

Summer National Meeting - Review of GAAP Exposures for Statutory Accounting:

Pursuant to a 2014 direction from the SAPWG chair, there is a desire for the Statutory Accounting Principles (E) Working Group to be more proactive in considering FASB exposures that may be significant to statutory accounting and reporting. Historically, the SAPWG has commented on limited, key FASB exposures – mostly pertaining to insurance contracts and financial instruments. To ensure consideration of all FASB exposures, staff prepared this memorandum to highlight the current exposures, comment deadlines, and to provide a high-level summary of the exposed item’s potential impact to statutory accounting. It is anticipated that this information would assist the Working Group in determining whether a comment letter should be submitted to the FASB on the issues. Regardless of the Working Group’s election to submit comments to the FASB on proposed accounting standards, under the NAIC Policy Statement on Statutory Accounting Principles Maintenance Agenda Process, issued US GAAP guidance noted in the hierarchy within Section V of the Preamble to the *Accounting Practices and Procedures Manual* must be considered by the Statutory Accounting Principles (E) Working Group.

FASB Exposures: [Exposure Documents and Public Comment Documents \(fasb.org\)](https://www.fasb.org/exposures)

Exposed FASB Guidance	Comment Deadline & Initial Staff Comments
Proposed Accounting Standards Update— <i>Derivatives and Hedging (Topic 815) and Revenue from Contracts with Customers (Topic 606): Derivatives Scope Refinements and Scope Clarification for a Share-Based Payment from a Customer in a Revenue Contract</i>	October 21, 2024

Proposed Accounting Standards Update, Derivatives and Hedging (Topic 815) and Revenue from Contracts with Customers (Topic 606)—Derivatives Scope Refinements and Scope Clarification for a Share-Based Payment from a Customer in a Revenue Contract

Topic 815, Derivatives and Hedging, establishes accounting requirements for contracts that meet the characteristics-based definition of a derivative and are not otherwise excluded from the Topic’s scope. Because of the broad interpretation of the definition of a derivative, many types of contracts are being evaluated and potentially accounted for as derivatives.

In response to the 2021 Invitation to Comment, Agenda Consultation, stakeholders indicated that practice questions have emerged about the application of the definition of a derivative (and the related scope exceptions) to (1) certain emerging transactions, such as bonds in which interest payments may vary based on environmental, social, and governance (ESG)-linked metrics, and (2) certain longstanding transactions, such as research and development funding arrangements and litigation funding arrangements.

A frequently cited challenge was the broad and evolving interpretation of the derivative definition and the complexity of applying scope exceptions to certain contracts with variables (referred to as “underlyings”) based on operations or activities specific to one of the parties to the contract. Some respondents noted that because those contracts relate to the performance of a party to the contract, accounting for those contracts as derivatives measured at fair value does not provide decision-useful information. Those respondents indicated that other guidance in generally accepted accounting principles (GAAP) exists to account for those contracts. Furthermore, respondents noted that because of the cost and complexity of applying the derivative guidance, some entities may structure those transactions to avoid accounting for them as derivatives. The amendments in this proposed Update address the issues raised by stakeholders by expanding the scope of an existing exception in Topic 815.

The amendments in this proposed Update would apply to all entities that enter into certain contracts with underlyings based on operations or activities specific to one of the parties to the contract.

The amendments in this proposed Update would exclude derivative accounting contracts with underlyings that are based on operations or activities specific to one of the parties to the contract. The scope exception would include variables based on financial statement metrics of one of the parties to the contract (for example, earnings before interest, taxes, depreciation, and amortization; net income; expenses; or total equity), as well as the occurrence or nonoccurrence of an event related to the operations or activities specific to one of the parties to the contract. However, contracts with a single underlying based on either (1) a market rate, market price, or market index or (2) the price or performance of a financial asset or financial liability of one of the parties to the contract would not qualify for the proposed scope exception.

Contracts with multiple underlyings for which some are excluded from derivative accounting, and some are not would be evaluated on the basis of the predominant characteristics of the contract to determine whether the entire contract (or embedded feature) is subject to the requirements of Topic 815.

The amendments in this proposed Update would change the predominant characteristics assessment to require that an entity assess which underlying is expected to have the largest expected effect on changes in the fair value of the contract (or embedded feature).

Issue 2: Scope Clarification for a Share-Based Payment from a Customer in a Revenue Contract

The Board received feedback from some stakeholders that there is a lack of clarity about which guidance an entity should apply to recognize share-based payments, such as warrants or shares, received from a customer that are consideration for the transfer of goods or services. For example, if an entity receives share-based payments from a customer and those share-based payments are contingent on the satisfaction of performance obligations, some stakeholders recently indicated that it is unclear to them whether those share-based payments (1) should be recognized at contract inception as a derivative asset under Topic 815 or an equity security under Topic 321, Investments—Equity Securities, or (2) should not be recognized until the entity satisfies its performance obligations under Topic 606, Revenue from Contracts with Customers. In response to this feedback, the Board decided to clarify the accounting by an entity that receives a share-based payment from a customer that is consideration for the transfer of goods or services.

The amendments in this proposed Update would apply to all entities that receive a share-based payment from a customer that is consideration for the transfer of goods or services.

The amendments in this proposed Update would clarify that an entity should apply the guidance in Topic 606, including the guidance on noncash consideration in paragraphs 606-10-32-21 through 32-24, to a contract with a share-based payment (for example, shares, share options, or other equity instruments) from a customer that is consideration for the transfer of goods or services. Accordingly, under Topic 606, the share-based payment should be recognized as an asset measured at the estimated fair value at contract inception under Topic 606 when the entity's right to receive or retain the share-based payment from a customer is no longer contingent on the satisfaction of a performance obligation. In addition, the amendments in this proposed Update would clarify that the guidance in Topic 815 and Topic 321 should not be applied unless and until the share-based payment from a customer that is consideration for the transfer of goods or services is recognized as an asset under Topic 606.

The amendments in this proposed Update would reduce diversity in the accounting for share-based payments from a customer that are consideration for the transfer of goods or services by clarifying that entities should apply the guidance in Topic 606. The proposed amendments would provide investors with more comparable information and would reduce accounting complexity and related reporting costs for preparers and auditors.

Staff Review and Commentary:

Comment deadline is October 21, 2024

NAIC staff recommend that ASU be reviewed under the SAP Maintenance Process as detailed in *Appendix F—Policy Statements*.

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2024/08-13-24 Summer National Meeting/Meeting/I - Review of GAAP Exposures.docx](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National%20Meetings/A.%20National%20Meeting%20Materials/2024/08-13-24%20Summer%20National%20Meeting/Meeting/I%20-%20Review%20of%20GAAP%20Exposures.docx)