEC seeks comments on proposed rule changes to improve disclosure effectiveness

On July 13, 2016, the SEC voted to propose amendments to eliminate, modify, or integrate into other SEC requirements certain disclosure rules. Many of the disclosure requirements in Regulations S-K and S-X have not changed since they were adopted as far back as the 1930's. Many of the proposed amendments are in response to the subsequent changes in other SEC disclosures, US GAAP, and IFRS, and to reflect advances in technology.

The proposed changes are part of the SEC's overall project to improve disclosure effectiveness and are intended to simplify compliance without significantly altering the total mix of information provided to investors.

The proposed amendments include:

- the elimination of redundant or duplicative requirements that provide substantially the same disclosures as US GAAP;
- the elimination of overlapping disclosures that convey reasonably similar disclosures or disclosures that may no longer be useful to investors;
- the integration of certain disclosures that overlap with, but require information incremental to, other SEC disclosure requirements; and
- the modification or deletion of outdated or superseded provisions, which in some cases may mean adding new reporting requirements.

In addition to soliciting input on the proposed changes, the SEC is also seeking comments on how to address requirements that overlap with, but require information incremental to, US GAAP. The SEC is considering whether such disclosures could be eliminated, modified, or referred to the FASB for potential incorporation into US GAAP, which could impact private as well as public companies.

For more information

Refer to the following PwC publication for more information: In brief US2016-30.

Also, click here for a copy of the joint comment letter submitted by AGA and EEI.

Industry Trends and Other Developments

PwC's SEC Comment Letter Trends: Products and services companies
Wednesday, November 16, 2016 from 3:00 pm – 4:30 pm EST
This webcast will focus on companies in the following sectors: industrial products; retail and consumer; technology; entertainment, media and communication; pharmaceuticals and life sciences; utilities; energy; and mining. Click here to register for the webcast.

Assessing tax: Power & Utilities tax rate benchmarking report
This annual study of industry tax rate trends provides data and insight into the tax functions of US power and utility companies. Click here to read more.

Wind PTC motivates gust of activity in wind power facility repowering
Renewable power developers scored a victory when Congress extended the wind production tax credit ("PTC") and the solar investment tax credit ("ITC") by four years and seven years, respectively. Wind power facilities that commence construction this year can take full advantage (100%) of the wind Production Tax Credit (PTC) value. After this year, the allowable credit steps down, completely phasing out by 2020, which in turn reduces the economics of new wind power investments. Click here to read more.

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*
November 9, 2016	Proposed Statement of Financial Accounting Concepts—Concepts Statement 8—Conceptual Framework for Financial Reporting—Chapter 7: Presentation
November 22, 2016	Proposed Accounting Standards Update—Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities

Comment Letters Recently Submitted

Date Submitted	*Description*
July 21, 2016	SEC Concept Release – *Business and Financial Disclosure Required by Regulation S-K* Click here for a copy of the joint comment letter submitted.
August 15, 2016	PCAOB Proposed Auditor Reporting Standard – *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion* Click here for a copy of the joint comment letter submitted.
November 1, 2016	Financial Accounting Standards Board's Invitation to Comment – Agenda Consultation Click here for a copy of the joint comment letter submitted.
November 2, 2016	SEC's Request for Comment on Proposed Rules on Disclosure Update and Simplification Click here for a copy of the joint comment letter submitted.

Upcoming EEI & AGA Accounting Committee Events

Date	*Location*	*Description*
November 9 – 10, 2016	Chicago, IL	AGA-EEI Revenue Recognition Seminar
November 13 – 16, 2016	Clearwater Beach, FL	AGA-EEI Fall Accounting Conference
May 21 – 24, 2017	Newport Beach, CA	AGA-EEI Spring Accounting Conference
May 24 – 25, 2017	Newport Beach, CA	AGA-EEI Property Accounting and Depreciation Training Seminar
June 25 – 28, 2017	Portland, OR	AGA-EEI Accounting Leadership Conference
June 25 – 28, 2017	Portland, OR	AGA-EEI Chief Audit Executive Conference
August 14 – 16, 2017	TBD	AGA Accounting Principles Committee