

**Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A**

Issue: ASU 2021-05 - Leases (Topic 842), Lessors—Certain Leases with Variable Lease Payments

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Description of Issue: In July 2021, the Financial Accounting Standards Board (FASB) issued *Accounting Standard Update (ASU) 2021-05, Leases (Topic 842), Lessors—Certain Leases with Variable Lease Payments*. This ASU was issued as part of FASB’s post-implementation review to address issues that have been found during the implementation of the new lease guidance from *ASU 2016-02, Leases (Topic 842)*. The guidance in ASU 2021-05 applies to lessors with lease contracts that: 1) have variable lease payments that do not depend on a reference index or rate, and/or 2) would have resulted in the lessor being required to recognize a day one selling loss (at lease commencement) if those leases were classified as sales-type or direct financing. The changes to Topic 842 will require a lessor to classify a lease with variable lease payments that do not depend on an index or a rate as an operating lease at lease commencement if classifying the lease as a sales-type lease or a direct financing lease would result in the recognition of a selling loss. *SSAP No. 22R—Leases* requires nearly all leases to be treated as operating leases for statutory accounting, so adoption of this guidance would be redundant and unnecessary.

Existing Authoritative Literature:

The ASUs related to Topic 842 have previously been rejected in *SSAP No. 22R—Leases*.

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): ASC Topic 842 was the result of a joint project between FASB and the International Accounting Standards Board.

Recommendation: Staff recommends the Working Group move this agenda item to the active listing, categorized as nonsubstantive and expose revisions to reject ASU 2021-05 in *SSAP No. 22R—Leases*. Under statutory accounting almost all leases are classified as operating leases, thus this U.S. GAAP guidance is not necessary.

Proposed Revision to SSAP No. 22R (Relevant Literature section – paragraph 52):

- i. [ASU 2020-02, Leases \(Topic 842\), Lessors—Certain Leases with Variable Lease Payments \(Rejected in its entirety.\)](#)

Staff Review Completed by: Jake Stultz, NAIC Staff – August 2021

Status:

On December 11, 2021, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to reject ASU 2021-05 in SSAP No. 22R.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2021/13.FallNationalMeeting/Exposures/21-29-ASU2021-05VariableLeasePayments.docx>