FASB EXPOSURE DRAFT

*Proposed Accounting Standards Update*

Issued: August 21, 2019
Comments Due: September 20, 2019

# Financial Services—Insurance (Topic 944):

## Effective Date

The Board issued this Exposure Draft to solicit public comment on proposed changes to Topic 944 of the *FASB Accounting Standards Codification*®. Individuals can submit comments in one of three ways: using the electronic feedback form on the FASB website, emailing comments to director@fasb.org, or sending a letter to "Technical Director, File Reference No. 2019-760, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116."

**Notice to Recipients of This Exposure Draft of a Proposed Accounting Standards Update**

The Board invites comments on all matters in this Exposure Draft until September 20, 2019. Interested parties may submit comments in one of three ways:

- Using the electronic feedback form available on the FASB website at Exposure Documents Open for Comment
- Emailing comments to director@fasb.org, File Reference No. 2019-760
- Sending a letter to "Technical Director, File Reference No. 2019-760, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116."

All comments received are part of the FASB's public file and are available at www.fasb.org.

The *FASB Accounting Standards Codification*® is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective. A copy of this Exposure Draft is available at www.fasb.org.



FASB FINANCIAL ACCOUNTING STANDARDS BOARD®

# Proposed Accounting Standards Update

# Financial Services—Insurance (Topic 944)

# Effective Date

August 21, 2019

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# Summary and Questions for Respondents

## Why Is the FASB Issuing This Proposed Accounting Standards Update (Update)?

On August 15, 2018, the Board issued Accounting Standards Update No. 2018-12, *Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*, which made targeted amendments to improve, simplify, and enhance the financial reporting requirements for long-duration contracts issued by insurance entities. For public business entities, the amendments in Update 2018-12 are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. For all other entities, those amendments are effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early application of the amendments is permitted.

The Board received a technical agenda request to defer the effective date of the amendments in Update 2018-12 for public entities by one year.

Separately, the Board issued a proposed Accounting Standards Update, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)*: *Effective Dates,* on August 15, 2019. The Board developed a philosophy to extend and simplify how effective dates are staggered between larger public companies and all other entities. Under this philosophy, a major Update would first be effective for entities that are Securities and Exchange Commission (SEC) filers (per the Codification's Master Glossary definition), excluding entities eligible to be smaller reporting companies (SRCs) under the SEC definition. For all other entities, the Board will consider requiring an effective date staggered at least two years after the effective date for SEC filers, excluding entities eligible to be SRCs.

The amendments in this proposed Update would address the agenda request and would apply the new proposed philosophy on effective dates to the amendments in Update 2018-12.

## What Are the Main Provisions?

The amendments in this proposed Update would defer the effective date of the amendments in Update 2018-12 for all entities.

For SEC filers, excluding entities eligible to be SRCs as defined by the SEC, the amendments in Update 2018-12 would be effective for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years. The determination of whether an entity is an SRC would be based on an entity's most recent determination in accordance with SEC regulations as of the issuance of amendments in a final Update on the effective date for Topic 944. Early application of the amendments in Update 2018-12 would be permitted.

For all other entities, the amendments in Update 2018-12 would be effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early application of the amendments in Update 2018-12 would be permitted.

# Questions for Respondents

The Board invites individuals and organizations to comment on all matters in this proposed Update, particularly on the issues and questions below. Comments are requested from those who agree with the proposed guidance as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposed guidance are asked to describe their suggested alternatives, supported by specific reasoning.

**Question 1—Effective date for larger public companies.** Should the amendments in Update 2018-12 be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2021, for larger public companies (that is, SEC filers other than entities eligible to be SRCs as defined by the SEC)? If not, please explain why not.

**Question 2—Effective date for entities other than larger public companies.** Should the amendments in Update 2018-12 be effective two years after the effective date for larger public companies for entities other than larger public companies (that is, for entities other than larger public companies, effective for fiscal years beginning after December 15, 2023)? If not, please explain why not.

**Question 3—Interim periods for entities other than larger public companies.** Should the amendments in Update 2018-12 be effective for interim periods within the years after those amendments are effective for annual periods for entities other than larger public companies (that is, effective for interim periods within fiscal years beginning after December 15, 2024)? Or, alternatively, should the amendments in Update 2018-12 be effective for interim periods within the same fiscal year that the amendments in that Update are effective for annual periods (that is, effective for interim periods within fiscal years beginning after December 15, 2023)? Please explain why.

**Question 4—Threshold.** Should the population of SEC filers that are afforded a delayed effective date be entities eligible to be SRCs as defined by the SEC? If not, what definitional threshold, if any, do you suggest and why?

# Amendments to the *FASB Accounting Standards Codification*®

## Introduction

1. The Accounting Standards Codification is amended as described in paragraph 2. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

## Amendments to Subtopic 944-40

2. Amend paragraph 944-40-65-2(a) through (b) and its related heading as follows:

### Financial Services—Insurance

### Claim Costs and Liabilities for Future Policy Benefits

### Transition and Open Effective Date Information

**> Transition Related to Accounting Standards ~~Update~~Updates No. 2018-12, *Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*, and No. 2019-XX, *Financial Services—Insurance (Topic 944): Effective Date***

**944-40-65-2** The following represents the transition and effective date information related to Accounting Standards ~~Update~~Updates No. 2018-12, *Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*, and No. 2019-XX, *Financial Services—Insurance (Topic 944): Effective Date*:

a. For U.S. **Securities and Exchange Commission (SEC) filers**, excluding entities eligible to be smaller reporting companies as defined by the SEC,~~**public business entities**~~ the pending content that links to this paragraph shall be effective for fiscal years beginning after December 15, 2021~~2020~~, and interim periods within those fiscal years. The determination of whether an entity is eligible to be a smaller reporting company shall be based on an entity's most recent determination in accordance with SEC regulations as of **{add exact date that a final Update on effective date is issued—for example, December 15, 2019}**. Early application is permitted.

b. For all other entities, the pending content that links to this paragraph shall be effective for fiscal years beginning after December 15, 2023~~2021~~, and interim periods within fiscal years beginning after December 15, 2024~~2022~~. Early application is permitted.

*The amendments in this proposed Update were approved for publication by the unanimous vote of the seven members of the Financial Accounting Standards Board:*

Russell G. Golden, *Chairman*
James L. Kroeker, *Vice Chairman*
Christine A. Botosan
Gary R. Buesser
Susan M. Cosper
Marsha L. Hunt
R. Harold Schroeder

# Background Information and Basis for Conclusions

## Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this proposed Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

## Background Information

BC2. On August 15, 2018, the Board issued Update 2018-12, which made targeted amendments to improve, simplify, and enhance the financial reporting requirements for long-duration contracts issued by insurance entities. For public business entities, the amendments in Update 2018-12 are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020 (that is, 2021 for calendar-year entities). For all other entities, the amendments in Update 2018-12 are effective for fiscal years beginning after December 15, 2021 (that is, 2022 for calendar-year entities), and interim periods within fiscal years beginning after December 15, 2022 (that is, 2023 for calendar-year entities). Early application of those amendments is permitted.

BC3. The Board received a technical agenda request to defer the effective date of the amendments in Update 2018-12 for public entities by one year. The request cited various implementation challenges for insurance entities. In response to that request, the Board and staff conducted outreach with numerous insurance entities that issue and/or reinsure long-duration contracts to better understand the progress those entities are making in adopting the amendments in Update 2018-12.

BC4. Separate from the agenda request submitted on the amendments in Update 2018-12, the Board deliberated its philosophy for establishing effective dates for major Updates (typically referred to as broad projects on the FASB's technical agenda) to the Codification. The Board developed a philosophy to extend and simplify how effective dates are staggered between larger public companies and all other entities. Under that philosophy, major Updates would typically be effective for larger public entities—specifically, SEC filers other than entities eligible to be SRCs as defined by the SEC—two years before those major Updates would be effective for all other entities (although the Board's establishment of effectives dates for future major Updates will continue to be determined in connection with standard-setting activities on an Update-by-Update basis). See the [proposed Accounting Standards Update], *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)*: *Effective Dates,* which was issued on August 15, 2019, for more information about potential changes to the Board's philosophy for establishing effective dates for major Updates, including the Board's basis for conclusions. The Board has tentatively decided to apply the new effective date philosophy to the amendments in Update 2018-12.

BC5. The amendments in this proposed Update would defer the effective dates for entities adopting the amendments in Update 2018-12. Therefore, the Board does not anticipate that entities would incur significant costs, if any, because of the amendments in this proposed Update and expects that the additional time will allow for a higher-quality implementation that would benefit both preparers and users.

## Basis for Conclusions

BC6. The Board decided that it would defer the effective date of the amendments in Update 2018-12 for all entities. For SEC filers, excluding entities eligible to be SRCs as defined by the SEC, the amendments in Update 2018-12 would be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2021. For all other entities, the amendments in Update 2018-12 would be effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. The determination of whether an entity is eligible to be an SRC would be based on the entity's most recent determination in accordance with SEC regulations as of the date of issuance of a final Update resulting from the amendments in this proposed Update (for example, it is anticipated that the determination date will be June 30, 2019, for calendar-year-end companies). Early application would be permitted for all entities.

BC7. An entity that is eligible to be an SRC as of that date would qualify for the deferred effective date, even if that entity subsequently fails to qualify as an SRC before the deferred effective date. The Board decided to not penalize an entity that initially qualifies as an SRC from applying the deferred effective date afforded by the change to the effective date philosophy if the entity subsequently loses its SRC status before the deferred effective date. Without a set date for determining an entity's status as an SRC, a change in that status would trigger an immediate change to an entity's required effective date. The Board concluded that this would be unnecessarily costly, complex, and operationally burdensome for preparers and users of financial statements.

BC8. The Board and its staff performed extensive outreach with a wide range of insurance entities. From those outreach activities, the Board learned that insurance entities are making good progress in implementing the new targeted improvements to the accounting for long-duration contracts. Many insurance entities mentioned that the accounting changes will provide them with more high-quality data and greater insights to enable them to make better business decisions. However, to meet the current effective date for public entities, many of those entities would need to approach implementation as a compliance exercise rather than a business improvement initiative.

BC9. Therefore, insurance entities that participated in the outreach expressed support for a one-year deferral of the adoption of the amendments in Update 2018-12 for public entities. Outreach participants noted that if the Board did not defer the effective date, insurance entities would continue with their existing project plans to comply with the required effective date. However, outreach participants noted the following benefits of deferring the effective date of the amendments in Update 2018-12 by one year for public entities:

a. Entities would be better able to leverage their implementation efforts as a transformational initiative to create long-term, strategic business improvements.
b. Entities that have begun modernizing their reporting and actuarial systems would be able to better align modernization efforts with implementation timelines.
c. Entities would have more time to perform parallel runs and test controls.
d. Entities would have more time to educate stakeholders about the effects of the amendments in Update 2018-12.

BC10. Separate from implementation activities, many insurance entities are in the middle of multiyear modernization initiatives to overhaul existing reporting, valuation, and administrative systems beyond the changes required for the amendments in Update 2018-12. While some insurance entities initiated their modernization efforts before that Update was issued, many others viewed the issuance of that Update as a catalyst for overhauling their outdated systems. Although those modernization initiatives are typically multiyear efforts that will extend past the effective date of the amendments in Update 2018-12, insurance entities are attempting to leverage their modernization projects for the adoption of the amendments in Update 2018-12. A compliance approach would result in short-term fixes that can be manual in nature and present an increased level of control risk. Those short-term fixes would require additional implementation efforts beyond the effective date for companies to realize many of the benefits from the accounting changes. An additional year for implementation would allow companies more time to utilize modernization efforts and implement permanent solutions, creating long-term business solutions and a higher-quality implementation.

BC11. The Board emphasized that the expected benefits of further delaying the targeted improvements to the accounting for long-duration contracts beyond one year for larger SEC filers would not justify the expected costs. Investors and other financial statement users have consistently provided feedback throughout the duration of the Board’s insurance project, which began in 2008, that the existing accounting model for long-duration contracts does not provide sufficient decisionuseful information in a timely or transparent manner. Investors and other financial statement users provided feedback that the amendments in Update 2018-12 are expected to be a significant improvement to the accounting for long-duration insurance contracts by improving the timeliness of assumptions underlying insurers' reserves, enhancing disclosures, and simplifying unnecessarily complex aspects of reporting under current generally accepted accounting principles (GAAP).

BC12. Nonpublic companies raised concerns about having limited resources relative to their public counterparts. In particular, much of the focus from consultants and software vendors is on the larger public companies, and a staggered effective date for nonpublic companies would allow them to have better access to those resources once their attention shifts away from larger public companies. The Board considered the potential for asymmetric availability of information between public and nonpublic reinsurance counterparties that could arise in certain situations as a result of providing a staggered effective date. However, in balancing all of the feedback received, the Board concluded that the broader, more pervasive benefit of providing more time for nonpublic companies justified a staggered effective date.

# Amendments to the XBRL Taxonomy

The provisions of this Exposure Draft, if finalized as proposed, would not require improvements to the current U.S. GAAP Financial Reporting Taxonomy (Taxonomy). Any stakeholders who believe that improvements to the Taxonomy are required should provide their comments and suggested improvements through Proposed Taxonomy Improvements provided at www.fasb.org. However, the provisions of this Exposure Draft may affect the timing of changes to references and deprecations in future Taxonomies.