Deloitte.

March 2015

EITF Snapshot

by Chris Cryderman, Adrian Mills, and Bob Uhl, Deloitte & Touche LLP

In This Issue

- Issue 14-A, "Effects on Historical Earnings per Unit of Master Limited Partnership Dropdown Transactions"
- Issue 14-B, "Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)"
- Issue 15-A, "Application of the Normal Purchases and Normal Sales Scope Exception to Certain Electricity Contracts Within Nodal Energy Markets"
- Issue 15-B, "Recognition of Breakage for Prepaid Stored-Value Cards"
- Issue 15-C, "Employee Benefit Plan Simplifications"
- Administrative Matters

This *EITF Snapshot* summarizes the March 19, 2015, meeting of the Emerging Issues Task Force (EITF or "Task Force"). Initial Task Force consensuses ("consensuses-for-exposure") are exposed for public comment upon ratification by the Financial Accounting Standards Board (FASB). After the comment period, the Task Force considers comments received and redeliberates the issues at a scheduled meeting in order to reach a final consensus. Those final consensuses are then provided to the FASB for final ratification and, ultimately, issuance as an Accounting Standards Update (ASU).

The FASB plans to consider the EITF's March 2015 consensuses for ratification at its April 7, 2015, meeting. After that date, the official EITF minutes, including the results of the FASB's ratification process, will be posted to Deloitte's Technical Library and to the FASB's Web site (note that the official EITF minutes may contain details that differ from those in this publication). EITF Issue Summaries (released before the meeting and used to frame the discussion) are also available on those sites.

Issue 14-A, "Effects on Historical Earnings per Unit of Master Limited Partnership Dropdown Transactions"

Status: Final consensus.

Affects: Master limited partnerships (MLPs) involved in a dropdown transaction.

Background: MLPs are common structures used in the energy and real estate industries. Frequently, MLPs have differing classes of ownership units (e.g., general partner (GP) units, limited partner (LP) units, incentive distribution rights) that participate in earnings on the basis of the contractual rights stipulated in the partnership agreement and, therefore, the MLP must apply the two-class method in ASC 260[1] to determine earnings per unit (EPU). MLPs also commonly engage in dropdown transactions, in which the GP of the MLP transfers assets to the MLP in exchange for a greater partnership interest in the MLP or cash (or both). For this Issue, it is assumed that the GP retains control of the MLP before and after the dropdown transaction.

In certain cases, the assets transferred to the MLP from the GP in a dropdown transaction meet the definition of a business. In such circumstances, the dropdown transaction is accounted for as a reorganization of entities under common control in accordance with ASC 805. That is, the MLP would "report results of operations for the period in which the [dropdown transaction] occurs as though the transfer of net assets . . . had occurred at the beginning of the period. . . . Financial statements and financial information presented for prior years also shall be retrospectively adjusted to furnish comparative information."

ASC 260 does not address how a dropdown transaction that occurs after the MLP's initial formation and that is accounted for as a reorganization of entities under common control would affect the MLP's presentation of historical EPU. As a result, two common approaches have developed:

1. Restate historical EPU "by allocating the net income (loss) of the transferred business prior to the date of the dropdown transaction to the GP, LPs, and [other participating interest] holders as if their rights to that income (loss) were consistent with their contractual rights after the dropdown transaction has occurred."

[1] For titles of *FASB Accounting Standards Codification* (ASC) references, see Deloitte's "Titles of Topics and Subtopics in the *FASB Accounting Standards Codification*."

2. Allocate "the net income (loss) of the transferred business prior to the date of the dropdown transaction entirely to the GP as if only the GP had rights to that net income (loss). Under this alternative, there is no retrospective adjustment to previously reported EPU [for LPs]."

At its September 2014 meeting, the Task Force reached a consensus-for-exposure consistent with the second approach described above. On October 30, 2014, the FASB issued a proposed ASU[2] based on this consensus-for-exposure; comments on the proposal were due by January 15, 2015.

Summary: At this meeting, the Task Force reached a final consensus, reaffirming its consensus-for-exposure that "the earnings (losses) of the transferred net assets before the date of the dropdown transaction shall be allocated entirely to the general partner interest." Further, an MLP would disclose "how the rights to the earnings (losses) of the transferred net assets differ before and after the dropdown transaction occurs for purposes of computing [EPU]."

Effective Date and Transition: For public companies, the final consensus will be effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. Early adoption is permitted. A reporting entity will apply the final consensus retrospectively.

Next Steps: FASB ratification is expected at the Board's April 7, 2015, meeting, after which a final ASU will be issued.

Issue 14-B, "Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)"

Status: Final consensus.

Affects: Entities that measure the fair value of investments by using the net asset value (NAV) practical expedient[3] in ASC 820.

Background: Under ASC 820, reporting entities have the option of measuring certain types of investments at NAV if those investments meet the scope requirements in ASC 820-10-15-4 and 15-5. When the NAV practical expedient is elected, a reporting entity must classify those investments within the fair value hierarchy as either Level 2 or Level 3, depending on the entity's ability to redeem the investment at NAV on or around the measurement date. If the entity can redeem the investment at NAV on the measurement date, the investment is classified as Level 2. If the entity is never able to redeem the investment at NAV, the investment is classified as Level 3. If the investment is redeemable at NAV, but not on the measurement date, the entity must determine whether it has the ability to redeem the investment at NAV in the "near term." Because ASC 820 does not define "near term," diversity in practice has developed regarding interpretation of this phrase.

At its September 2014 meeting, the Task Force reached a consensus-for-exposure that entities would no longer need to categorize, within the fair value hierarchy, fair value investments measured at NAV by using the practical expedient. On October 30, 2014, the FASB issued a proposed ASU[4] based on this consensus-for-exposure; comments on the proposal were due by January 15, 2015.

Summary: At this meeting, the Task Force reaffirmed its consensus-for-exposure that investments for which the practical expedient is used to measure fair value at NAV would be removed from the fair value hierarchy. Instead, an entity would be required to include those investments as a reconciling line item so that the total fair value amount of investments in the disclosure is consistent with the amount on the balance sheet. Further, the final consensus requires entities to provide the disclosures in ASC 820-10-50-6A only for investments for which they elect to use the NAV practical expedient to determine fair value.

[2] FASB Proposed Accounting Standards Update, *Effects on Historical Earnings per Unit of Master Limited Partnership Dropdown Transactions* — a consensus of the FASB Emerging Issues Task Force.

[3] The NAV practical expedient is discussed in ASC 820-10-35-59 through 35-62.

[4] FASB Proposed Accounting Standards Update, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* — a consensus of the FASB Emerging Issues Task Force.

The final consensus also includes the following consequential amendments to ASC 230 and ASC 715:

- ASC 230-10-15-4(c)(2)[5] would be amended to include investments for which an entity elects to use the practical expedient of measuring fair value by using NAV and that are redeemable during the near term at all times. Accordingly, investment companies would be exempt from providing a cash flow statement when they meet the other criteria in ASC 230-10-15-4(c) and substantially all of their investments (1) are in Level 1 or Level 2 of the fair value hierarchy or (2) are measured by using the NAV practical expedient, with redemption available in the near term at all times.
- ASC 715-20-50-1(d)(iv) and ASC 715-20-50-5(c)(iv) would be amended to remove, from the fair value hierarchy table in a sponsor's employee benefit plan asset disclosure, investments for which an entity elects the practical expedient of measuring fair value by using NAV. The Task Force decided not to include the disclosure requirements of ASC 820-10-50-6A in ASC 715.

Effective Date and Transition: For public companies, the final consensus will be effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The effective date will be deferred by one year for private companies. Early adoption is permitted. A reporting entity will apply the final consensus retrospectively.

Next Steps: FASB ratification is expected at the Board's April 7, 2015, meeting, after which a final ASU will be issued.

Issue 15-A, "Application of the Normal Purchases and Normal Sales Scope Exception to Certain Electricity Contracts Within Nodal Energy Markets"

Status: Consensus-for-exposure.

Affects: Entities that deliver electricity within a nodal energy market.

Background: Derivatives are measured at fair value, with changes in fair value recorded in net income. ASC 815 contains certain scope exceptions for contracts that otherwise meet the definition of a derivative, including the normal purchases and normal sales (NPNS) scope exception.[6]

The term "nodal energy markets" refers to an interconnected wholesale energy transmission grid administered by regional independent system operators (ISOs). The ISOs operate various "nodes" within the grid where electricity is delivered and withdrawn on the basis of market rates[7] set by the ISOs. The price differential between nodes (delivery point and withdrawal point) represents locational marginal pricing (LMP) charges. As electricity is delivered into the nodal market, the ISOs take "flash title" of the electricity and charge their counterparties the LMP charge on the basis of the market price at that node. The following example illustrates this scenario:

Example

A utility company enters a forward purchase contract with a power-generating company for delivery of 10,000 megawatts daily over a five-year period. The power-generating company delivers the daily electricity to the utility company at Location Y.

The utility company needs the electricity at Location Z so that it can deliver electricity to its customers. The utility company sells electricity to the ISO, who takes flash title, at Location Y for $45 per megawatt. Simultaneously, the utility company purchases electricity from the ISO at Location Z for $46 per megawatt so that it can deliver the electricity to its consumers, incurring an LMP charge of $1 per megawatt.

[5] ASC 230-10-15-4 provides a scope exception from the requirement to present a statement of cash flows if certain conditions are met.

[6] For a transaction to qualify for the NPNS exception, (1) the terms of the contract must be consistent with the terms of a normal purchase or normal sale, (2) the price must be clearly and closely related to the underlying asset, and (3) physical settlement must be probable at inception and throughout the contract.

[7] Market rates are based on the "economic impact of physical supply, demand, and transmission capacity availability, including congestion."

The issue raised with the Task Force is whether the forward purchase from the power-generating company and sale to the ISO constitute net settlement of the contract, in which case the transaction would fail to qualify for the NPNS scope exception because this exception requires that physical settlement be probable.

Summary: At this meeting, the Task Force decided that a forward purchase or sale of electricity in which electricity must be physically delivered through a nodal energy market operated by an ISO and in which an entity incurs transmission costs on the basis of LMP charges would meet the physical-delivery requirement under the NPNS scope exception. The Task Force observed that the substance of such a transaction is that the entity physically delivers electricity to its customers.

Effective Date and Transition: Entities would be required to adopt the guidance prospectively for any qualifying new or existing contract. If the NPNS exception is elected for an existing derivative, an entity would no longer mark the derivative to market and its carrying value would be its fair value at the time of designation. The Task Force will discuss the effective date at a future meeting.

Next Steps: FASB ratification is expected at the Board's April 7, 2015, meeting, after which a proposed ASU will be issued for public comment.

Issue 15-B, "Recognition of Breakage for Prepaid Stored-Value Cards"

Status: Consensus-for-exposure.

Affects: Entities that offer prepaid stored-value cards that (1) are only redeemable for goods and services provided by a third party or contain a cash redemption option and (2) are not subject to escheatment laws.

Background: Entities, typically financial institutions, offer prepaid stored-value cards that can be redeemed for goods and services provided only by a third party. These cards have no front- or back-end fees and do not expire. The prepaid cards may be redeemed at a specified company, a group of unaffiliated companies, or any company operating in a specific card network. The entity issuing the prepaid stored-value card records a liability to the cardholder when the card is issued. When the consumer uses the card to purchase goods and services from a third party, the issuer reduces its liability to the cardholder and creates a liability to the third party. The card issuer will settle the obligation in cash directly with the third party. For various reasons, cardholders may not use all or a portion of the card's prepaid value; this is commonly referred to as "breakage."

Views differ on when an entity can derecognize the liability to the cardholder as a result of breakage. Some entities view prepaid stored-value cards as a financial liability that should be derecognized in accordance with ASC 405-20-40-1. These requirements generally do not allow an entity to account for breakage. Other entities have derecognized the liability when there is a remote possibility that the customer will exercise its rights. The issue raised to the Task Force is whether an entity can recognize breakage if a prepaid stored-value card is not used in full.

Summary: At this meeting, the Task Force decided that a prepaid stored-value card is a financial liability since the card issuer is required to settle its obligation to the cardholder by a cash payment to either the cardholder or a third party. The Task Force decided that the scope of the consensus-for-exposure should include cards (1) that are redeemable for goods and services provided by a third party or that contain a cash redemption option and (2) that are not subject to escheatment laws. Further, the Task Force decided to amend ASC 405-20 such that if an entity has a prepaid stored-value card within the scope of the consensus-for-exposure, the entity would apply the breakage guidance in ASC 606.[8] The breakage disclosure requirements would also be consistent with the requirements in ASC 606.

[8] See ASC 606-10-55-46 through 55-49 for guidance on applying breakage.

The proposal based on this consensus-for-exposure is expected to ask stakeholders whether the scope of the project should be expanded to include other arrangements similar to those described above (e.g., loyalty programs involving third parties).

Effective Date and Transition: Entities would be required to adopt a modified retrospective transition approach, with a cumulative catch-up adjustment to opening retained earnings in the period of adoption. The Task Force will discuss the effective date at a future meeting.

Next Steps: FASB ratification is expected at the Board's April 7, 2015, meeting, after which a proposed ASU will be issued for public comment.

Issue 15-C, "Employee Benefit Plan Simplifications"

Status: Consensus-for-exposure.

Affects: Employee benefit plans within the scope of ASC 960, ASC 962, and ASC 965.

Background: Stakeholders have expressed an interest in narrow amendments to the accounting and disclosure requirements for employee benefit plans. Some of the requests involve the measurement of fully benefit-responsive investment contracts (FBRICs) and certain disclosure requirements for plan assets.

Under current U.S. GAAP, FBRICs are recorded at contract value but must be reconciled to fair value, if different, on the face of the plan financial statements. Stakeholders have indicated that (1) it is costly and difficult to determine the fair value of these contracts; (2) the contractual value is the amount participants will receive and therefore is more useful than fair value; and (3) the disclosure requirements in ASC 820 for FBRICs, which are generally Level 3 instruments, are often burdensome and may not be useful. Stakeholders support measuring FBRICs at contractual value and removing the requirement to reconcile contract value to fair value.

Further, stakeholders have expressed a desire to simplify and align the ASC 820 requirements with employee benefit plan requirements, specifically the following requirements related to the level of disaggregation of classes of assets, details about plan assets, and presentation of changes in plan assets.

- Under ASC 820, plan assets must be disaggregated on the basis of the "nature, characteristics, and risks of the asset." However, under employee benefit plan requirements, plan assets are disaggregated by general type (e.g., common stock, corporate bonds, real estate) in a manner consistent with regulatory reporting. A participant's self-directed brokerage accounts are disaggregated by general type on the basis of the participant's underlying investments.
- ASC 820 disclosures are based on the class of investment when an entity discloses the fair value hierarchy levels, types of valuation techniques used in developing the fair value, and fair value rollforward schedules of certain Level 3 investments. Under employee benefit plan accounting, individual investments that account for 5 percent or more of net assets must be listed individually.
- ASC 820 requires a rollforward of realized and unrealized gains and losses as well as sales, purchases, and transfers during the reporting period for Level 3 investments. Under the employee benefit plan requirements, an entity must disclose net appreciation or depreciation for all plan assets by general type.

Stakeholders also supported the use of a practical expedient in selecting an alternative measurement date to determine the fair value of plan assets. Stakeholders suggested that employee benefit plan accounting should align with the proposed ASU[9] regarding sponsors of employee benefit plans.

[9] FASB Proposed Accounting Standards Update, *Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets*.

Summary: At this meeting, the Task Force decided that FBRICs should be measured at contract value and removed the requirement to reconcile their contract value to fair value (if different). Further, the Task Force decided that:

- Plan assets would be disclosed by general type in a manner consistent with current plan accounting and would not need to be disaggregated in accordance with ASC 820. Participant self-directed brokerage accounts would be disclosed as one general type. Further, plan assets would be disclosed by general type on either the face of the financial statements or in the footnotes.
- Entities would be required to provide ASC 820 disclosures on the basis of the general type of plan assets. However, entities that file Form 5500[10] as direct filing entities[11] are not required to disclose the investment strategies for investments measured at NAV. Plan assets that account for 5 percent or more of net assets would not be listed individually.
- The requirement to provide plan asset disclosures about net appreciation or depreciation would be removed. However, entities would be required to provide the ASC 820 rollforward disclosure about realized and unrealized gains and losses as well as sales, purchases, and transfers of Level 3 investments during the reporting period.

In addition, the Task Force decided that an employee benefit plan could use an alternative measurement date consisting of the closest month-end date to its fiscal year-end. (This decision is consistent with the proposed ASU regarding sponsors of employee benefit plans.) However, the Task Force decided that contributions, distributions, and other significant events between the alternative measurement date and the fiscal year-end would be disclosed rather than adjusted for within the financial statements.

Effective Date and Transition: Entities would be required to adopt the guidance retrospectively. The Task Force will discuss the effective date at a future meeting.

Next Steps: FASB ratification is expected at the Board's April 7, 2015, meeting, after which a proposed ASU will be issued for public comment.

Administrative Matters

The next EITF decision-making meeting is tentatively scheduled for June 18, 2015. The Task Force may discuss recently added Issue Nos. 15-D, "The Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships," and 15-E, "The Evaluation of Contingent Put and Call Options Embedded in Debt Instruments."

[10] Employee benefit plans use Form 5500 to satisfy their annual reporting requirements under the Employee Retirement Income Security Act, including the underlying investments of the fund.

[11] Direct filing entities (DFEs) are entities that receive investments from employee benefit plans and that are required to file Form 5500 with their regulators to disclose the underlying investments of the DFEs.

Subscriptions

If you wish to receive *EITF Snapshot* and other accounting publications issued by Deloitte's Accounting Standards and Communications Group, please register at www.deloitte.com/us/subscriptions.

Dbriefs for Financial Executives

We invite you to participate in *Dbriefs*, Deloitte's webcast series that delivers practical strategies you need to stay on top of important issues. Gain access to valuable ideas and critical information from webcasts in the "Financial Executives" series on the following topics:

- Business strategy and tax.
- Driving enterprise value.
- Financial reporting.
- Financial reporting for taxes.
- Governance, risk, and compliance.
- Technology.
- Transactions and business events.

Dbriefs also provides a convenient and flexible way to earn CPE credit — right at your desk. Subscribe to *Dbriefs* to receive notifications about future webcasts at www.deloitte.com/us/dbriefs.

Registration is available for this upcoming Dbriefs webcast. Use the link below to register:

- EITF Roundup: Highlights From the March Meeting (March 24, 2 p.m. (EDT)).

Technical Library and US GAAP Plus

Deloitte makes available, on a subscription basis, access to its online library of accounting and financial disclosure literature. Called Technical Library: The Deloitte Accounting Research Tool, the library includes material from the FASB, EITF, AICPA, PCAOB, IASB, and SEC, in addition to Deloitte's own accounting and SEC manuals and other interpretive accounting and SEC guidance.

Updated every business day, Technical Library has an intuitive design and navigation system that, together with its powerful search features, enable users to quickly locate information anytime, from any computer. Technical Library subscribers also receive *Technically Speaking*, the weekly publication that highlights recent additions to the library. For more information, including subscription details and an online demonstration, visit www.deloitte.com/us/techlibrary.

In addition, be sure to visit US GAAP Plus, our free Web site that features accounting news, information, and publications with a U.S. GAAP focus. It contains articles on FASB activities and updates to the *FASB Accounting Standards Codification*™ as well as developments of other U.S. and international standard setters and regulators, such as the PCAOB, AICPA, SEC, IASB, and IFRS Interpretations Committee. Check it out today!

The purpose of this publication is to briefly describe matters discussed at the most recent meeting of the Emerging Issues Task Force. This summary was prepared by Deloitte's National Office Accounting Standards and Communications Group. Although this summary of the discussions and conclusions reached is believed to be accurate, no representation can be made that it is complete or without error. Official meeting minutes are prepared by the Financial Accounting Standards Board staff and are available approximately three weeks after each meeting. The official meeting minutes sometimes contain additional information and comments; therefore, this meeting summary is not a substitute for reading the official minutes. In addition, tentative conclusions may be changed or modified at future meetings.

Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor.

Deloitte shall not be responsible for any loss sustained by any person who relies on this publication.

As used in this document, "Deloitte" means Deloitte & Touche LLP, a subsidiary of Deloitte LLP. Please see www.deloitte.com/us/about for a detailed description of the legal structure of Deloitte LLP and its subsidiaries. Certain services may not be available to attest clients under the rules and regulations of public accounting.

Copyright © 2015 Deloitte Development LLC. All rights reserved.
Member of Deloitte Touche Tohmatsu Limited.