FASB, SEC, FERC Update
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Deloitte & Touche LLP
FASB Update
New Accounting Standards Adopted January 1, 2018

ASU 2014-09 – Revenue from Contracts with Customers


ASU 2016-15 – Classification of Certain Cash Receipts and Cash Payments

ASU 2016-16 – Income taxes: Intra-Entity Transfers of Assets Other than Inventory

ASU 2016-18 – Restricted Cash

ASU 2017-01 – Clarifying the Definition of a Business

ASU 2017-05 – Clarifying the Scope of Asset Derecognition and Partial Sales of Nonfinancial Assets

ASU 2017-07 – Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

ASU 2018-02 – Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

ASU 2018-05 – Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118
# Disclosures

## Overview

**Annual Revenue Disclosures (ASC 606)**

<table>
<thead>
<tr>
<th>Disclosures about contracts with customers</th>
<th>Interim-only disclosures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disaggregation of revenue</td>
<td></td>
</tr>
<tr>
<td>Information about contract balances</td>
<td></td>
</tr>
<tr>
<td>Remaining performance obligations</td>
<td></td>
</tr>
<tr>
<td>Information about performance obligations</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Disclosures about significant judgments and estimates</th>
<th>Other required disclosures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Description of significant judgments</td>
<td>Practical expedients</td>
</tr>
<tr>
<td>Transaction price, allocation methods and assumptions</td>
<td>Contract costs</td>
</tr>
</tbody>
</table>

**Other required disclosures**

- ASC 270, Interim Reporting
## Disclosures

### Continued

<table>
<thead>
<tr>
<th>Category</th>
<th>Disclosure requirements</th>
<th>Practical expedient available for nonpublic entities</th>
<th>Interim requirement (ASC 270)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Disaggregation of revenue</strong></td>
<td>Disaggregate revenue into categories that depict how revenue and cash flows are affected by economic factors</td>
<td>Yes*</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Sufficient information to understand the relationship between disaggregated revenue and each disclosed segment’s revenue information</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Contract balances</strong></td>
<td>Opening and closing balances (receivable, contract assets and contract liabilities)</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Amount of revenue recognized from beginning contract liability balance</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Explanation of significant changes in contract balances (using qualitative and quantitative information)</td>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>

* An entity must at a minimum provide revenue disaggregated according to the timing of transfer of goods or services (e.g., goods transferred at a point in time and services transferred over time)
Observations from Q1 Disclosures

**Financial Statement Presentation Matters:**
- New income statement line item for alternative revenue programs
- Introduction of a revenue footnote and integrating previous disclosures such as unbilled revenues into the new revenue footnote

**Disaggregation of Revenues:**
- Reconciliation of ASC 606 revenues to total revenues, including a breakout of non-606 revenues (derivatives, leases, ARPs, etc.)
- Disclosures primarily present revenues by customer class for the applicable segments
- Disclosures of revenues by service lines and/or geographies also noted
- Additional disclosure of ASC 606 related accounts receivables under 606-10-50-8a

**Contract Balances:**
- Not material for most entities
## Disclosures

### Continued

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<tbody>
<tr>
<td><strong>Performance obligations (POs) &amp; remaining performance obligations (RPOs)</strong></td>
<td>Qualitative information regarding when POs typically satisfied, significant payment terms, nature of goods/services promised, obligations for returns/refunds, warranties</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>Amount of revenue recognized from performance obligations satisfied in prior periods (e.g., changes in transaction price estimates)</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>
| | Transaction price allocated to the RPOs  
  • Disclose quantitative amounts | Yes | Yes |
| | • Quantitative or qualitative explanation of when RPO amounts will be recognized as revenue | Yes | Yes |
| **Significant judgments & estimates** | Qualitative information for determining the timing:  
  • Performance obligations satisfied over time (e.g., methods of measuring progress, why methods are representative of transfer of goods or services, judgments in evaluating when customer obtains control of goods/services) | Yes | No |
| | • Performance obligations satisfied at a point in time, specifically the significant judgments used in evaluating when a customer obtains control | Yes | No |
## Disclosures

### Continued

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</thead>
<tbody>
<tr>
<td>Significant judgments &amp; estimates (cont.)</td>
<td>Qualitative and quantitative information* regarding:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Determining the transaction price (e.g., estimating variable consideration, adjusting for time value of money, noncash consideration)</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>• Constraining estimates of variable consideration</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>• Allocating the transaction price, including estimating standalone selling prices and allocating discounts and variable consideration</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>• Measuring obligations for returns, refunds, and other similar obligations</td>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>

* This includes the methods, inputs, and assumptions used to a company’s assessment
Disclosures

Observations from Q1 Disclosures

Performance Obligations (POs) and Remaining Performance Obligations:
- Extent of qualitative information about POs varies
- Fixed capacity payments should be included in the backlog disclosure
- Capacity auctions may need to be included in the backlog disclosure

Significant Judgments and Estimates:
- Extent of qualitative information varies
- Variable consideration not material for most entities
## Disclosures

### Continued

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<tr>
<td><strong>Contract costs</strong></td>
<td>Qualitative information concerning:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Judgments made in determining the amount of the costs incurred to obtain or fulfill a contract</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>• The method it uses to determine the amortization for each reporting period</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>Quantitative information about:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• The closing balances of assets recognized from the costs incurred to obtain or fulfill a contract, by main category of asset</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>• The amount of amortization and any impairment losses recognized in the reporting period</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td><strong>Practical expedients</strong></td>
<td>Disclose use of practical expedients</td>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>
Disclosures
Observations from Q1 Disclosures

Contract Costs:
- Not material for most entities

Practical Expedients:
- Disclosures related to practical expedients vary (ex. use of word practical expedient vs. description of it)
- Practical Expedients elected vary
- Most entities have disclosed modified retrospective adoption and use of the invoice practical expedient
- Must disclose if an entity elects certain of the practical expedients, including the method and practical expedients used in transition
- Election of the sales tax presentation practical expedient requires accounting policy disclosures required by ASC 235-10-50-1 though 6
Classification of certain cash receipts and cash payments (ASU 2016-15)

**ASU 2016-15 was issued in August 2016**

**Makes amendments to:**

- Add or clarify guidance on the classification of certain cash receipts and payments in the statement of cash flows
- Eliminates diversity in practice with respect to eight types of cash flows

**Effective date**

- Public business entities: Fiscal years beginning after December 15, 2017

**Transition**

- Early adoption - Permitted
- Guidance must be adopted retrospectively to all periods presented, but may apply prospectively if retrospective application would be impracticable
Classification of certain cash receipts and cash payments (ASU 2016-15) (cont.)

<table>
<thead>
<tr>
<th>Cash flow issues</th>
<th>Amendments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt prepayment or debt extinguishment costs</td>
<td>Cash payments for debt prepayment or extinguishment costs must “be classified as cash outflows for financing activities”</td>
</tr>
<tr>
<td>Contingent consideration payments made after a business combination</td>
<td>Contingent consideration payments that were not made soon after a business combination must be separated and classified in operating and financing activities. Cash payments up to the amount of the contingent consideration liability recognized as of the acquisition date, including any measurement-period adjustments, should be classified in financing activities, while any excess cash payments should be classified in operating activities</td>
</tr>
<tr>
<td>Distributions received from equity method investees</td>
<td>Entities are required to make an accounting policy election to classify distributions received from equity method investees under either of the following methods: (1) cumulative-earnings approach or (2) nature of the distribution approach</td>
</tr>
</tbody>
</table>
### Classification of certain cash receipts and cash payments
(ASU 2016-15) (cont.)

<table>
<thead>
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<th>Cash flow issues</th>
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</thead>
<tbody>
<tr>
<td>Beneficial interests in securitization transactions</td>
<td>A transferor’s beneficial interests received as proceeds from the securitization of an entity’s financial assets must be disclosed as a noncash activity. Subsequent cash receipts of beneficial interests from the securitization of an entity’s trade receivables must be classified as cash inflows from investing activities.</td>
</tr>
<tr>
<td>Proceeds from the settlement of COLI and BOLI policies</td>
<td>Cash proceeds from the settlement of corporate-owned life insurance (COLI) and bank-owned life insurance (BOLI) policies must be classified in investing activities. An entity is permitted, but not required, to align the classification of premium payments on COLI and BOLI policies with the classification of COLI and BOLI proceeds (i.e., payments for premiums may be classified as investing, operating, or a combination thereof).</td>
</tr>
<tr>
<td>Settlement of zero-coupon bonds</td>
<td>The cash outflows for the settlement of a zero-coupon bond must be bifurcated into operating (accreted interest) and financing (principal) activities.</td>
</tr>
</tbody>
</table>
Classification of certain cash receipts and cash payments (ASU 2016-15) (cont.)

<table>
<thead>
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<th>Cash flow issues</th>
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<tr>
<td>Separately identifiable cash flows and application of the predominance principle</td>
<td>Three-step approach for classifying cash receipts and payments that have aspects of more than one class of cash flows: (1) apply specific guidance in U.S. GAAP, if applicable; (2) bifurcate into “each separately identifiable source or use [of cash] on the basis of the nature of the underlying cash flows”; (3) if cannot bifurcate, entire payment classified as operating, investing, or financing on the basis of the activity that is likely to be the predominant source or use of cash</td>
</tr>
<tr>
<td>Proceeds from the settlement of insurance claims</td>
<td>Cash proceeds from the settlement of insurance claims should be classified on the basis of the nature of the loss. For insurance proceeds received in a lump-sum settlement, an entity should determine the classification on the basis of the nature of each loss included in the settlement</td>
</tr>
</tbody>
</table>
Statement of cash flows — restricted cash (ASU 2016-18)

**ASU 2016-18 was issued in November 2016**

**Main provisions:**
- Company should include in its cash and cash equivalent balances in the statement of cash flows (SOCF) those amounts that are deemed to be restricted cash.
- A reconciliation between the balance sheet and the SOCF must be disclosed when the balance sheet includes more than one line item for cash, cash equivalents, and restricted cash.
- Changes in restricted cash that result from transfers between cash, cash equivalents, and restricted cash and restricted cash equivalents should not be presented as cash flow activities in the statement of cash flows.
- An entity with a material amount of restricted cash must disclose information about the nature of the restrictions.

**Effective date**

**Transition**
- Early adoption is allowed.
- Guidance to be applied retrospectively for all periods presented.
Clarifying the definition of a business (ASU 2017-01)

What prompted this standard?

• The standard was sought by the real estate industry

• Under prior GAAP, a single building with a lease or leases with tenants met the definition of a business

• That caused a lot of cost and complexity for many real estate companies

• The FASB’s objective was simplification

• The standard is not limited to the real estate industry; it applies to all

Implications of an asset vs. a business

• Asset acquisition—cost accumulation model—transaction costs are capitalized, total cost is allocated based on relative fair value

• Business combination—transaction costs are expensed, assets and liabilities are recognized at fair value, difference between that and purchase price is either goodwill or a bargain purchase gain

• Different accounting literature is applied to sale of an asset vs. sale of a business
Clarifying the definition of a business (ASU 2017-01) (cont.)

**Main provisions**

- Begins with an evaluation of the gross assets acquired — called a “screen” test
  - Not a business if substantially all the fair value of the gross assets acquired is concentrated in a single identifiable asset (or group of similar identifiable assets)
  - Gross assets acquired exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. However, they include the consideration transferred in excess of the fair value of the net assets acquired
  - No further evaluation is required if the screen test is met

- If the screen test is not met, for a set of activities and assets to be a business, it must have an input and a substantive process that together significantly contribute to the ability to create output
  - Removes the evaluation of whether a market participant could replace the missing elements
Clarifying the definition of a business (ASU 2017-01) (cont.)

Screen test

• Screen test reduces the number of transactions that must be further evaluated

• Single identifiable asset includes:
  − Tangible asset attached to, and that cannot be physically removed without incurring significant cost or reduction in value, from another tangible asset
  − In-place lease intangibles and the related leased assets

• The following should NOT be combined as a group of similar assets:
  − Tangible and intangible assets (exception: in-place lease intangibles and related leased assets)
  − Intangible assets in different major intangible asset classes (e.g., customer-related intangibles and trademarks)
  − Financial and nonfinancial assets
  − Different major classes of financial assets (e.g., accounts receivable and securities)
  − Different major classes of tangible assets (e.g., inventory and equipment)
  − Assets within the same major asset class that have significantly different risk characteristics
Clarifying the definition of a business (ASU 2017-01) (cont.)
Evaluation of substantive process

• Substantive process criteria depends on whether a set has outputs or ability to create outputs
• A set with no outputs would be considered a business if it has both:
  – An organized workforce
  – Inputs that the workforce can convert into outputs
• A set with outputs would include a substantive process if any of the following criteria are met:
  – An organized workforce that is critical to continued production of outputs
  – A contract that provides access to an organized workforce
  – Other acquired process (e.g., automated process) that significantly contributes to producing outputs
Clarifying the definition of a business (ASU 2017-01) (cont.)

**Definition also applies to sales**

- Goodwill in a reporting unit is only allocated to a business being disposed of

**Effective date**

- Public business entities: Annual periods beginning after December 15, 2017, and interim periods therein
- All other entities: Annual periods beginning after December 15, 2018, and within interim periods one year later

**Transition**

- ASU is applied prospectively
- No disclosures for a change in accounting principle are required
- Early adoption is permitted for transactions that were not reported in financial statements that have been issued or made available
Presentation of net periodic benefit cost and net periodic postretirement benefit cost (ASU 2017-07)

**ASU 2017-07 was issued March 10, 2017**

**Current GAAP:** Net benefit cost consists of several components that are aggregated and reported net in the income statement

**Key requirements**

• Disaggregate the current-service-cost component and present with other compensation costs

• Present other components elsewhere in the income statement
  - No requirement to further disaggregate but may do so
  - Outside of income from operations if such a subtotal is presented

• Only service-cost component may be capitalized

**ASC 980 considerations**

• Must assess when regulator continues to establish rates based on capitalization of all components of benefit cost
Presentation of net periodic benefit cost and net periodic postretirement benefit cost (ASU 2017-07) (cont.)

Effective date

• Public business entities: Interim and annual periods beginning after December 15, 2017

• Nonpublic business entities: Annual periods beginning after December 15, 2018, and interim periods in the subsequent annual period

• Early adoption permitted

Transition

• Retrospective: Separate presentation in the income statement of service costs and other components

• Prospective: Requirement to limit the capitalization of benefit costs to the service cost component

• Practical expedient: May use service cost and other costs from prior years’ footnotes as estimates for retrospective change in income statement
New Accounting Standards Coming Soon!

**ASU 2016-02** – *Leases*

**ASU 2016-13** – *Measurement of Credit Losses on Financial Instruments*

**ASU 2017-04** – *Simplifying the Test for Goodwill Impairment*

**ASU 2017-12** – *Improvements to Accounting for Hedging Activities*
New Leasing Standard - The “Big Picture”

Key takeaways

- Most leases on balance sheet for lessees
  - Classification will drive expense profile

- Lessor model implications
  - Most changes result from alignment with ASC 606
  - Requirement to separate lease & non-lease components

- FASB tried to make things easy
  - Classification, reassessment, transition

- Effective 2019, but don’t wait to assess impact
  - Process and systems changes may be required
  - Potential impact on debt covenants
New Leasing Standard – Recent Developments
January 2018 Exposure Draft

• FASB issued an exposure draft on January 5, 2018
• The exposure draft addressed two primary areas discussed in November 2017 meeting
  − Comparative period reporting requirement in ASC 842
  − Separation of lease and non-lease elements from lessor perspective

• Comment period ended on February 5, 2018
New Leasing Standard – Recent Developments

Comparative Period Reporting

• On March 7, 2018, the FASB met to discuss feedback on one of the two amendments in the January 2018 Exposure Draft

• The Board reaffirmed the proposed amendments for optional transition
   − No need to restate/recast the comparative periods
   − No need to provide ASC 842 disclosures for lease activity during comparative periods
   − Recognize effects of applying ASC 842 as a cumulative effect adjustment to retained earnings as of the adoption date

• The Board clarified comparative period disclosure requirements under ASC 840
   − If the optional transition is elected, an entity must present disclosures required under ASC 840 in the comparative period including the “five year table”

See the Deloitte Accounting Journal released on March 8, 2018 for further information.
New Leasing Standard – Recent Developments
Lessor Separation of Lease and Non-lease Components

• On March 28, 2018, the FASB met to discuss feedback on the other amendment in the January 2018 Exposure Draft
  – Lessor may use a practical expedient to not separate lease and non-lease components

• The Board made edits to the proposed amendment and reaffirmed the lessor practical expedient
  – Pattern of transfer of the components must be the same
  – Lease component must be an operating lease
  – Lessor shall account for the combined component under ASC 606 as a single performance obligation if the non-lease component is predominant

The Board also clarified that the existence of nonlease components that are not eligible for the practical expedient does not preclude an entity from electing the practical expedient for the lease and nonlease components which would qualify.
New Leasing Standard – Recent Developments

Easements

• FASB issued ASU 2018-01 in January 2018

• Amendment provides for the following:
  
  − As a practical expedient, existing easements do not need to be evaluated under ASC 842 unless already accounted for as leases under ASC 840
  
  − New or modified easements after adoption of ASC 842 should be assessed under ASC 842
  
  − Amends an example in ASC 350 (clarifies that ASC 842 must be applied first)

• Amendment does not:
  
  − Provide guidance on accounting for easements that are not leases
  
  − Provide guidance on assessing easements under ASC 842 (e.g. guidance on assessing unit of account, economic benefits, etc.)

FASB reiterated that unit of account for easements is an area of judgment. We believe that there are acceptable alternatives and expect to see diversity in practice.
Simplifying the test for goodwill impairment (ASU 2017-04)

ASU 2017-04 was issued in January 2017

Key provisions:

• Eliminates Step Two from the goodwill impairment model
  – No longer required to determine and assign the fair value of a reporting unit to its assets and liabilities
  – Impairment will be measured as the excess of a reporting unit’s carrying value over its fair value
  – Impairment is limited to the reporting unit’s recorded amount of goodwill
  – Less precise than current Step Two model

• New model could result in a goodwill impairment that is not attributable to a decline in the fair value of a reporting unit’s goodwill

• Applies to all reporting units, including those with zero or negative value
  – Eliminates qualitative assessment for reporting units with zero or negative carrying values
  – New requirement to disclose reporting units with zero or negative carrying values and the amount of goodwill allocated to them
Simplifying the test for goodwill impairment (ASU 2017-04)
(cont.)

Effective date

• Public business entities that are SEC filers: Annual and interim impairment tests for periods beginning after December 15, 2019

• Public business entities that are not SEC filers: Annual and interim impairment tests for periods beginning after December 15, 2020

• All other entities: Annual and interim impairment tests for periods beginning after December 15, 2021

Transition

• New guidance to be applied prospectively

• Early adoption is allowed for any impairment test after January 1, 2017

• Entities that apply the Private Company Council goodwill accounting alternative and that have not adopted the alternative to subsume certain intangibles into goodwill will not need to assess preferability under ASC 250 to apply the new guidance, provided they adopt on or before the effective date of the new ASU
FASB projects

Balance sheet classification of debt
Cloud computing arrangements
Pension disclosures
Balance sheet classification of debt
Proposed ASU

Narrow-scope project to develop a principle to classify debt as current or noncurrent on basis of contractual terms of a debt arrangement/entity’s compliance with debt covenants

• Proposed guidance would apply to all debt arrangements, including:
  – Mandatorily redeemable financial instruments (Subtopic 480-10)
  – Debt with conversion or other options (Subtopic 470-20)

• Would replace current U.S. GAAP fact-pattern specific guidance
Classification of Debt in a Classified Balance Sheet
Current vs. Noncurrent

• Exposure draft issued January 10, 2017

• Debt should be classified as noncurrent if either:
  – Liability is contractually due to be settled more than one year (or operating cycle) after balance sheet date
  – Entity has a contractual right to defer settlement more than one year (or operating cycle) after balance sheet date
    ◦ Contractual right is not limited to right with same lender

• Based on facts as of balance sheet date:
  – Covenant waiver exception

• Subjective acceleration clauses impact classification when triggered

• Disclosures relating to any events of default
Classification of Debt in a Classified Balance Sheet
Current vs. Noncurrent

• Covenant waiver exception (must meet all):
  − Debt would have qualified for noncurrent, absent covenant violation
  − Waiver is for more than one year (or operating cycle)
  − Waiver is not a TDR or extinguishment
  − Not probable other covenants will be violated within one year (or operating cycle)
Cloud Computing – Background of EITF Project

• ASU 2015-05 clarifies the circumstances in which a customer in a cloud computing arrangement would account for the arrangement as a license of internal-use software under ASC 350-40 or a service contract.

• U.S. GAAP is not clear on how to account for the costs associated with implementation activities related to cloud computing arrangements that are considered service contracts (i.e., not within scope of ASC 350-40).

• The lack of clarity led to the FASB adding to the EITF’s agenda a narrow-scope project on the accounting for implementation costs in a hosting/service arrangement.

• In October 2017, the EITF met and agreed to certain tentative decisions on this issue. A consensus was reached by the EITF at its January 18, 2018 meeting, and the FASB ratified the EITF’s consensus on February 7, 2018.

• The FASB issued a proposed ASU on March 1, 2018.
Cloud Computing – Key Provisions of the Proposed ASU

• Key provisions of the proposed ASU:
  − Align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with those for capitalizing implementation costs incurred to develop or obtain internal-use software.
  − Apply ASC 350-40 to determine which implementation costs should be capitalized.
  − Costs that are part of a software intangible asset should be capitalized under ASC 350-40.
  − Determine which project stage an implementation activity relates to determine whether the costs should be capitalized.
  − Capitalized implementation costs should be expensed over the term of the hosting arrangement, which may include renewal and termination periods (similar to ASC 842).
  − Comments on proposed ASU due by April 30, 2018
SEC Update
SEC Update Topics

• Organization and structure
• Priorities and agenda
• SEC filing review process
• Comment letter trends
SEC organization and structure
SEC Priorities and agenda

Capital formation, M&A, and IPOs
- Draft registration statements and S-X Rule 3-13 waivers

Enforcement
- Initial coin offerings and cyber taskforce

Pay Ratio disclosures

Cybersecurity interpretive release

Disclosure effectiveness
- Anticipated proposed rules

Non-GAAP measures and metrics

Tax Reform (Staff Accounting Bulletin 118)
- Update disclosures about incomplete or provisional items

New accounting standards
- Revenue, leasing, CECL
Evolution of SEC Focus on Cyber Breaches

SEC Chairman Jay Clayton: “I have asked the Division of Corporation Finance to continue to carefully monitor cybersecurity disclosures as part of their selective filing reviews. We will continue to evaluate developments in this area and consider feedback about whether any further guidance or rules are needed.”
Updated Cyber Disclosure Guidance

### Consistent with CF Disclosure Topic 2
- Risk factors
- MD&A
- Business
- Legal proceedings
- F/S disclosures

### Expanded
- General disclosure obligations
- Disclosure controls & procedures

### New
- Board risk oversight
- Insider trading policies
- Regulation FD and selective disclosure
Disclosure effectiveness

Objective

- A broad-based review of the rules
- Provide better information to investors
- Eliminate duplicative and outdated disclosures
- Leveraging new technologies
- Focus on material disclosures
- Reduce burden on preparers
## Disclosure effectiveness

### Key rulemaking activities

<table>
<thead>
<tr>
<th>Regulation S-X</th>
<th>Regulation S-K</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Request for comment—Other entity financial statements, November 2015</td>
<td>• Concept release on business and financial disclosure requirements, April 2016</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Modernize/simplify certain S-K requirements, October 2017</td>
<td>• Disclosure update and simplification proposed rule, July 2016</td>
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<tr>
<td></td>
<td></td>
<td>• Amendments to smaller reporting company definition proposed rule, June 2016</td>
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<td></td>
<td></td>
<td>• Potential changes to Industry Guide 3, statistical disclosure by bank holding companies, March 2017</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Potential changes to Industry Guide 7, mining operations, June 2016</td>
</tr>
</tbody>
</table>
Non-GAAP Measures

What to ask?

- Misleading or prohibited?
- Balanced and not egregious?
- Defined, described and labeled as non-GAAP?
- Purpose & usage disclosures?
- Clear reconciliation, appropriate adjustments?
- Is it less prominent and presented with the most directly comparable GAAP measure?
- Consistent policy around non-GAAP; changes disclosed?
- Disclosure, controls & procedures around non-GAAP? Audit committee oversight?

Follow Reg G for any public disclosure; 8-K Item 2.02 for furnished information; Reg S-K Item 10(e) for SEC filings.
P&U Industry is seeing additional comment letters on gross margin. Below is an example of the types of comment letters received:

Gross margins appear to represent a non-GAAP financial measure. Please tell us why you believe that gross margin is presented in accordance with GAAP. If gross margin is a non-GAAP financial measure, please provide a reconciliation of the differences between the non-GAAP financial measure with the most directly comparable financial measure calculated and presented in accordance with GAAP and the other disclosures required by Item 10(e) of Regulation S-K. Also, the use of titles or descriptions of non-GAAP financial measures should not be the same as, or confusingly similar to, titles or descriptions used for GAAP financial measures. Please refer to Item 10(e) of Regulation S-K. Please revise the title of this non-GAAP financial measure in future filings.
New GAAP standards

- Keep going/get going
- ICFR
- Transition disclosures (SAB 74)
- New disclosure requirements
- Reasonable judgment
- Audit committees
SEC review process

- All issuers reviewed at least once every 3 years
- Focus on the largest registrants that comprise a large portion of the market cap
- Percentage of issuers reviewed:

<table>
<thead>
<tr>
<th></th>
<th>FY 12</th>
<th>FY 13</th>
<th>FY 14</th>
<th>FY 15</th>
<th>FY 16</th>
<th>FY 17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reviews with comment letters</td>
<td>48%</td>
<td>52%</td>
<td>52%</td>
<td>51%</td>
<td>56%</td>
<td>56%</td>
</tr>
</tbody>
</table>

- Not all reviews result in comment letters
- Staff is listening to analyst/earnings calls, reviewing press releases, websites
- Comments are posted to EDGAR 20 days after completion of review
**SEC comment letter trends: Summary**

<table>
<thead>
<tr>
<th>Topic</th>
<th>Percentage of All Reviews</th>
<th>Rank</th>
<th>Change in Rank from Prior Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-GAAP measures</td>
<td>43%</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>MD&amp;A:</td>
<td></td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>- Results of operations</td>
<td>18%</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td>- Critical accounting policies and estimates</td>
<td>7%</td>
<td>3</td>
<td>-</td>
</tr>
<tr>
<td>- Liquidity</td>
<td>6%</td>
<td>4</td>
<td>-</td>
</tr>
<tr>
<td>- Contractual obligations</td>
<td>2%</td>
<td>5</td>
<td>-</td>
</tr>
<tr>
<td>Fair Value</td>
<td>14%</td>
<td>6</td>
<td>1</td>
</tr>
<tr>
<td>Segment reporting</td>
<td>13%</td>
<td>7</td>
<td>2</td>
</tr>
<tr>
<td>Revenue recognition</td>
<td>11%</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Intangible assets and goodwill</td>
<td>9%</td>
<td>9</td>
<td>-</td>
</tr>
<tr>
<td>Income tax</td>
<td>9%</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td>State sponsors of terrorism</td>
<td>8%</td>
<td>11</td>
<td>8</td>
</tr>
<tr>
<td>Signatures, exhibits or agreements</td>
<td>7%</td>
<td>12</td>
<td>-</td>
</tr>
<tr>
<td>Acquisitions, mergers and business combinations</td>
<td>7%</td>
<td>13</td>
<td>2</td>
</tr>
</tbody>
</table>

Comment Letter trend information was derived from data provided by Audit Analytics based on the percentage of all comment-letter-yielding Form 10-K and 10-Q reviews that include a comment on topic.
PCAOB Update
The Auditors Report on an Audit of Financial Statements When Auditor Expresses an Unqualified Opinion

Summary of the new standard:

- New standard will require communication of critical audit matters
- Critical audit matters (CAM) are any matters arising from the financial statements communicated to the Audit Committee that (1) relate to accounts or disclosures that are material to financial statements and (2) involved especially challenging, subjective, or complex auditor judgement
- Other requirements include disclosure of auditor tenure and provide other changes to clarify the auditor’s role and responsibilities

Implementation:

- Provisions related to CAM would be effective for audits for fiscal years ending on or after June 30, 2019 for large accelerated filers and for audits for the fiscal years ending on or after December 31, 2020 for all other companies
- The other changes to the auditor’s report took effect for audits for fiscal years ending on or after December 15, 2017
FERC Overview
Tax Allowances for Pass-throughs

• March 15, 2018 release – FERC will no longer allow MLPs to recover an income tax allowance in rates

• United Airlines case

• All partnerships seeking to recover an income tax allowance will need to address the double-recovery concern, the application of the United Airlines court case to non-MLP partnerships will be addressed as those issues arise in subsequent proceedings.

• The Commission emphasizes that the post-United Airlines’ policy changes (as well as the Tax Cuts and Jobs Act of 2017) will be reflected in initial oil and gas pipeline cost-of-service rates and cost-of-service rate changes on a going-forward basis under the Commission’s existing ratemaking policies, including cost-of-service rate proceedings resulting from shipper-initiated complaints.
Tax Allowances for Pass-throughs
Electric

• Because most of the FERC-regulated electric transmission companies have transmission rates that automatically adjust with changes in the tax rates, the adjustments for much of the industry are already taking place. However, the Commission took the following specific actions:
  - Issued two Federal Power Act show-cause orders involving 48 companies whose transmission tariffs specifically reference tax rates of 35 percent. The orders direct the companies to propose revisions to their transmission rates or show why they should not do so.
  - Issued two waivers that allow Public Service Company of Colorado and certain transmission owners within the MISO to allow for mid-year rate adjustments to reflect the new law.
Tax Law Changes – Impacts on Electricity, Natural Gas and Oil Companies
Interstate Gas Proposed Rulemaking

• One-Time Report to collect financial information to evaluate the impact of the TCJA on the revenue requirement

• In addition to the One-time Report, the Commission proposes to provide four options for each interstate natural gas pipeline to voluntarily make a filing to address the changes to the pipeline’s recovery of tax costs, or explain why no action is needed:

1. File a limited NGA section 4 filing to reduce the pipeline’s rates to reflect the decrease in the federal corporate income tax rate pursuant to the Tax Cuts and Jobs Act and the elimination of the income tax allowance for MLPs consistent with the Revised Policy Statement

2. make a commitment to file a general NGA section 4 rate case in the near future,

3. file a statement explaining why an adjustment to its rates is not needed, or

4. take no action other than filing the One-time Report.

If an interstate natural gas pipeline does not choose either of the first two options, the Commission will consider, based on the information in the One-time Report and comments by interested parties, whether to issue an order to show cause under NGA section 5 requiring the pipeline either to reduce its rates to reflect the income tax reduction or explain why it should not be required to do so.
Recent FERC Audit Findings

• Inclusion of “below the line” expenses in customer rates – items such as donations, life insurance, penalties, civic or political expenditures are required to be below the line for FERC reporting

• Over-recovery of tracked expenses – In some instances billing tracking accounts where the deferral and subsequent recovery were run through different accounts it has resulted in a position of over-recovery

• Income tax credits and overpayments – Some utilities have incorrectly recorded overpayments for which they will elect to receive a refund as a prepayment resulting in over-recovery through formula rate billings

• Over-recovery of fuel costs – for both fuel and nuclear fuel there have been findings related to improper items being included in the fuel stock and nuclear fuel cost accounts.

• Asset sales

• Consolidation – Comments relate to inappropriate consolidation of subsidiaries. For FERC you are required to consolidate using the equity method.
FERC Reporting for Implementation of New Accounting Standards

• A number of ASUs with upcoming adoption dates result in a cumulative effect of a change in accounting principle reflected as an adjustment to equity at the statement of shareholders’ equity.

• These new standards include
  - ASU 2016-09 Stock Compensation
  - ASU 2014-09 Revenue from Contracts with Customers
  - ASU 2016-02 Leases

• The FERC income statement forms do not have a line item for reporting the cumulative effect of a change in accounting principle.

• The system of accounts does however provide for the use of Account 439, Adjustments to Retained Earnings, in the case of significant nonrecurring transactions accounted for as prior period adjustments. Account 439 requires FERC approval prior to its use.

• March 2018 EEI Guidance Request to FERC for use of Account 439 to record the adoption of ASU 2018-02 in FERC Forms
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