Statutory Accounting Principles (E) Working Group

**Maintenance Agenda Submission Form**

**Form A**

## **Issue: ASU 2024-01, Scope Application of Profits Interest and Similar Awards**

**Check (applicable entity):**

 P/C Life Health

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

New Issue or SSAP [ ]  [ ]  [ ]

Interpretation [ ]  [ ]  [ ]

Description of Issue: In March 2024, FASB issued *ASU 2024-01 Compensation—Stock Compensation (Topic 718), Scope Application of Profits Interest and Similar Awards,* which includes amendments to Topics 718 to provide clarifications on the application of guidance on stock compensation in the form of profits interest. The primary changes made were the creation of application examples and amendments to certain language in the Scope and Scope Exceptions Section of Topic 718 to improve clarity and operability without changing the guidance.

Because profits interest holders only participate in future profits and/or equity appreciation and have no rights to the existing net assets of the partnership, it can be complex to determine whether a profits interest award should be accounted for as a share-based payment arrangement (Topic 718) or similar to a cash bonus or profit-sharing arrangement (Topic 710, Compensation—General, or other Topics).

For statutory accounting assessments, prior U.S. GAAP guidance related to share-based payments has been predominantly adopted with modification in *SSAP No. 104—Share-Based Payments*. Statutory accounting modifications to the U.S. GAAP guidance have mostly pertained to statutory terms and concepts. (For example, statutory reporting lines, nonadmittance of prepaid assets, etc.)

Existing Authoritative Literature:

Stock compensation is addressed by *SSAP No. 104—Share-Based Payments* and *SSAP No. 95—Nonmonetary Transactions*.

**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 2018-35 adopted with modification *ASU 2018-07,* *Improvements to Nonemployee Share-Based Payment Accounting* and incorporated the U.S. GAAP amendments from that ASU into SAP.

Agenda items 2016-19 and 2017-37 address the main ASUs related to *ASC Topic 606 Contracts with Customers* and there have been several other agenda items for minor updates to revenue recognition guidance, which have been rejected *in SSAP No. 47—Uninsured Plans*­­.

­Agenda item 2023-07 addressed *ASU 2019-08, Compensation—Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606): Codification Improvements—Share-Based Consideration Payable to a Customer*, which was adopted with modification in 2023 to SSAP Nos. 47, 95, and 104.

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

None.

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

None.

Staff Recommendation:

## **NAIC Staff recommends that the Working Group move this item to the active listing of the maintenance agenda, categorized as a SAP clarification, and expose revisions to adopt with modification *ASU 2024-01 Compensation—Stock Compensation (Topic 718), Scope Application of Profits Interest and Similar Awards* within *SSAP No. 104—Share-Based Payments*.** The proposed revisions to SSAP No. 104 are illustrated below.

*Proposed Revisions* to *SSAP No. 104—Share-Based Payments*

**Scope and Scope Exceptions**

4. This statement applies to all share-based payment transactions in which a grantor acquires [goods](http://asc.fasb.org/glossarysection%26trid%3D2229119%26id%3DSL2258986-113943) or services to be used or consumed in the grantor’s own operations or provides consideration payable to a customer by either of the following:

* 1. Issuing (or offering to issue) its shares, share options, or other equity instruments to an employee or nonemployee.
	2. Incurring liabilities to an employee or nonemployee that meet either of the following conditions:
		1. The amounts are based, at least in part[[1]](#footnote-2), on the price of the entity’s shares or other equity instruments.
		2. The awards require or may require [settlement](http://asc.fasb.org/glossarysection%26ioid%3D7485812%26id%3DSL2296969-113906) by issuing the entity’s equity shares or other equity instruments.

5. Share-based payments awarded to a grantee by a related party or other holder of an [economic interest in the entity](http://asc.fasb.org/glossarysection%26ioid%3D6415400%26id%3DSL2300834-113901) as compensation for goods or services provided to the reporting entity are share-based payment transactions to be accounted for under this statement unless the transfer is clearly for a purpose other than compensation for goods or services to the reporting entity. The substance of such a transaction is that the economic interest holder makes a capital contribution to the reporting entity, and that entity makes a share-based payment to the grantee in exchange for services rendered or goods received. An example of a situation in which such a transfer is not compensation is a transfer to settle an obligation of the economic interest holder to the grantee that is unrelated to goods or services to be used or consumed in a grantor’s own operations. Reporting entities which issue profits interest or similar awards as compensation to either employees and nonemployees in exchange for goods or services shall apply the guidance in paragraph 4 in determining whether the award is a share-based payment transaction and in scope of this statement.

*NAIC Drafting Note: Some of the relevant guidance added by ASU 2024-01 is included in illustrative examples. As SSAP No. 104 does not have illustrative examples, NAIC Staff drafted language (see tracked changes immediately above) using the guidance provided in the ASU illustrative examples and commentary.*

### Relevant Literature

127. This statement adopts with modification the U.S. GAAP guidance for share-based payment transactions reflected in FASB *Accounting Standards Codification (ASC)* *Topic 718, Compensation – Stock Compensation*, as modified by the ASUs listed in paragraphs 127.a. through 127.e., excluding the guidance in *ASC Subtopic 718-40, Employee Stock Ownership Plans* (ESOPs). Statutory accounting guidance for ESOPs is addressed in *SSAP No. 12—Employee Stock Ownership Plans*. This adoption with modification includes the related implementation guidance reflected within the FASB Codification Topic 718 not reflected within this standard. The U.S. GAAP guidance adopted with modification reflects the adoption with modification of the following ASUs:

* 1. *ASU 2024-01 Compensation—Stock Compensation (Topic 718), Scope Application of Profits Interest and Similar Awards*. The statutory modification did not incorporate the application examples and added additional language to clarify that profits interest and similar awards need to be considered under this statement.
	2. *ASU 2019-08, Compensation—Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606): Codification Improvements—Share-Based Consideration Payable to a Customer.*
	3. *ASU 2018-07, Improvements to Nonemployee Share-Based Payment Accounting*. The revisions from ASU 2018-07 expand the scope of ASC 718 to include share-based payment transactions for acquiring goods and services from nonemployees. With ASU 2018-17, *ASC 505-50, Equity – Equity Payments to Nonemployees* was superseded.
	4. *ASU 2017-09, Scope of Modification Accounting*
	5. *ASU 2016-09, Improvements to Employee Share-Based Payment Accounting*
	6. *ASU 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*
	7. *ASU 2010-13, Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Current of the Market in Which the Underlying Equity Security Trades*

Effective Date and Transition

132. Since the initial adoption of SSAP No. 104, subsequent revisions were effective as follows:

* 1. *ASU 2024-01 Compensation—Stock Compensation (Topic 718), Scope Application of Profits Interest and Similar Awards* was adopted with modifications. This SAP clarification is effective December 31, 2025.
	2. *ASU 2019-08, Compensation—Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606): Codification Improvements—Share-Based Consideration Payable to a Customer*. The SAP clarification is effective August 10, 2022.

Staff Review Completed by:

NAIC Staff – William Oden, September 2024

On November 17, 2024, the Statutory Accounting Principles (E) Working Group moved this item to the active listing and exposed revisions, as shown above, to adopt with modification *ASU 2024-01 Compensation—Stock Compensation (Topic 718), Scope Application of Profits Interest and Similar Awards* within *SSAP No. 104—Share-Based Payments*.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2024/11-17-24 Fall National Meeting/Exposures/24-22 - ASU 2024-01 - Scope Application of Profits Interest and Similar Awards.docx

1. The phrase “at least in part” is used as an award of share-based compensation may be indexed to both the price of an entity’s shares and something else that is neither the price of the entity’s shares nor a market, performance, or service condition. [↑](#footnote-ref-2)