FINANCIAL ACCOUNTING SERIES

FASB ACCOUNTING STANDARDS UPDATE

No. 2019-09
November 2019

Financial Services—Insurance (Topic 944)

Effective Date

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board

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Summary

Why Is the FASB Issuing This 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 Accounting Standards Update No. 2019-10, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)*: *Effective Dates,* on November 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 public business entities that are Securities and Exchange Commission (SEC) filers, excluding entities eligible to be smaller reporting companies (SRCs) under the SEC's definition. The Master Glossary of the Codification defines public business entities and SEC filers. For all other entities, it is anticipated that the Board will consider requiring an effective date staggered at least two years after the effective date for public business entities that meet the definition of an SEC filer, excluding entities eligible to be SRCs.

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

What Are the Main Provisions?

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

For public business entities that meet the definition of an SEC filer, excluding entities eligible to be SRCs as defined by the SEC, the amendments in Update 2018-12 are effective for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years. The one-time determination of whether an entity is an SRC should be based on an entity's most recent determination as of November 15, 2019 (the issuance date of this Update), in accordance with SEC regulations. For example, because SRC status is determined on the last business day of the most recent second quarter, the most recent determination date is June 28, 2019, for calendar-year-end companies. Early application of the amendments in Update 2018-12 is permitted.

For all other entities, the amendments in Update 2018-12 are 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 is permitted.

Amendments to the *FASB Accounting Standards Codification®*

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–3. 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 and amend pending content transition date for all paragraphs that link to paragraph 944-40-65-2 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. 2019-09, *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. 2019-09, *Financial Services—Insurance (Topic 944): Effective Date*:

a. For **public business entities** that meet the definition of a **Securities and Exchange Commission (SEC) filer**, excluding entities eligible to be smaller reporting companies as defined by the SEC, 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 one-time determination of whether an entity is eligible to be a smaller reporting company shall be based on an entity's most recent determination as of November 15, 2019, in accordance with SEC regulations. 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.

Pending Content:

Transition Date: *(P) December 16, 2021~~2020~~; (N) December 16, 2023~~2021~~* | **Transition Guidance:** 944-40-65-2

Note: These transition date changes will be made in a Maintenance Update.

Amendments to Status Sections

3. Amend paragraph 944-40-00-1, by adding the following items to the table, as follows:

944-40-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Securities and Exchange Commission (SEC) Filer	Added	2019-09	11/15/2019
944-40-65-2	Amended	2019-09	11/15/2019

The amendments in this Update were adopted 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 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, public business entities that meet the definition of an SEC filer, 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 Accounting Standards Update No.

2019-10, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)*: *Effective Dates,* for more information about changes to the Board's philosophy for establishing effective dates for major Updates, including the Board's basis for conclusions. The Board decided to apply the new effective date philosophy to the amendments in Update 2018-12.

BC5. The Board issued a proposed Accounting Standards Update, *Financial Services—Insurance (Topic 944): Effective Date,* on August 21, 2019, with a 30-day comment period that ended on September 20, 2019. The Board received 23 comment letters on the proposed Update. Overall, respondents broadly supported the proposed amendments to defer the effective date of the amendments in Update 2018-12 for all entities.

Benefits and Costs

BC6. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Board's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC7. Overall, the Board concluded that the expected benefits of the amendments in this Update justify the expected costs. The amendments defer the effective dates for insurance entities adopting the amendments in Update 2018-12. Therefore, the Board does not anticipate that insurance entities will incur significant costs, if any, as a result of the amendments. The Board acknowledges that the amendments will delay the receipt of the more decision-useful information provided by the targeted improvements in Update 2018-12 for financial statement users. However, the Board expects that the additional time will allow for a higher-quality implementation for insurance entities, which will improve the financial reporting for financial statement users once the amendments in Update 2018-12 are effective.

Basis for Conclusions

BC8. The Board concluded that it would defer the effective date of the amendments in Update 2018-12 for all entities. For public business entities that are SEC filers, excluding entities eligible to be SRCs as defined by the SEC, the amendments in Update 2018-12 are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2021. The Master Glossary defines public business entities and SEC filers. For all other entities, the amendments in Update 2018-12 are effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. The one-time determination of whether an entity is eligible to be an SRC should be based on the entity's most recent determination as of November 15, 2019, in accordance with SEC regulations. For example, because SRC status is determined on the last business day of the most recent second quarter, the determination date is June 28, 2019, for calendar-year-end companies. Early application is permitted for all entities.

BC9. The Board decided against penalizing an entity that initially qualifies as an SRC from applying the deferred effective date if the entity subsequently loses its SRC status. Therefore, an entity that is eligible to be an SRC as of November 15, 2019, qualifies for the deferred effective date, even if that entity subsequently fails to qualify as an SRC. In contrast, a public business entity that is an SEC filer but is ineligible to be an SRC as of its most recent determination as of November 15, 2019, must apply the earlier effective date (January 1, 2022, for calendar-year-end companies), even if it subsequently becomes an SRC. Without a set date for determining an entity's status as an SRC, a change in that status would trigger an immediate change to the entity's required effective date. The Board concluded that this would be unnecessarily costly, complex, and operationally burdensome.

BC10. 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 noted 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 original effective date for public business entities, many of those entities would have needed to approach implementation as a compliance exercise rather than a business improvement initiative.

BC11. 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. Stakeholders who commented on the amendments in the proposed Update also broadly agreed with the Board's decision to delay the effective date for the amendments in Update 2018-12, citing similar reasons as outreach participants. 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.

BC12. 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 will allow companies more time to utilize modernization efforts and implement permanent solutions, creating long-term business solutions and a higher-quality implementation.

BC13. 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 decision-useful 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).

BC14. Some stakeholders suggested that the Board consider changing the transition date from the earliest period presented to the prior period. Effectively, this alternative would have provided financial statement users with only one comparable period instead of two as required by the amendments in Update 2018-12. The Board considered but did not support this alternative because, on the basis of feedback received, the deferral of the effective date of the amendments in

Update 2018-12 should provide insurance entities with sufficient time to effectively implement those amendments, including communicating to users the effects of the implementation. Additionally, reducing the number of comparable periods would have decreased the usefulness of the information provided to financial statement users; users have consistently favored multiple years of comparable information to facilitate their trending analyses, especially upon adoption of a new accounting standard.

BC15. 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 allows those nonpublic companies to have better access to those resources once the 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 amendments to the *FASB Accounting Standards Codification*® in this Accounting Standards Update (ASU) do not require improvements to the current U.S. GAAP Financial Reporting Taxonomy (Taxonomy). However, the provisions of this ASU may affect the timing of changes to references and deprecations in future Taxonomies.