Statutory Accounting Principles (E) Working Group

**Maintenance Agenda Submission Form**

**Form A**

## **Issue: *ASU 2021-02, Franchisors—Revenue from Contracts with Customers (Subtopic 952-606)***

**Check (applicable entity):**

 P/C Life Health

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

New Issue or SSAP [ ]  [ ]  [ ]

Interpretation [ ]  [ ]  [ ]

Description of Issue:

In January 2021, the Financial Accounting Standards Board (FASB) issued *ASU 2021-02, Franchisors—Revenue from Contracts with Customers (Subtopic 952-606)*, slightly amending the guidance which was issued in *ASU 2014-09, Revenue from Contracts with Customers*, as it relates to franchisors. As a reminder, the revenue recognition updates were the result of a joint project between FASB and the International Accounting Standards Board (IASB). This project clarified the principles for recognizing revenue and develop a common revenue standard for U.S. GAAP and IFRS (the IASB issued *IFRS 15 – Revenue from Contracts with Customers*) and FASB created ASC Topic 606 – Revenue from Contracts with Customers.

In 2018, the Working Group rejected the guidance in ASU 2014-09 and several other ASUs related to Revenue Recognition in *SSAP No. 47—Uninsured Plans*. Since 2018, all additional ASUs related to revenue recognition have been reviewed by NAIC staff and have been rejected for statutory accounting. The guidance in ASU 2021-02 provides updates and clarifications to the guidance for franchisors, which include several unique accounting concepts that were not fully covered by ASU 2014-09 and ASC Topic 606.

The updates in ASU 2021-02 apply to entities that are not public business entities that are within the scope of Topic 952, which includes all entities that meet the definition of franchisor, that is, the party who grants business rights (the franchise) to the party (the franchisee) who will operate the franchised business. The amendments in this ASU were intended to reduce the cost and complexity of applying Topic 606 to pre-opening services for franchisors that are not public business entities by providing a practical expedient for applying Topic 606 to pre-opening services.

Existing Authoritative Literature:

Premium revenue recognition is detailed throughout the SSAPs, including the following: *SSAP No. 51—Life Contracts;* *SSAP No. 53—Property Casualty Contracts – Premiums; SSAP No. 54—Individual and Group Accident and Health Contracts* and *SSAP No. 57—Title Insurance*. The ASUs related to ASC Topic 606 have been rejected in SSAP No. 47.

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): Agenda item 2016-19 and 2017-37 address the main ASUs related to ASC Topic 606 and there have been several other agenda items for minor updates to revenue recognition guidance.

**Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:**

None

**Convergence with International Financial Reporting Standards (IFRS):** ASC Topic 606 and IFRS 15 are the result of the joint project between the FASB and IASB to improve financial reporting by creating common revenue recognition guidance.

Staff Recommendation:

NAIC staff recommends the Working Group move this agenda item to the active listing, categorized as nonsubstantive and expose revisions to reject ASU 2021-02 in *SSAP No. 47—Uninsured Plans*. This recommendation is consistent with how the prior ASUs related to Topic 606 have been treated.

Staff Review Completed by: Jake Stultz, February 2021

**Proposed Revisions to SSAP No. 47:**

1. This statement rejects *ASU 2014-09, Revenue from Contracts with Customers; ASU 2015-14, Revenue From Contracts With Customers; ASU 2016-08, Revenue From Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net); ASU 2016-10, Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing; ASU 2016-12, Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients; ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers* and *ASU 2021-02, Franchisors—Revenue from Contracts with Customers*.

**Status:**

On March 15, 2021, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to *SSAP No. 47—Uninsured Plans* to reject *ASU 2021-02, Franchisors – Revenue from Contracts with Customers.*

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