

FEDERAL ENERGY REGULATORY COMMISSION  
Washington, D.C. 20426

In Reply Refer To:  
Office of Enforcement  
Docket No. AI20-2-000  
May 7, 2020

TO ALL JURISDICTIONAL PUBLIC UTILITIES AND LICENSEES, NATURAL  
GAS COMPANIES, OIL PIPELINE COMPANIES, AND CENTRALIZED  
SERVICE COMPANIES

Subject: Accounting for Cumulative-Effect Adjustments to Retained Earnings  
Related to the Implementation of FASB's Accounting Standard on Credit  
Losses

The Financial Accounting Standards Board (FASB) has issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments – Credit Losses (Topic 326)*. ASU No. 2016-13 adds FASB Accounting Standards Codification, Topic 326, *Measurement of Credit Losses on Financial Instruments*, with the intent to provide financial statement users with more useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity. ASU No. 2016-13 requires companies to change the method of measuring credit losses, including uncollectible accounts receivable, from an incurred loss basis to a current expected credit loss (CECL) basis. ASU No. 2016-13 is required to be applied through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (i.e., a modified-retrospective approach), and is generally effective January 1, 2020 for accounting and reporting compliance under generally accepted accounting principles (GAAP).

Based on the Commission's Uniform System of Accounts, Commission jurisdictional public utilities and licensees, natural gas companies, oil pipeline companies, and centralized service companies recognize expected credit losses on accounts receivable using a reasonable method. The method of measuring expected credit losses under ASU No. 2016-13 is a reasonable methodology and is acceptable for Commission financial accounting and reporting purposes.<sup>1</sup> To the extent a jurisdictional

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<sup>1</sup> The Commission's accounting requirements are not intended to automatically reflect changes in FASB's Accounting Standards Codification, and FASB updates should not be construed as required for regulatory accounting and reporting to the Commission. However, upon analysis, the Commission may issue accounting guidance to clarify how

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entity determines that a cumulative adjustment to its beginning retained earnings account is necessary to the implementation of ASU No. 2016-13, the entity is authorized to make such an adjustment, and is relieved of the requirement to seek Commission approval to do so.<sup>2</sup> This guidance is for Commission accounting and reporting purposes only and is without prejudice to the ratemaking practice or treatment that should be afforded the items addressed herein.

The Commission delegated authority to act on this matter to the Director of the Office of Enforcement or his designee under 18 C.F.R. § 375.311 (2019). The Director has designated this authority to the Chief Accountant. This letter constitutes final agency action. Your company may file a request for rehearing with the Commission within 30 days of the date of this order under 18 C.F.R. § 385.713 (2019).

Sincerely,

Steven D. Hunt  
Chief Accountant and Director  
Division of Audits and Accounting  
Office of Enforcement

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provisions of an ASU can be reflected within the Commission's existing accounting and financial reporting requirements.

<sup>2</sup> See 18 C.F.R. Parts 101, 201, 367 (Account 439, Adjustments to Retained Earnings) and Part 352 (Account 705, Prior Period Adjustments to Beginning Retained Earnings Account).

Document Content(s)

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