

EEI & AGA Executive Accounting News Flash

Q2 2017

Dear Colleagues:

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

In this quarter's edition we summarize the FASB's report on revenue recognition implementation activities and the current status of implementation issues being addressed by the AICPA task force of the standard. We also discuss the latest developments on accounting for easements and proposed changes to the related party guidance for VIE's. Lastly, we highlight recent remarks by the SEC regarding SAB 74 disclosures and the PCAOB's final proposed standard on the auditor's reporting model. 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

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

Revenue Recognition	
<p>New Revenue Recognition Standard Recent Developments</p> <p><i>FASB discusses status of implementation activities</i></p>	<p>On May 10, 2017, the Financial Accounting Standards Board (FASB) discussed the status of implementation activities related to its May 2014 Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606) (and other revenue-related Updates). Highlights include:</p> <ul style="list-style-type: none"> • The formation of the Joint Transition Resource Group for Revenue Recognition (TRG), which held eight meetings between July 2014 and November 2016 to address the 108 submissions received from stakeholders. To date, all TRG submissions received have been addressed and, at present, there are no open submissions. No future meetings of the TRG are scheduled because there are no open submissions. Although there are no open submissions, the TRG has not been disbanded. • The FASB's Technical Inquiry Service addressed 36 submissions from the TRG and approximately 85 submissions through the FASB's technical inquiry system or as inquiries directly to the project team • The creation of a Revenue Recognition Implementation Resources reference guide that includes references to the content in all 60 memos summarizing the TRG meetings, as well as cross-references to related Accounting Standards Updates to make it easier for stakeholders to navigate the content. <p>Click here for a link to the handout from the Board meeting.</p>
<p><i>AICPA Power and Utility Revenue Recognition Task Force Updates</i></p>	<p>The AICPA Power & Utilities task force continues to evaluate industry implementation issues. The group has submitted position papers on several issues to date. Click on the following link for a summary of implementation issues and status:</p> <p>EEI Revenue Recognition Log – May 2017</p> <p>Refer to the AICPA's website for a complete list and current status of the implementation issues identified to date that are being addressed by the AICPA for the Power & Utilities industry.</p>
<p><i>EEI and AGA Revenue Recognition Roundtable</i></p>	<p>EEI and AGA worked together to identify revenue recognition implementation issues common to both industries that have not risen to the AICPA Task Force. EEI and AGA are meeting with representatives from the public accounting firms on July 17 to discuss potential implementation issues and preliminary conclusions regarding the application of Topic 606 including:</p> <ul style="list-style-type: none"> • Accounting for upfront/set-up fees • Defining alternative revenue programs • Budget billing & unbilled revenues considerations • Accounting for arrangements to build specific infrastructure • Natural gas and electricity delivery – point of time v. over time <p>The position papers will be made available to member companies for their reference once finalized.</p>

Standard Setting & Financial Reporting Update

Consolidations	
<p><i>FASB proposes changes to related party consolidation guidance for VIEs</i></p>	<p>On June 22, 2017, the FASB issued proposed guidance that amends how a reporting entity should consider certain common control relationships in its consolidation assessment of a variable interest entity (VIE). Proposed changes include:</p> <ul style="list-style-type: none"> • If certain conditions are met, a private company may choose not to apply the VIE consolidation guidance to entities under common control. Electing this accounting policy would require the reporting entity to provide additional disclosures about its involvement with and exposure to each common control party. • When determining whether fees paid by a VIE are variable interests, indirect interests in the VIE held by a decision maker or service provider through common control parties would be considered on a proportionate basis. • The common-control party “tie breaker” will no longer mandate that one of the parties to a VIE consolidate it. However, barring a scope exception, the parent company of the common-control entities would consolidate the VIE. <p><i>Industry Considerations:</i> <i>Compared to current guidance, the proposal may lead to different consolidation conclusions when entities under common control are involved with a VIE. VIE consolidation judgments at the standalone, intermediate-tier (subsidiary) level that are more consistent with the concept of control may result when the modified “tie-breaker” assessment is considered. In addition, under the proposed policy election, private companies may find relief from time-consuming VIE consolidation analyses.</i></p>
<p><i>Next Steps</i></p>	<p>The effective date will be determined based on feedback from stakeholders. Early adoption will be allowed. Comments are due by September 5, 2017. Reporting entities that have yet to adopt ASU 2015-02, Consolidations (Topic 810): Amendments to the Consolidation Analysis, would be required to apply the new guidance and the ASU at the same time.</p> <p>EEI and AGA companies are evaluating the proposed guidance. Comments are due September 5, 2017.</p>
<p><i>For more information</i></p>	<p>For additional background refer to the FASB’s <u>exposure draft</u>.</p>

Standard Setting & Financial Reporting Update

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Latest Developments on Lease Accounting

EEl and AGA recently submitted to FASB a [joint comment letter](#) on the accounting for land easements and the application of Topics 350 and 842. The paper provides background on the historical accounting for land easements; states the industry's view that land easements likely would not be leases under ASC 842; and urges the FASB to provide appropriate transition relief (including grandfathering all historical easements) if it ultimately decides to reduce or eliminate the diversity in the accounting for easements.

This paper was prepared in response to the FASB meeting on May 10, 2017 directing the staff to conduct research on this matter in light of the apparently contradictory guidance on accounting for easements that currently exists in the Codification. At the FASB meeting, the Board discussed whether easements are within the scope of ASC 842 when currently accounted for as intangible assets. The Board directed the staff to perform additional outreach to:

1. Gather additional information about the types of easements relevant to this question
2. Identify practice issues that relate to scope of the Codification—specifically, determining how the Codification is applied to easements
3. Depending on the results of this research, identify recommendations, if necessary, to clarify the Codification in regards to scope, and whether transition guidance would be necessary

Next Steps

The FASB staff is holding a workshop on July 12 with a broad base of industries and stakeholders to scope the issues and to potentially discuss some alternatives related to the accounting for easements. EEl & AGA representatives have been invited and plan to participate in the workshop.

Additional Resources

PwC will be hosting a two-part webcast series on leasing during which leasing specialists will discuss certain frequently-asked questions and views related to scope, measurement, and transition to the new guidance, as well as offer insights on strategy, process and systems related issues that companies are facing.

Click [here](#) to learn more or to register for the webcast.

Standard Setting & Financial Reporting Update

SEC Comments on SAB 74 Disclosures

The SEC staff continues to review company disclosures regarding the impact of adopting new accounting standards (SAB 74). The importance of SAB 74 disclosures was emphasized in a [recent speech](#) by the SEC's Chief Accountant, Wes Bricker, including the need to provide information on (1) the status of a company's analysis, (2) the impact on disclosures, and (3) the qualitative impact of the standard.

Preparers were cautioned that when assessing the impact of the new standard, the assessment should reflect consideration of the full scope of the standard, which covers recognition, measurement, presentation, and disclosure. Accordingly, they should remember to consider the impact on disclosures before concluding that the effects of the standard will not be material.

For more information refer to [PwC's Q2 2017 Quarter Close](#) publication.

PCAOB Issues Final Standard on Auditor's Reporting Model

On June 1, 2017, the PCAOB adopted a new auditing standard, AS 3101, [The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion](#) (the "new standard") and related amendments to other auditing standards.

The new standard is intended to make the auditor's report more relevant for investors by requiring the auditor to communicate additional information about the audit. The new standard will require communication of critical audit matters (CAM) for many audits conducted under PCAOB standards. Communication of CAM will not be required for audits of brokers and dealers reporting under the Securities Exchange Act of 1934 Rule 17a-5; investment companies other than business development companies; employee stock purchase, saving, and similar plans; and emerging growth companies.

The new standard will also require disclosure of auditor tenure and provide other changes to clarify the auditor's role and responsibilities.

Subject to approval by the SEC, provisions related to CAM will take effect for audits for fiscal years ending on or after June 30, 2019 for large accelerated filers; and for audits for fiscal years ending on or after December 15, 2020 for all other companies to which the requirements apply.

The other changes to the auditor's report will take effect for audits for fiscal years ending on or after December 15, 2017.

For more information on the changes in these rules, refer to PwC's [In brief](#) publication. Also, click [here](#) to read the joint comment letter previously submitted by EEI and AGA.

Exposure Drafts Open for Comment

Deadline for Comment	Description
September 5, 2017	<p><i>Proposed Accounting Standards Update—Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities</i></p> <p>EEI and AGA are currently evaluating the potential impacts of the proposed improvements and whether to formally comment on the exposure draft.</p>

Exposure Drafts Recently Closed for Comment

Deadline for Comment	Description
May 5, 2017	<p><i>Proposed Accounting Standards Update—Debt (Topic 470): Simplifying the Classification of Debt in a Classified Balance Sheet (Current versus Noncurrent)</i></p> <p>EEI and AGA decided not to formally comment on the exposure draft given the limited impact expected. Click here to access comment letters submitted by other parties.</p>
June 5, 2017	<p><i>Proposed Accounting Standards Update—Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting</i></p> <p>EEI and AGA decided not to formally comment on the exposure draft given the limited impact expected. Click here to access comment letters submitted by other parties.</p>

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	Accounting for Easements
	Earnings Adjustment Mechanism Survey

Upcoming EEI & AGA Accounting Committee Events

<i>Date</i>	<i>Location</i>	<i>Description</i>
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 25 – 26, 2017	Dallas, TX	AGA-EEI Lease Accounting Training
September 26 – 27, 2017	Dallas, TX	AGA-EEI Revenue Recognition Training
November 12-15, 2017	Miami, FL	AGA-EEI Fall Accounting Conference

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Revenue Recognition – AICPA Issues Log
Updated May, 2017

Issue #	Description	Lead	Status					Comments
			Draft Paper	RRWG Status	FinREC Status	AICPA Comment Period	Final	
13-1	Scope clarification regarding tariff sales to regulated customers	Randall Hartman	√	Done	Done	Ended 5-1-2017		Tariff sales (other than Alternative Revenue Program amounts) are in scope. Targeting July 2017 FinREC meeting to finalize.
13-2A	Requirements and similar contracts with fixed quantities	James Barker	√					This is now shown as Issue 13-3
13-2B	Requirements and similar contracts with variable quantities	Randall Hartman	√	Clearing comments from 4/25/17 meeting	7/2017			Variable quantities represent a marketing offer, not variable consideration.
13-3	Step vs. Strip price arrangements	James Barker	√	Clearing comments from mtgs. 12/15/15, 1/12/16, & 1/12/17	7/2017			Revenue recognition based on invoice price generally appropriate in absence of significant financing element.
13-4	Determining SASP for forward sales of commodities (Formerly Application of Series Guidance to Storable Commodities)	James Barker	√	2/20/16 – directed to FASB TI				FASB TI affirmed TF paper that SASP must be determined based on facts & circumstances and is not necessarily the forward curve

Revenue Recognition – AICPA Issues Log
Updated May, 2017

Issue #	Description	Lead	Status					Comments
			Draft Paper	RRWG Status	FinREC Status	AICPA Comment Period	Final	
13-5	Accounting for Contract Modifications	James Barker	√	6/30/15 – directed to FASB TI			√	FASB TI affirmed TF paper that either method was acceptable. FASB review of TI summary underway, then back to RRWG to clear.
13-6	Partial contract terminations	James Barker	√	1/12/17 – directed to FASB TI				FASB TI concluded that contract modification guidance applies. FASB review of TI summary underway, then back to RRWG to clear.
13-7	Accounting for bundled arrangements	James Barker	√	Clearing comments from 4/25/17 meeting	7/2017			Affirmed TF position that revenue recognition as power is generated/capacity made available is appropriate.
13-8	Revenue recognition timing for newly created RECs	James Barker	√	Clearing comments from 4/25/17 meeting	7/2017			Affirmed TF position that revenue recognition as power is generated is appropriate.
13-9	Contributions in Aid of Construction	Randall Hartman	√	9/27/16 – monitor separate FASB issue				FASB TI resulting from separate issue affirmed TF position that CIAC in a regulated environment is not in scope. FASB review of TI summary underway, then back to RRWG to clear.

Revenue Recognition – AICPA Issues Log
Updated May, 2017

Issue #	Description	Lead	Status					Comments
			Draft Paper	RRWG Status	FinREC Status	AICPA Comment Period	Final	
13-10	Sales of non-financial assets	James Barker	N/A				N/A	FASB addressed via separate standard-setting. Issue removed.
13-11	Collectibility	Randall Hartman	✓	1/12/17 – asked TF to revise				FASB representatives agreed with revised TF approach and conclusion. TF recommended dropping issue. FinREC chair asked TF to keep on list as lowest priority.
13-12	Income statement display of alternative revenue programs	Randall Hartman	✓	12/20/16 – directed to FASB TI				FASB TI 1/17/17 affirmed TF paper position that either method is appropriate. FASB review of TI summary underway, then back to RRWG to clear.