Statutory Accounting Principles (E) Working Group

**Maintenance Agenda Submission Form**

**Form A**

## **Issue:** *ASU 2019-09, Financial Services – Insurance; Effective Date*

**Check (applicable entity):**

 P/C Life Health

Modification of Existing SSAP [x]  [x]  [x]

New Issue or SSAP [ ]  [ ]  [ ]

Interpretation [ ]  [ ]  [ ]

Description of Issue: FASB issued *ASU 2019-09, Financial Services –* *Insurance* to defer the effective date of the amendments in *ASU 2018-12, Targeted Improvements to the Accounting for Long-Duration Contracts*.

ASU 2018-12was issued to improve U.S. GAAP recognition, measurement, presentation and disclosure requirements for long-duration contracts issued by an insurance entity. ASU 2018-12 had four primary areas of focus:

1. Assumptions - requires assumptions to be updated, and eliminates the U.S. GAAP provisions for risk of adverse deviation and premium deficiency testing.
2. Market Risk Benefits – requires all market risk benefits associated with deposit (or account balance contracts) to be measured at fair value.
3. Deferred Acquisition Costs - requires that deferred acquisition costs be amortized on a constant basis over the expected life of the contract.
4. Disclosures - requires new disclosures, predominantly in the form of rollforwards, to enable users to evaluate the amount, timing and uncertainty of cash flows arising from long-duration contracts.

Early adoption is permitted, however for most public entities ASU 2018-12 is now effective for fiscal years beginning after December 15, 2021. For all other entities, the effective date is for fiscal years beginning after December 15, 2023.

While minor edits were adopted to the Preamble, *ASU 2018-12* was rejected for statutory accounting. The sole function of ASU 2019-09 is to extend the effective date for ASU 2018-12.

Existing Authoritative Literature: As previously noted, ASU 2018-12 was rejected for statutory accounting.

References from Appendix D – Cross-Reference to SAP:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **GAAP Pronouncement** | **Name** | **Status** | **Disposition** | **Statutory Reference** |
| 2018-12 | Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts | Complete | Reject | Preamble50, 51R, 52, 54R, 55, 56, 71, 86 |

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:**

As ASU 2019-09 solely addresses the effective date of ASU 2018-12, which was previously rejected for statutory accounting, in the Preamble 50, 51R, 52, 54R, 55, 56, 71, 86. NAIC staff recommends rejecting ASU 2019-09 in *Appendix D—Nonapplicable GAAP Pronouncements*, as the pronouncement relates to transition of a previously issued GAAP pronouncement.

**Convergence with International Financial Reporting Standards (IFRS):** N/A in relation to this agenda item.

Staff Recommendation:

NAIC Staff recommends 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 2019-09—Financial Services – Insurance* as not applicablefor statutory accounting. This ASU solely addresses the effective date of ASU 2018-12, which was rejected by the Statutory Accounting Principles (E) Working Group on Aug. 3, 2019.

Staff Note: On June 10, 2020, the FASB exposed a proposed ASU, for a 45-day comment period, that would grant insurance companies that issue long-duration contracts, such as life insurance and annuities, an additional year to implement [*Accounting Standards Update No. 2018-12, Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*](https://www.fasb.org/cs/Satellite?c=Document_C&cid=1176171066930&pagename=FASB%2FDocument_C%2FDocumentPage). Under the proposal, the implementation of the insurance standard would be delayed by another year. Public insurers, excluding small public companies, could delay implementing the standard to fiscal years after Dec. 15, 2022, while all others could wait until fiscal years after Dec. 15, 2024. As ASU 2018-12 was rejected for SAP, it is anticipated that this extension will also be rejected as not applicable for statutory accounting once the ASU is final. This notice is just intended to advise of the further extension of the effective date.

Staff Review Completed by: Jim Pinegar, NAIC Staff – April 2020

**Status:**

On July 30, 2020, 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 2019-09—Financial Services – Insurance* as not applicable to statutory accounting.

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