

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

Issue: SSAP No. 16 Clarifications**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: NAIC staff were contacted about a question related to *SSAP No. 16—Electronic Data Processing Equipment and Software*. While working on the issue, staff noted several instances in the SSAP where the FASB ASC Topic has been referenced directly instead of the ASU. When guidance is adopted by FASB, it is issued through an accounting standards update which formally adopts the guidance into the FASB Accounting Codification. The Working Group will then address the guidance in the ASU, which is the guidance at a moment in time instead of the actual ASC, which represents guidance that will change over time as other ASUs are adopted. As the guidance stands now, a new ASU could be issues that impacts the ASC sections that are referenced in the SSAP, thereby changing statutory accounting guidance without the Working Group addressing and considering the issue.

Existing Authoritative Literature: There are multiple instances that need to be addressed in SSAP No. 16, which are detailed below in the Staff Recommendation.

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): None

Staff Recommendation: NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to *SSAP No. 16—Electronic Data Processing Equipment and Software*, to include proper references to the specific FASB ASU or SOP when not specifically referenced in the SSAP, as illustrated below.

8. This statement adopts with modification FASB Codification 985-20, Software - Costs of Software to be Sold, Leased or Marketed (ASC 985-20), [as revised by ASU 2009-14, Certain Revenue Arrangements That Include Software Elements](#), to preclude the capitalization of software development costs and to reject guidance regarding the treatment of capitalized costs. Additionally, this statement rejects FASB Codification 985-330, Software - Inventory (ASC 985-330). Statutory modifications to ASC 985-20 and rejection of ASC 985-330 precludes capitalization of costs, and requires such costs to be expensed, for:

10. This statement adopts with modification *FASB Accounting Standards Codification (ASC) 350-40, Internal Use Software* (ASC 350-40), [as originally adopted as part of SOP 98-1](#), as described in this statement. (This adoption reflects adjustments to ASC 350-40 from *ASU 2015-05, Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*.) This statement also adopts *FASB Accounting Standards Codification 350-50, Website Development Costs* (ASC 350-50) in its entirety.

13. For hosting arrangements that are service contracts, reporting entities shall account for the contract as follows:
- a. The reporting entity shall capitalize implementation costs of the hosting arrangement (the costs incurred to implement the cloud hosting service contract), as nonoperating system software. The capitalized costs shall be consistent with the costs which are permitted to be capitalized for internal use software and shall be reported as a nonadmitted asset. These implementation costs shall be recognized as each module or component of the hosting arrangement is ready for its intended use.
 - b. The implementation costs shall be amortized over the lesser of the term of the hosting arrangement, or five years. (This statement adopts the provisions in ASC 350-40-35-13 through ASC 350-40-35-17, [as originally adopted with modification as part of SOP 98-1](#), for determining the term of the hosting arrangement and for when amortization shall begin.) The amortization cost shall be recognized as depreciation of the nonoperating system software. (This is a modification from U.S. GAAP as the amortization is not recognized in the same expense line as the service contract lease.)

Staff Review Completed by: Jake Stultz—NAIC Staff

On November 17, 2024, the Statutory Accounting Principles (E) Working Group moved this item to the active listing, categorized as a SAP clarification, and exposed revisions to *SSAP No. 16—Electronic Data Processing Equipment and Software* to clarify the references to the U.S. GAAP Accounting Standards Codification (ASC).

On February 25, 2025, the Statutory Accounting Principles (E) Working Group adopted as final SAP clarification revisions to SSAP No. 16 to clarify the references to the U.S. GAAP Accounting Standards Codification (ASC).

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2025/02-25-25/Adoptions/24-25-SSAP16Clarifications.docx>