



In This Issue

- [Introduction](#)
- [Amended Effective Dates](#)
- [Contacts](#)
- [Appendix](#)

FASB Defers Effective Dates of Targeted Improvements to the Accounting for Long-Duration Contracts

The Bottom Line

- The FASB has issued [ASU 2019-09](#),¹ which defers the effective dates of the targeted improvements to the accounting for long-duration insurance contracts in [ASU 2018-12](#)² (codified in ASC 944)³ for all entities.
- SEC filers (other than those that meet the SEC's definition of a smaller reporting company (SRC)) will have an additional year to adopt the guidance in ASU 2018-12.
- The FASB and its staff performed extensive outreach with different types of insurance entities to determine whether to defer the effective dates.

Beyond the Bottom Line

This *Insurance Spotlight* summarizes ASU 2018-12's new effective dates as a result of ASU 2019-09. The [appendix](#) contains key definitions relevant to the application of the guidance in ASU 2018-12, as amended.

¹ FASB Accounting Standards Update (ASU) No. 2019-09, *Effective Date*.

² FASB Accounting Standards Update No. 2018-12, *Targeted Improvements to the Accounting for Long-Duration Contracts*.

³ For titles of FASB Accounting Standards Codification (ASC) references, see Deloitte's "[Titles of Topics and Subtopics in the FASB Accounting Standards Codification](#)."

Introduction

On August 15, 2018, the FASB issued ASU 2018-12, which amends the accounting and disclosure model for certain long-duration insurance contracts under U.S. GAAP. The amendments are intended to improve the following aspects of financial reporting related to long-duration insurance contracts:

- Measurement of the liability for future policy benefits related to nonparticipating traditional and limited-payment contracts.
- Measurement and presentation of market risk benefits.
- Amortization of deferred acquisition costs.
- Presentation and disclosures.⁴

As issued, ASU 2018-12 was effective for public business entities (PBEs) for fiscal years beginning after December 15, 2020, and interim period within those fiscal years. All other entities were required to adopt the ASU for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early application was permitted.

In preparing to adopt ASU 2018-12, many insurance companies expressed concerns that ASU 2018-12's adoption timeline would create implementation challenges and asked the Board to consider deferring the effective dates of the guidance. To assess the need for a deferral, the Board and its staff performed extensive outreach with various insurers and learned that because of the adoption timeline, some insurers had to focus their efforts on merely ensuring compliance with the ASU's requirements instead of using the ASU as a catalyst for making strategic improvements to business and information systems. In addition, during the FASB's outreach, insurers indicated that receiving an additional year to adopt ASU 2018-12 would allow them to "perform parallel runs and test controls" and "educate stakeholders about the effects of the [ASU's] amendments."

Amended Effective Dates

As a result of ASU 2019-09, the effective dates of ASU 2018-12 are as follows:

Entity	Effective Date
PBEs that meet the definition of an SEC filer (other than entities eligible to be SRCs* as defined by the SEC)	Fiscal years beginning after December 15, 2021, and interim periods within those fiscal years
All other entities	Fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024.
* This one-time determination is "based on an entity's most recent determination as of November 15, 2019, in accordance with SEC regulations."	

Early application continues to be permitted.

For calendar-year-end entities, the new effective dates of ASU 2018-12 are as follows:

SEC Filers	All Other PBEs	Private and All Other Entities
January 1, 2021	January 1, 2021	January 1, 2022
January 1, 2022 (SRCs: January 1, 2024)	January 1, 2024 (includes SRCs)	January 1, 2024

ASU 2019-09 does not change any other aspects of the guidance in ASU 2018-12.

⁴ For more information about ASU 2018-12, see Deloitte's August 2018 [Insurance Spotlight](#).



Connecting the Dots

In ASU 2019-09's Basis for Conclusions, the FASB emphasizes 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." Accordingly, in the Board's view, further deferral of ASU 2018-12's effective dates cannot be justified in light of stakeholders' needs for more transparent information about insurers' operations.

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Appendix — Key Definitions Relevant to Application of ASU 2019-09

The ASC master glossary defines a **public business entity** as follows:

A public business entity is a business entity meeting any one of the criteria below. Neither a not-for-profit entity nor an employee benefit plan is a business entity.

- a. It is required by the U.S. Securities and Exchange Commission (SEC) to file or furnish financial statements, or does file or furnish financial statements (including voluntary filers), with the SEC (including other entities whose financial statements or financial information are required to be or are included in a filing).
- b. It is required by the Securities Exchange Act of 1934 (the Act), as amended, or rules or regulations promulgated under the Act, to file or furnish financial statements with a regulatory agency other than the SEC.
- c. It is required to file or furnish financial statements with a foreign or domestic regulatory agency in preparation for the sale of or for purposes of issuing securities that are not subject to contractual restrictions on transfer.
- d. It has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market.
- e. It has one or more securities that are not subject to contractual restrictions on transfer, and it is required by law, contract, or regulation to prepare U.S. GAAP financial statements (including notes) and make them publicly available on a periodic basis (for example, interim or annual periods). An entity must meet both of these conditions to meet this criterion.

An entity may meet the definition of a public business entity solely because its financial statements or financial information is included in another entity's filing with the SEC. In that case, the entity is only a public business entity for purposes of financial statements that are filed or furnished with the SEC.

The ASC master glossary defines an **SEC filer** as follows:

An entity that is required to file or furnish its financial statements with either of the following:

- a. The Securities and Exchange Commission (SEC)
- b. With respect to an entity subject to Section 12(i) of the Securities Exchange Act of 1934, as amended, the appropriate agency under that Section.

Financial statements for other entities that are not otherwise SEC filers whose financial statements are included in a submission by another SEC filer are not included within this definition.

SEC Regulation S-K, Item 10(f)(1), defines a **smaller reporting company**, in part, as:

[A]n issuer that is not an investment company, an asset-backed issuer (as defined in § 229.1101), or a majority-owned subsidiary of a parent that is not a smaller reporting company and that:

- (i) Had a public float of less than \$250 million; or
- (ii) Had annual revenues of less than \$100 million and either:
 - (A) No public float; or
 - (B) A public float of less than \$700 million.

See Deloitte's July 2, 2018, [Heads Up](#) for more information about the SEC's definition of an SRC.

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