EEI & AGA Executive Accounting News Flash

Issue XX – Q4 2016

Dear Colleagues:

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

In this quarter's edition we recap the most recent meeting of the Financial Accounting Standards Board's ("FASB") Revenue Transition Resource Group, provide an overview of the new Accounting Standards Update for cash flow presentation of restricted cash, and various other updates on the status of major standard setting projects. We also provide the highlights from the recently held AICPA Conference and the Sustainable Accounting Standards Board (SASB) Symposium. 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:

Raúl Piña, Industry Accounting Fellow – EEI/AGA, **raul.pina@pwc.com** or 312-298-2119

Randall Hartman, Director, Accounting – EEI, **rhartman@eei.org** or 202-508-5494

Joe Martin, Controller – AGA, **jmartin@aga.org** or 202-824-7255

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 costs, payments to customers and other topics during its final 2016 meeting*	At its November 7 meeting, TRG members discussed four implementation issues related to the new revenue standard: • **Capitalization and Amortization of Incremental Costs of Obtaining a Contract** – The TRG addressed which costs to obtain a contract (e.g. sales commissions) are "incremental" and how the amortization period for the related asset should be determined. • **Sales-Based or Usage-Based Royalty with Minimum Guarantee** – TRG members discussed when and how a minimum royalty guarantee impacts the application of the recognition constraint for sales based or usage-based royalties for licenses of both functional and symbolic intellectual property. • **Payments to Customers** – The TRG members discussed whether payments to customers should be recognized as assets when they relate to future contracts and the period over which they should reduce revenues. • **Over Time Revenue Recognition** – TRG members discussed the guidance that requires entities to recognize revenue over time acknowledging that assessment of whether the over-time criteria are met is not straight-forward. To date, the TRG has met 8 times and discussed more than 55 implementation issues. There are no additional TRG meetings currently scheduled; however, FASB members indicated that they will continue to assess the need for future meetings.
Next Steps	*For 2016 calendar year companies, now is the time for updating SAB 74 disclosures addressing the impacts that the new revenue recognition standards will have on the company's financial statement when adopted in 2018.* *These disclosures should incorporate:* • *Expected qualitative impacts of the standard* • *Expected quantitative impacts of the standard* • *Status of the process to implement the standard, and* • *Significant implementation matters yet to be addressed.* *SEC staff continue to emphasize the importance of expanding these disclosures as implementation of the new standard progresses. While the full impact of the standard may not be known, companies should be describing the effect of the accounting policies they expect to apply and a comparison to their current accounting policies.*

Standard Setting & Financial Reporting Update

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

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 RRWG • 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 – submitted to RRWG • Contributions in Aid of Constructions – submitted to RRWG The group is also currently addressing the implications of the application of the series guidance to storable commodities. On December 20, representatives of the AICPA Power & Utilities task force met with the Revenue Recognition Working Group to discuss the implementation issues associated with collectibility and income statement presentation of alternative revenue programs. While no final decisions were made at the meeting, the RRWG provided feedback on the position papers which is expected to help facilitate next steps. The task force's next meeting to discuss the collectibility issues with the RRWG will be on January 12, 2017. The presentation of alternative revenue programs issue is expected to be resolved through a technical inquiry with the FASB staff. On January 9, leaders of the Power & Utilities task force will participate in a FASB staff-led meeting on issues similar to CIAC in the Aerospace and Defense industry and parts manufacturing industry ("nonrecurring engineering" or NRE and preproduction costs). 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.

Standard Setting & Financial Reporting Update

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

Restricted Cash	
FASB issues Accounting Standards Update No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*	At its November 17 meeting, the EITF reached consensus with regard to the presentation of restricted cash flows, issuing its finalized ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The new standard requires that the statement of cash flows explains the change during the period in the total cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. The goal of the new standard is to reduce diversity in the classification and presentation of changes in restricted cash in the statement of cash flows, as well as provide users of the financial statements with additional insights into the nature of the restrictions on cash and cash equivalents. The new guidance require reporting entities to: • Explain the changes in the combined total of restricted and unrestricted cash balances in the statement of cash flows. As a result, transfers between restricted and unrestricted cash accounts will not be reported as a cash flow. All cash receipts/payments with third parties directly to/from restricted cash accounts will need to be reported as an operating, investing or financing cash flow, as appropriate. • Disclose information about the nature of restricted cash. Although no specific detailed listing of disclosure items was provided, several example disclosures outline the source, purpose, expected duration of restricted cash balances. • Disclose information necessary to reconcile cash, cash equivalents, and restricted cash balances to the face of the balance sheet. The Task Force acknowledged that reporting entities may present restricted cash in multiple line items on the balance sheet and it wants to ensure users of those financial statements have a clear connection between the statement of cash flows and the balance sheet. The new guidance does not go so far as to formally define restricted cash, and the Task Force did not find this to be an area of diversity in practice. Instead, the guidance allows a reporting entity to continue to use its own definition, recognizing there is wide range of potential restrictions.
Next Steps	For public entities, the new guidance is **effective** for financial statements issued for fiscal years beginning **after December 15, 2017**, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The guidance should be applied using a retrospective transition method to each period presented.
For More Information	*Accounting Standard Update 2016-18: Statement of Cash Flows (Topic 230): Restricted Cash* *PwC In Depth – Restricted Cash*

Standard Setting & Financial Reporting Update

Updates on select SEC, PCAOB, and other regulatory activities

2016 AICPA Conference

In early December, the 2016 AICPA National Conference on Current SEC and PCAOB Developments was held in Washington D.C. During the three-day conference, participants heard a consistent theme surrounding the vital roles that management, the audit committee and the independent auditor each play in providing relevant, timely and accurate information to users of financial statements. In addition to this, speakers emphasized the importance of continual dialogue between each of these stakeholders, building both quality and trust into the financial reporting process.

Regulatory and Financial Reporting Matters

- New Accounting Standards – Wesley Bricker, the new SEC Chief Accountant, discussed the implementation of new accounting standards with a primary focus on the new revenue recognition standard. He highlighted the importance of timely and accurate disclosure of the qualitative and quantitative impacts the adoption of the new standard will have on financial statements. More specifically, he talked of how these disclosures should evolve over time as a company progresses through the implementation process, with an expectation that these disclosures should be expanded within 2016 and 2017 filings.

- Internal Control over Financial Reporting – There were two main focus areas with regard to internal control over financial reporting: (1) the importance of a robust assessment of the severity of identified internal control deficiencies. This assessment should include the timely identification of deficiencies, appropriate evaluation of the severity, and clear and accurate disclosure when a material weakness is identified, and (2) the importance of early alignment in the risk assessment process. Communication between management, the audit committee and the external auditor is critical in the planning and risk assessment process and differences in identified risks and mitigating controls should be minimal.

- Non-GAAP Financial Measures – SEC staff highlighted improvements in the use of non-GAAP financial measures since the release of the SEC Staff's Compliance and Disclosure Interpretations in May 2016. However, continued progress in the appropriate usage of non-GAAP measures was discussed throughout the conference. More specifically, speakers highlighted the importance of controls in place to identify and accurately report and disclose non-GAAP measures. In addition, participants were cautioned against the excessive prominence of non-GAAP measures, with examples used to highlight the importance of starting non-GAAP reconciliations with the applicable GAAP measurement so that investors can easily see the adjustments leading to the non-GAAP measurement.

For more details on the AICPA Conference refer to:

PwC In Depth – 2016 AICPA Conference

Standard Setting & Financial Reporting Update

Updates on select SEC, PCAOB, and other regulatory activities

ESG/Sustainability Reporting

EEI has undertaken an investor-focused, member-driven initiative to expand upon the significant ESG/Sustainability reporting by member companies. The initiative is designed to identify and provide investors additional information by establishing a voluntary industry ESG sustainability template with an expected rollout in early 2017. While a variety of other frameworks have been proposed, this initiative is designed to explain how the industry is leading the transition to a low carbon energy economy through innovation and significant capital investment and will help to counter other disclosure and divestiture initiatives, including those advocated by the SASB. EEI believes that its initiative will address the needs of investors in a more effective and substantive way than the frameworks proposed by SASB and others.

The SASB is a non-authoritative body that is developing and promoting a framework for such reporting, including advocating that the SEC adopt its standards for financial reports filed with the Commission. The SASB is chaired by Michael Bloomberg and includes two former SEC Chairs and a former FASB chair among its members. EEI and AGA oppose inclusion of such requirements in Regulation S-K, as advocated by the SASB. Nevertheless, the SASB continues its efforts to gain acceptance, including through the symposium discussed below.

SASB Holds 1st Annual Symposium

The Sustainability Accounting Standards Board (SASB) held its first annual symposium, "*Moving the Markets*" on December 1, 2016. The gathering was attended by participants that included panelists from the SEC, PCAOB, institutional investment firms, corporate issuers and other stakeholders.

Key themes of the symposium included:

- Investors emphasized broad use of ESG information in their investment decisions, with specific emphasis on assessing the quality of management teams, integration into risk assessments and innovation in investment product development.
- There was recognition for the progress already made relating to ESG disclosure. It was noted that over 80% of all companies analyzed by the group are already providing some form of disclosure relating to ESG matters within their SEC filings.
- Further emphasis was placed on the need for improvements to ESG disclosures in order to drive consistency and comparability across the market participants. Specifically, there was a call to include more disclosure of relevant ESG metrics and less "boilerplate" disclosures. In addition, the group recognized the need for more controls and governance to drive accuracy and reliability of ESG related disclosure, possibly in the form of audits or certifications.

Concurrent with symposium, the SASB held its first meeting of the Investor Advisory Group (IAG), a group that is intended to engage investors to participate in enhancing disclosure effectiveness and aid in the development of disclosure standards. To date the SASB has issued provisional sustainability accounting standards for all industry groups, including electric and gas utilities.

What's next?

Several key initiatives are underway related to ESG disclosures:

1. The SEC's focus on disclosures regarding sustainability and public policy matters in its Concept Release regarding Regulation S-K

2. The European Union's directive that extends reporting obligations for environmental and social issues for certain large public interest entities, which comes into effect on January 1, 2017

3. Voluntary disclosure guidance from the G20 Financial Stability Board's Task Force on Climate-related Financial Disclosures issued on December 14, 2016

4. SASB standards expected to be finalized in the third quarter of 2017

For more information:

Sustainability Accounting Standards Board

PwC's ESG Pulse 2016 - PwC Governance Insights Center

Standard Setting & Financial Reporting Update

Updates on select SEC, PCAOB, and other regulatory activities

SEC Chair Mary Jo White to Step Down

In November 2016, Mary Jo White announced her intent to step down from her role as Securities and Exchange Commission Chair at the end of the Obama Administration. Chair White, who has led the agency since April 2013, worked to advance several key initiatives including:

- Implementation of Dodd-Frank rules – To date, the SEC has adopted final rules for 67 mandatory rulemaking provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act

- Focus on enforcement action – During her tenure, the Commission devoted significant resources to enforcement actions, bringing a record number of judgments against both companies and individuals.

- Data analytics and technology – In recent years, the Commission invested in technologies which allowed it to filter and analyze large volumes of data much more efficiently, resulting in improved detection of misconduct.

Upon her departure, the SEC will find itself even more shorthanded with only two commissioner seats filled. The SEC, which is normally governed by five commissioners, has been operating without its full complement since October 2015.

Chair White's successor has not yet been announced; however, with a Republican SEC chairman, appointed by President-elect Donald Trump, it is likely that the tone of the agency will continue to evolve as the new chair sets out his or her agenda and priorities going forward.

Exposure Drafts Open for Comment

Deadline for Comment	***Description***
January 6, 2017	Proposed Accounting Standards Update—*Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting*
February 6, 2017	Proposed Accounting Standards Update—*Distinguishing Liabilities from Equity (Topic 480): I. Accounting for Certain Financial Instruments with Down Round Features and II. Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception*

Comment Letters Recently Submitted

Date Submitted	***Description***
November 22, 2016	Proposed Accounting Standards Update—*Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities* Click here for a copy of the joint comment letter submitted.
December 13, 2016	Proposed Accounting Standards Update—*Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* In response to the FASB's decision in November to move forward with the proposed changes to the presentation of net periodic pension and OPEB costs, with no exception granted for regulated entities, EEI and AGA submitted a request to the Board seeking a deferral of the effective date of the proposed ASU for rate-regulated entities by one year. The Board's current proposal would make the amendments effective for public business entities for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. If the request for deferral is granted, it would delay the effective date for rate-regulated entities to interim and annual reporting periods beginning after December 15, 2018. EEI and AGA representatives subsequently met with Board members and Staff to discuss this request and answer FASB questions about its impact on regulated utilities related to the capitalization of benefit costs as part of the cost of construction of property, plant, and equipment. Click here for a copy of the joint comment letter submitted.

Upcoming EEI & AGA Accounting Committee Events

Date	Location	Description
May 21 – 24, 2017	Newport Beach, CA	AGA-EEI Spring Accounting Conference EEI Accounting Standards Committee
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
November 12-15, 2017	Miami, FL	AGA/EEI Fall Accounting Conference