Statutory Accounting Principles (E) Working Group

**Maintenance Agenda Submission Form**

**Form A**

## **Issue: *ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made***

**Check (applicable entity):**

 P/C Life Health

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

New Issue or SSAP [ ]  [ ]  [ ]

Interpretation [ ]  [ ]  [ ]

Description of Issue:

The FASB issued *ASU 2018-08, Not-for-Profit Entities - Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08) in June 2018. Its intent is to clarify and improve the scope and accounting guidance for contributions received and contributions made. ASU 2018-08 should assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or exchange (reciprocal) transactions and in determining whether the contribution is conditional. Distinguishing between contributions and exchange transactions is important as it determines which guidance to apply.

Diversity in application exists for grants and other similar contracts but is most prevalent for government grants and contracts. It has also been noted that it can be difficult to determine when a contribution is conditional, especially when an entity receives assets accompanied by certain stipulations but with no specified return requirement for when the stipulations are not met. There also isn’t uniformity in assessments of whether the likelihood of failing to meet a condition is remote and in evaluating whether and how remote provisions affect the timing of when a contribution is recognized.

Although accounting for contributions is primarily an issue for not-for-profit entities, the amendments in ASU 2018-08 are applicable to all entities, including business entities, that receive or make contributions of cash and other assets, including promises to give and contributions made. However, the amendments herein do not apply to transfers of assets from government entities to business entities. Contribution revenue may be presented in the financial statements of an entity using different terms (i.e. gift, grant, donation, etc.), but this should not be a factor for determining whether an agreement is within the scope of this guidance.

The amendments in this ASU clarify and improve the current guidance regarding whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction. The amendments clarify how an entity determines whether a resource provider is participating in an exchange transaction by evaluating whether the resource provider is receiving commensurate value in return for the resources transferred based on the following:

1. A resource provider is not synonymous with the general public. A benefit received by the public as a result of the assets transferred is not equivalent to commensurate value received by the resource provider.
2. Execution of a resource provider’s mission or the positive sentiment from acting as a donor does not constitute commensurate value received by a resource provider for purposes of determining whether a transfer of assets is a contribution or an exchange.

Existing Authoritative Literature:

SSAP No. 67—Other Liabilities

### Amounts Withheld or Retained by Company as Agent or Trustee

7. A reporting entity may, in the normal course of its business, withhold funds as an agent or trustee which will ultimately be paid to others.

8. Amounts withheld or retained by an entity as trustee or agent shall be recorded as a liability when the salaries or other compensation are expensed (paragraphs 8.a. and 8.b.) or the funds are received (paragraphs 8.c. through 8.e.). Examples of such occurrences are:

1. As an employer, the reporting entity deducts and withholds federal and state income taxes, social security taxes, charitable contributions, savings plan deductions, garnishments, employee contributions to pension plans, employee share of group life and health insurance premiums, and other employee salary withholdings or deductions;
2. Amounts due under deferred compensation arrangements shall be accrued in accordance with the provisions of *SSAP No. 92—Postretirement Benefits Other Than Pensions* (SSAP No. 92). Segregated funds (i.e., Rabbi trusts and similar arrangements) shall not be netted against the accrued liability unless the requirements of *SSAP No. 64—Offsetting and Netting of Assets and Liabilities* (SSAP No. 64) are met.
3. For a reporting entity that invests in commercial and residential mortgages, the entity may require the mortgagor to prepay real estate taxes and property insurance premiums which the entity will hold in escrow and pay when due;
4. The reporting entity holds deposits in connection with leases of investment property; and
5. The reporting entity may receive and hold other funds in a fiduciary capacity.

### Remittances and Items Not Allocated

9. Cash receipts cannot always be identified for a specific purpose or, for other reasons, applied to a specific account when received. The reporting entity shall record a liability for these cash receipts when the funds are received. These liability accounts are generally referred to as suspense accounts. Examples include:

1. Premium payments received with the application for policies which have not yet been issued;
2. Premium payments in an amount different than the amount billed by the reporting entity; and
3. Unidentified cash receipts.

### Interest Payable

10. Interest payable includes interest on debt, interest on real estate obligations, and approved interest on surplus notes. It also includes interest on funds held as a deposit or security, such as those held by a ceding company against a reinsurer. The amount to be reported is the amount which has accrued and is unpaid at the balance sheet date.

### Payable to Parent, Subsidiaries and Affiliates

11. A liability shall be recognized and identified as due to affiliates for expenditures incurred on behalf of the reporting entity by a parent, affiliates, or subsidiaries or for amounts owed through other intercompany transactions. Amounts due to or from affiliates shall be offset and reported net only when the provisions of SSAP No. 64 are met. Examples of these expenses are executive salaries, workers’ compensation insurance premiums, and pension contributions.

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): None

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

**Convergence with International Financial Reporting Standards (IFRS):**

Staff Recommendation:

## **Staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive and expose revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* as not applicable to statutory accounting.**

Staff Review Completed by:

**Fatima Sediqzad – 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 *Appendix D—Nonapplicable GAAP Pronouncements* to reject *ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* as not applicable to statutory accounting.

G:\FRS\DATA\Stat Acctg\3. National Meetings\A. National Meeting Materials\2019\Summer\NM Exposures\19-31 - ASU 2018-08 - Contributions.docx