Statutory Accounting Principles (E) Working Group

**Maintenance Agenda Submission Form**

**Form A**

## **Issue:** *ASU 2019-05, Targeted Transition Relief*

**Check (applicable entity):**

 P/C Life Health

Modification of existing SSAP [x]  [x]  [x]

New Issue or SSAP [ ]  [ ]  [ ]

Interpretation [ ]  [ ]  [ ]

Description of Issue: In June 2016, the FASB issued *ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which introduced the expected credit losses methodology for the measurement of credit losses on financial assets measured at amortized cost basis, replacing the previous incurred loss methodology. ASU 2016-13 also modified the accounting for available-for-sale debt securities, which must be individually assessed for credit losses when fair value is less than the amortized cost basis.

The FASB noted that financial statement preparers have begun to elect the fair value option on newly originated or purchased financial assets, although those entities historically have measured similar financial assets at an amortized cost basis. This adoption would require the maintenance of dual measurement methodologies for identical or similar financial instruments that are being managed in a similar manner. With this approach, users would not have decision useful information because the financial statements would not be comparable (i.e. a portion of an entity’s financial instruments measured at fair value versus other identical instruments measured at amortized costs that are owned by the same entity).

The amendments in this update provide an alternative accounting treatment to elect the fair value option for certain financial assets previously measured at amortized cost basis. The fair value option in this update does not apply to GAAP classified held-to-maturity debt securities.

Existing Authoritative Literature:

The existing guidance for the fair value is captured *SSAP 100R—Fair Value.* However, pursuant to statutory accounting, assets are required to be reported at the measurement method stipulated under the applicable SSAP. An election to utilize fair value in lieu of the stipulated measurement method (e.g., amortized cost) is not allowed under statutory accounting.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups): Significant activity has taken place regarding the analysis of *ASU 2016-13: Financial Instruments – Credit Losses.* Additional review and consideration is included in agenda item 2016-20.

**Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:** None

**Convergence with International Financial Reporting Standards (IFRS):** The IASB issued *IFRS 9, Financial Instruments* in July 2014 as a response to concerns identified pertaining to the delayed recognition of credit losses; however, the IASB’s stakeholders strongly preferred an impairment model that uses a dual measurement approach, while U.S. stakeholders strongly preferred the current expected credit loss model.

Staff Recommendation: NAIC staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive, and expose revisions to SSAP No. 100R to reject ASU 2019-05for statutory accounting.

This item is proposed to be rejected as ASU 2019-05 provides an alternative accounting treatment for certain financial assets (excluding held-to-maturity debt securities) previously measured at amortized cost. Pursuant to statutory accounting, assets are required to be reported at the measurement method stipulated under the applicable SSAP. An election to utilize fair value in lieu of the stipulated measurement method (e.g., amortized cost) is not allowed under statutory accounting.

**Proposed Revisions to SSAP No. 100R:**

1. This standard rejects *ASU 2019-05, Financial Instruments—Credit Losses: Targeted Transition Relief, ASU 2018-03, Recognition and Measurement of Financial Assets and Financial Liabilities, ASU 2013-03, Financial Instruments – Clarifying the Scope and Applicability of a Particular Disclosure to Nonpublic Entities* (ASU 2013-03), *ASU 2016-01, Financial Instruments – Overall* (ASU 2016-01), *FSP FAS 157-2: Effective Date of FASB Statement No. 157* (FSP FAS 157-2) and *FSP FAS 157-3: Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active* (FSP FAS 157-3).

Staff Review Completed by: Jim Pinegar – June 2019

Status:

On August 3, 2019, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to *SSAP No. 100R—Fair Value*, as illustrated above, to reject *ASU 2019-05, Targeted Transition Relief* for statutory accounting.

G:\FRS\DATA\Stat Acctg\3. National Meetings\A. National Meeting Materials\2019\Summer\NM Exposures\19-28 - ASU 2019-05 - Targeted Transition Relief (Financial Instruments - Credit Losses).docx