EEI & AGA Executive Accounting News Flash

Issue XIX – Q2 2016

Dear Colleagues:

Welcome to the 2016 second 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 disclosure effectiveness 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 FASB, IASB, and other standard setting activities

Revenue Recognition	
New Revenue Recognition Standard Recent Developments *Final Accounting Standard Updates issued*	Two additional Accounting Standards Updates (ASU's) related to the new revenue recognition standard were issued in June 2016. The final ASU's were consistent with the exposure drafts previously issued. ASU 2016-12, *Narrow-Scope Improvements and Practical Expedients* ASU 2016-10, *Identifying Performance Obligations and Licensing* Click on the links below to view the joint letters submitted EEI-AGA commenting on the exposure drafts: Comment letter on ASU 2016-12 Comment letter on ASU 2016-10
Transition Resource Group discusses contract asset treatment in contract modifications and other topics during its first 2016 meeting	At its April 18 meeting, the Transition Resource Group (TRG) discussed five implementation issues related to the new revenue standard, which included discussing the accounting for contract assets that exist when a contract is modified, specifically in cases where the modification is accounted for as the termination of the original contract and creation of a new contract. Some stakeholders have questioned whether existing contract assets should be written off as a reduction of revenue on the modification date because the original contract is considered "terminated." TRG members generally agreed with the FASB staff's analysis that the modification should be accounted for on a prospective basis and contract assets should not be immediately written off. Some TRG members observed that contract modifications are often more complex than the fact pattern described in the staff paper. The accounting for contract modifications will therefore require judgment and depend on the specific facts and circumstances. The remaining four issues were specific to other industries or are not expected to have a significant impact on the power and utilities industry. Future FASB TRG meetings are tentatively scheduled for July 25 and November 7, 2016. For additional background and a comprehensive summary of the issues discussed by the TRG, please visit the following PwC publication: In transition US2016-01, *Transition Resource Group debates revenue recognition implementation issues*
Disclosures considerations as entities make further progress in their implementation plans for adopting the new revenue standard	Entities are encouraged to evaluate whether appropriate disclosures have been included in their quarterly filings in light of further progress in their implementation plans for adopting the new revenue standard. These disclosures might include a discussion of the change in accounting, the method of adoption, the timing of adoption and, if the company has determined it, the amounts and how the historical financial statements are expected to be impacted under the new standard. If the amounts are not known, but ranges are known or even the directional impact is known, the SEC expects that information to be provided. Click on the following link to read a recent speech by Wesley Bricker, SEC Deputy Chief Accountant, during which he stated "Investors should expect the level of disclosures to increase as companies make further progress in their implementation plans for adopting the new standards."

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 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. 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.
For more information	In conjunction with PwC, EEI and AGA held a webcast covering the most recent developments on the new revenue standard including: • The latest from the American Institute of CPAs (AICPA), EEI and AGA working groups • Perspectives on implementation plans and strategy • A discussion on disclosure and transition methods • Results from an industry-focused survey on implementation efforts Click on the link below to access the webcast replay. *Power & Utilities: EEI/AGA Revenue Standard Update - Webcast replay*

Leasing	
Embarking on the implementation journey with the new leasing standard	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 impacts of the new lease accounting standard are expected to extend far beyond accounting, including data challenges, operational issues, and new demands on systems. Entities are encouraged to start developing an implementation plan as soon as practicable, including evaluation of whether to adopt in conjunction with the new revenue recognition standard. ***Industry Considerations:*** *Areas of focus for the P&U sector identified thus far include the following:* *• Evaluating design in renewables* *• Curtailment rights* *• Easements and Rights-of-way* *• Rooftop solar* *• Street lighting* *• Pipeline laterals* *• Utility Pole attachments* *In contrast to the revenue recognition standard, the FASB does not intend to form a TRG equivalent to deal with implementation issues for the new lease standard. However, 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.* *In addition, EEI and AGA are working with KPMG to develop industry-focused training on the standard, including a potential training seminar in the future.* *The EEI leasing task force has also 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: Lease Accounting Site PwC Lease Accounting Guide 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*

Nonfinancial Assets	
FASB proposes improvements on derecognition of nonfinancial assets	On June 6, 2016, the FASB proposed certain improvements to ASC 610-20, *Other Income Gains and Losses from the Derecognition of Nonfinancial Assets*. The proposed improvements include clarifying the scope of ASC 610-20, including what constitutes an "in substance nonfinancial asset," and providing guidance on partial sales of nonfinancial and in substance assets. The proposal may change the timing of derecognition and the amount of gains or losses recognized upon partial sales of nonfinancial and in substance nonfinancial assets. The proposal would amend ASC 610-20 to clarify that it applies to the derecognition of all nonfinancial assets and in substance nonfinancial assets unless other specific guidance applies. As a result, it would not apply to the derecognition of businesses, nonprofit activities, equity method investments, or to revenue transactions. The proposal clarifies that an in substance nonfinancial asset is a contract or subsidiary in which substantially all of the fair value of the asset is concentrated in nonfinancial assets. As a result of ASC 610-20, as amended by the proposal, the real estate sales guidance in ASC 360-20 would be eliminated. As such, sales and partial sales of real estate assets will now have the same derecognition model as all other nonfinancial and in substance nonfinancial assets.
Next steps	Comments on the proposed ASU are due by August 5, 2016.
For more information	For additional background refer to the FASB's exposure draft.

Goodwill Impairments	
FASB proposes to simplify measurement of goodwill impairment	On May 12, 2016, the FASB issued an exposure draft aimed at simplifying the current accounting for goodwill by eliminating Step 2 from the current impairment model. Under the proposal, goodwill impairment loss would instead be measured as the amount by which a reporting unit's carrying amount exceeds its fair value. All other goodwill impairment guidance would remain unchanged. This is similar to the model currently required under IFRS. The effective date of the proposed ASU will be determined after stakeholder feedback is received and considered. There is second phase of this project to evaluate whether additional changes need to be made to the subsequent accounting for goodwill beyond any changes to the impairment test. However, this phase is still in deliberations. Click here to view the joint EEI-AGA comment letter submitted. ***Industry Considerations:*** *The proposal would simplify financial reporting because it would 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.*

Final Standards Recently Issued

Credit Losses– FASB issues final impairment standard

On June 16, 2016, the FASB issued Accounting Standards Update 2016-13, Financial Instruments – Credit Losses (Topic 326), which introduces new guidance for the accounting for credit losses on instruments within its scope. Given the breadth of that scope, the new ASU will impact both financial services and non-financial services entities. The new guidance introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments. It also modifies the impairment model for available-for-sale (AFS) debt securities and provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination.

The ASU will be effective for public companies in fiscal years beginning after December 15, 2019, including interim periods within those fiscal years.

The FASB has formed a Transition Resource Group (TRG) for Credit Losses. The TRG for Credit Losses will periodically meet in public to discuss potential issues arising from the implementation of the Credit Losses standard. Issues may be submitted by any stakeholder based on the issue submission guidelines.

Industry Considerations: *The new guidance is expected to impact companies with large investment portfolios that include debt securities accounted for as available-for-sale (AFS) securities, which may include companies in our industry that have rabbi trusts or nuclear decommissioning trusts.*

For more information, refer to the following link for a copy of the final standard. In addition, refer to the links below for upcoming webcasts:

FASB Webcast, July 21, 2016

PwC Webcast, July 25, 2016

Refer also to the links below for the EEI-AGA joint comment letter submitted:

EEI-AGA Joint Comment Letter

PCAOB reproposes significant changes to the auditor's report

On May 11, 2016, the Public Company Accounting Oversight Board ("PCAOB") reproposed for public comment a new auditing standard, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*, and related amendments (the "reproposed standard") that would require additional information in the auditor's report about the audit and the auditor. Similar to the 2013 proposal, the reproposed standard would retain the existing "pass/fail" opinion and the basic elements of the auditor's report, but would require the auditor to report a wider range of information specific to the particular audit and auditor.

The auditor would be required to communicate in the audit report CAM arising from the audit of the current period's financial statements. CAM are any matters arising from the audit of the financial statements communicated, or required to be communicated, to the audit committee and that:

- Relate to accounts or disclosures that are material to the financial statements, and
- Involved especially challenging, subjective, or complex auditor judgment.

The auditor's report would (1) identify the CAM; (2) describe the principal considerations that led the auditor to determine the matter is a CAM; (3) describe how it was addressed in the audit; and (4) refer to the relevant financial statement accounts and disclosures.

Comments on the reproposal are due by August 15, 2016. EEI and AGA expect to submit a joint comment letter.

For more information

Refer to the reproposed standard for more information.

SEC updates interpretive guidance on non-GAAP financial measures

On May 17, 2016, the SEC staff updated its interpretive guidance on non-GAAP financial measures. The updated guidance provides clarifying examples in areas of frequent staff comment, including misleading non-GAAP presentations and non-GAAP measures with greater prominence than the comparable GAAP measures. No SEC rules have changed as a result of the updated staff guidance. However, the updated guidance provides examples of potentially misleading non-GAAP measures that could violate Regulation G. The updated guidance also provides example disclosures that would cause a non-GAAP measure to be more prominent than the most directly comparable GAAP measure.

For more information

Refer to the following PwC publication for more information: In brief US2016-22.

SEC seeks comments on the disclosure requirements of Regulation S-K

On April 13, 2016, the SEC published a concept release to solicit stakeholder input on whether the business and financial disclosure requirements in Regulation S-K continue to provide important information for investors and how it can be presented most effectively. The request for comment represents the second release of the SEC's disclosure effectiveness initiative.

The SEC's most recent release focuses primarily on the nonfinancial statement portions of disclosures registrants provide in their periodic and current reports (e.g., Form 10-K, Form 10-Q) and registration statements (e.g., Form 10, Form S-1, Form S-3). The release excludes consideration of the disclosure requirements related to executive compensation and governance, and the required disclosures for foreign private issuers, business development companies, and other categories of registrants.

Many of the disclosure requirements in Regulation S-K have not changed since they were first adopted. The concept release allows stakeholders an opportunity to provide insight into the importance, usefulness, and cost/benefit of the disclosure requirements in Regulation S-K.

Comments are due July 21, 2016. EEI and AGA expect to submit a joint commenter letter in response to the concept release.

For more information

For more information refer to the SEC Concept Release and the following PwC publication: In brief US2016-15.

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***
July 21, 2016	SEC Concept Release – *Business and Financial Disclosure Required by Regulation S-K*
August 5, 2016	Proposed Accounting Standards Update – *Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*
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*

Comment Letters Recently Submitted

Date Submitted	***Description***
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* Click here for a copy of the joint comment letter submitted.
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* Click here for a copy of the joint comment letter submitted.
July 11, 2016	Proposed Accounting Standards Update – *Intangibles—Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment* Click here for a copy of the joint comment letter submitted.

Upcoming EEI & AGA Accounting Committee Events

Date	*Location*	*Description*
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
September 11-12	DFW Airport	EEI-AGA-Deloitte FERC Accounting and Reporting
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 9 – 10, 2016	Chicago, IL	EEI-AGA Revenue Recognition Seminar
November 13 – 16, 2016	Clearwater Beach, FL	EEI-AGA Fall Accounting Conference