EEI & AGA Executive Accounting News Flash

Q1 2017

Dear Colleagues:

Welcome to the 2017 first quarter edition of the Executive Accounting News Flash.

In this quarter's edition we summarize the last of the anticipated amendments to the new revenue standard as well as some practical considerations regarding implementation of the standard. We discuss the new proposed standards relating debt classification and share-based payments, as well as a summary of the FASB's recently issued standards relating to pension costs, the definition of a business, and simplifications to the goodwill impairment model. Lastly, we consider some of the recent SEC activity as they weigh in on changes to variation margin on derivatives effective in 2017. A summary of upcoming EEI-AGA events, near-term comment period deadlines, and recently issued surveys 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 FASB, IASB, and other standard setting activities

Revenue Recognition	
New Revenue Recognition Standard Recent Developments *FASB issues final clarifications*	In December 2016, the FASB issued ASU 2016-20 *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with* Customers. This is the last anticipated amendment to the standard and provides additional clarifications and corrections for unintended application of the guidance, including: • The update provides some relief to entities on the disclosure of remaining performance obligations. Companies can elect to exclude quantitative disclosures for certain variable consideration associated with unsatisfied performance obligations. These entities will instead need to provide additional qualitative disclosure relating to these performance obligations. The Board also clarified that the disclosure of prior-period performance obligations that have been satisfied (or partially satisfied) applies to all performance obligations. • The update clarifies the scope of the revenue standard, specifically noting that contracts within the scope of Topic 944, *Financial Services*, and Topic 460, *Guarantees*, are excluded from the scope of the new revenue standard. • Other minor corrections to the new standard, including clarification and improvement of several examples provided within the standard.
Implementation considerations as the effective date of adoption draws close	With 2016 annual reports now filed, there is now more insight into the progress being made in implementing the new revenue standard. Based on a review of SAB 74 disclosures across all sectors, here are some of the key trends noted[1]: • **Early Adoption:** Approximately 2% of filers reported that they will early adopt the new revenue standard during 2017. • **Adoption Method:** Of the entities that disclosed an adoption method, more than 80% say they will use a modified retrospective approach. However, more than one-half of entities have reported that they are still undecided on method of adoption. • **Adoption Impact**: Nearly half of all entities report that the adoption of the standard is expected to have an immaterial impact. Approximately 2% of filers expect the adoption to have a material impact. The remainder of entities report that the impacts are unknown.

[1] Source: PwC Q1 2017 Current Accounting and Reporting Developments Webcast, based on filings reviewed as of February 28, 2017

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<table>
<tr><th colspan="2">Revenue Recognition</th></tr>
<tr><td>Next Steps</td><td>Companies will be busy this year, finalizing the implementation of the new standard for reporting as of January 1, 2018. Given the numerous stakeholders involved in an implementation of this size, it is important to devote appropriate time and resources to keep everyone aligned.

Implementation Teams: Establishing a comprehensive and realistic timeline and project plan is critical to moving through the implementation smoothly. Early identification of potential issues, and agreed upon working practices for escalating items requiring follow-up will be key.
Management/Board of Directors: Develop a communication plan relating to status and impacts of implementing the new revenue standard. It's important to reach agreement as to the appropriate interval and level of detail for updates.
Internal and External Audit Teams: If you have not already started, now is the time to start talking with your internal and external audit teams about the details of your implementation plan. An implementation of this magnitude needs to be well controlled and understanding the process and controls you have performed throughout the implementation will be a key focus for your audit teams. Retain documentation that support the significant milestones, interpretations, and decisions reached along the way.
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<tr><td>AICPA Power and Utility Revenue Recognition Task Force Updates</td><td>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 –open for comment to AICPA until May 1, 2017
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
Accounting for Bundled Arrangements – submitted to AICPA
Revenue timing for RECs – submitted to AICPA
Requirements and Similar Contracts with Variable Volumes – submitted to AICPA
Timing of revenue recognition from sales of electricity and capacity – submitted to AICPA
Timing of revenue recognition from sales of self-generated renewable energy credits (“RECs”) – submitted to AICPA

The group is also currently addressing the implications of the application of the series guidance to storable commodities.

A group of AICPA Power & Utilities Task Force representatives met with FASB representative in March to discuss technical issues regarding the assessment of the collectibility scope criterion in ASC 606-10-25-1(e)</td></tr>
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	with regard to utility tariff sales. The FASB representatives expressed support for the industry's view that utility tariff sales meet the collectibility criterion of Topic 606. In its February 15 meeting, the FASB discussed the results of Staff research on Non-recurring engineering (NRE) costs, which are similar to CIAC in the utility industry. The research included a roundtable in January in which power and utility industry representatives participated. The FASB affirmed that the exercise of judgment in applying ASC 606 may include continuing to follow historical practice for certain items. Staff's observation and recommendations included: · The contract cost provisions included in ASU 2014-09 were not intended to be comprehensive contract cost rules but were only intended to replace other guidance that the ASU was eliminating · As part of exercising judgment in determining whether an arrangement is in scope of ASC 606, it noted that prior practices (such as arrangements under ASC 605) may also be outside of ASC 606 because such activities are not within its scope · If an entity has material costs/reimbursements that it accounts for outside 606, it should make appropriate disclosures of that fact and its policy in the footnotes to the financial statements 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.

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Classification of Debt	
FASB proposes changes to classification of debt	In January, the FASB proposed new guidance for the balance sheet classification of debt. The proposed change requires debt to be classified as current or noncurrent based on the contractual rights of the lender and the borrower as of the balance sheet date. A borrower would not be permitted to consider events that may occur after the balance sheet date when it determines the classification of its debt, with the exception of a debt covenant waiver that meets certain conditions. This is a change from current practice which allows borrowers to consider the intent and ability to refinance short-term debt after the balance sheet date. In addition, borrowers will no longer be required to make a probability assessment on the likelihood of a lender exercising its rights under a subjective acceleration clause. ***Industry Considerations:*** *The proposed standard could have an impact on future borrowing and refinancing decisions. In addition, companies should consider how this change may impact debt covenant ratios and working capital requirements.*
Next Steps	Comments are due on the proposed ASU by May 5, 2017.
For more information	For additional background refer to the FASB's exposure draft.

Share-Based Payments	
FASB proposes changes to share-based payment awards	On March 7, 2017, the FASB proposed new guidance aimed to simplify the accounting for share-based payments, aligning the accounting requirements for non-employee awards to those with employee share-based payment awards. The proposal would also align the post-vesting classification of awards for employee and non-employee awards (equity or liability). Key updates for non-employee awards include: • Awards will be measured at the grant date • For awards that are performance based, they will be valued based on the probability of satisfying the performance conditions, • Awards will only require reassessment of the classification if modified. ***Industry Considerations:*** *The proposed ASU will affect all entities that issue share-based payment for non-employees. .Aligning the accounting for employee and non-employee share-based should reduce some of the complexity while still providing all relevant information to financial statement users.*
Next Steps	Comments are due on the proposed ASU by June 5, 2017.
For more information	For additional background refer to the FASB's exposure draft.

Final Standards Recently Issued

CHANGES TO PRESENTATION OF NET PERIODIC PENSION AND OPBEC COSTS

On March 10, 2017, the FASB issued new accounting guidance designed to improvement the reporting of pension and other postretirement benefit costs. The new guidance requires entities to bifurcate the components of net benefit expense between those that are attributed to compensation for service and those that are not (i.e. interest, amortization and return on assets). Service costs will continue to be presented within operating income, but entities will now be required to present the other components of benefit expense as non-operating within the income statement. This is a change from current practice, under which components of net benefit cost are accounted for in aggregate within operating income. Further, the new guidance only permits the capitalization of the service cost component of net benefit expense.

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

The accounting change is required to be applied using a modified retrospective approach for the presentation of components of net benefit cost, and on a prospective basis for the capitalization of only the service cost component of net benefit cost.

Industry Considerations: *The FASB considered whether there should be exceptions to the guidance for certain industry groups, including rate-regulated entities, however, concluded that the guidance should be applied consistently across all industries.*

The 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*

It is important to note, however, that other components of net benefit costs may still be capitalizable and recoverable through regulatory mechanisms as approved by state and federal regulatory commissions.

For more information on the new standard, read In depth US 2017-05, *FASB changes presentation of pension cost.*

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FASB UPDATES THE DEFINITION OF A BUSINESS

On January 5, 2017, the FASB issued new accounting guidance designed to clarify the definition of a business, which impacts several areas of accounting including business combinations, dispositions, segment changes and consolidations. The new guidance is intended to reduce complexity with the existing guidance, and will likely result in fewer acquisitions qualifying for business combinations.

Under the new guidance, a business is defined as having one or more inputs along with a substantive process that together significantly contribute to the ability to create outputs. The standard outlines a framework for evaluating sets with an input and substantive process but where an output is not yet present. If there are no outputs, employees are required as part of the acquisition for the set to meet the definition of a business. The standard also provides an initial screen test which simplifies the assessment of whether an acquisition is a business when substantially all of the value associated with the purchase is concentrated in one or a group of similar assets.

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 change to the definition of a business will likely result in more acquisitions being accounted for as asset acquisitions. Acquisitions accounted for as asset acquisitions do not recognize the goodwill, expense in-process R&D, contingencies assumed are recognized only if probable and transaction costs are typically capitalized.*

For more information on the new definition of a business, read In depth US 2017-01, *The FASB's new definition of a business.*

FASB SIMPLIFIES MEASUREMENT OF GOODWILL IMPAIRMENT

On January 26, 2017, the FASB issued guidance which simplifies the current accounting for goodwill by eliminating the Step 2 from the current impairment model. Companies will no longer be required to determine the fair value of individual assets and liabilities of a reporting unit in order to measure the goodwill impairment. The goodwill impairment will be recognized as the excess of the aggregate carrying value over the fair value at the reporting unit level, as determined by Step 1. All other goodwill impairment guidance remains largely unchanged.

The ASU will be effective for public companies that are SEC files in 2020, with early adoption permitted for goodwill impairment tested after January 1, 2017.

Industry Considerations: *The new standard will simplify financial reporting because it eliminate the need to determine the fair value of individual assets and liabilities of a reporting unit to measure the goodwill impairment. The amount of impairment recognized under the proposal could be larger or smaller than today largely depending on the difference between the carrying value and fair value of certain long-lived assets.*

For more information on the simplified goodwill impairment test, read In depth US 2017-03, *Measuring goodwill impairment to get easier*.

SEC Staff respond to proposed changes on variation margin

As a result of more stringent regulatory requirements, there is an increasing number of derivative transactions executed through central clearing houses. Effective in January, several prominent central clearing houses implemented new rules that impact the characterization of variation margin payments on centrally cleared derivatives. The new rules change the legal nature of such payments so that they are considered settlement payments.

The SEC staff responded to a number of accounting questions that result from the change;

- **Unit of Account**: If variation margin is considered a legal settlement the SEC Staff did not object to companies accounting for the derivative contract, variation margin, and the related interest paid or received on the collateral, as a single unit of account. The variation margin would be considered a settlement payment on the derivative, however, the settlement payment will not terminate the derivative agreement because a contract still exists and would therefore continue to be disclosed as required by ASC 815.

- **Hedge Designation:** As variation margin is paid or received on a daily basis, it could impact whether or not a derivative in a hedging relationship would need to be de-designated and re-designated daily. The SEC Staff did not object to the conclusions reached by the International Swap and Derivatives Association (ISDA) that the rule changes would not require the discontinuation of existing hedging relationships or preclude the use of the short cut method.

Industry Considerations: *Companies should closely monitor the status of these and similar rule changes as it relates to derivative instruments for which they are counterparty. Changes to the unit of account should be evaluated for their full impact, including the netting of balance sheet positions, the presentation of realized vs. unrealized gains and losses in the income statement, and changes to the presentation settlements compared to collateral within the statement of cash flows.*

For more information on the changes in these rules, read In Depth 2016-15 Variation Margin of derivatives: SEC staff responds to proposed changes.

Exposure Drafts Open for Comment

Deadline for Comment	***Description***
May 5, 2017	Proposed Accounting Standards Update—*Debt (Topic 470): Simplifying the Classification of Debt in a Classified Balance Sheet (Current versus Noncurrent)*
June 5, 2017	Proposed Accounting Standards Update—*Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*

Exposure Drafts Recently Closed for Comment

Deadline for Comment	***Description***
March 13, 2017	Proposed Accounting Standards Update—Inventory (Topic 330): Disclosure Framework—Changes to the Disclosure Requirements for Inventory EEI and AGA decided not to formally comment on the exposure draft given the limited impact ep

Recent EEI Surveys

The list below is a summary of surveys recently submitted by EEI member companies. Please reach out to Dave Dougher with questions or for additional details.

Date Issued	***Survey Topic***
March 2017	Going Concern Disclosures
	Venture Capital Investment Accounting
	Software as a Service
	Service Company Assets
	Net Metering
	Leasing Software
April 2017	Commitment Disclosures

Upcoming EEI & AGA Accounting Committee Events

Date	***Location***	***Description***
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	Lake Tahoe, NV	AGA Accounting Principles Committee
August 21-24, 2017	Minneapolis, MN	AGA-EEI Introduction and Advanced Public Utility Accounting Courses
August 21-23, 2017	Minneapolis, MN	AGA-EEI Utility Internal Auditor's Training Course
September 2017	TBD	AGA-EEI Lease Accounting Training
September 2017	TBD	AGA-EEI Revenue Recognition Training
November 12-15, 2017	Miami, FL	AGA-EEI Fall Accounting Conference