



Insurance

Accounting and Financial
Reporting Update

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Non-GAAP Financial Measures and Metrics

Revenue Recognition

SEC Comment Letter Considerations, Including Industry Insights

Segment Reporting

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Preface

November 30, 2020

To our clients and colleagues in the insurance sector:

We are pleased to present the 2020 edition of Deloitte's *Insurance — Accounting and Financial Reporting Update*. The topics discussed in this publication were selected because they may be of particular interest to insurance entities.

The most notable standard-setting development for insurers in 2020 was the FASB's decision to defer the effective date of ASU 2018-12 for all insurance entities by one year to enable preparers to (1) ensure a high-quality implementation of ASU 2018-12, (2) manage delays caused by the coronavirus disease 2019 ("COVID-19") pandemic, and (3) educate management and external users on the effects of adopting the new standard. The Board also amended the early application provisions of ASU 2018-12; the early application transition date can be the beginning of either the prior period or the earliest period presented. For a list of significant adoption dates and a summary of the current status of, and next steps for, the FASB's active projects, see Deloitte's [Quarterly Accounting Roundup](#) (the year-in-review edition will be published soon).

We hope that you find this publication to be a useful resource, and we welcome your suggestions for future improvements to it. If you need assistance or have other questions, we encourage you to consult our industry specialists.

Sincerely,

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Introduction

Since February 2020, there has been a dramatic shift in the operating environment of financial markets as a result of the increased volatility caused by the COVID-19 pandemic. While insurance companies have been facing abounding uncertainty, regulators have been continuing to focus on improving the transparency of insurance companies' operations to help stakeholders make informed investment choices.

Economic Growth

The COVID-19 pandemic has presented insurance companies with several challenges, such as swiftly transitioning to a remote workforce and reassessing their financial goals and market strategies in a contracting economy. In addition, insurers should not overlook the need to manage their potential reputational risks in the midst of this pandemic.

As insurers carefully consider the potential impact of COVID-19 on their short- and long-term financial outlooks, they should understand that a longer-term period of social distancing could change how they stay in contact with their clients, prospect for referrals, and serve clients who may be experiencing financial strain. In times of uncertainty and financial stress, it seems increasingly important for the insurance sector and broader financial services industry to maintain connections and be well-positioned to serve clients.

Accounting Changes

The standard setters made limited changes to the accounting and financial reporting guidance in 2020, so industry participants have focused mainly on adopting or preparing to adopt the major standards issued previously by the FASB.

In 2018, the FASB issued [ASU 2018-12](#), which significantly changes the accounting for certain long-duration insurance contracts and the amortization of deferred acquisition costs (DAC) related to long-duration contracts by amending the accounting and disclosure requirements under U.S. GAAP. The new guidance is intended to improve the transparency of insurers' financial statements.

In November 2020, the FASB reached a decision to defer the effective date of the amendments in ASU 2018-12 for all insurance entities by one year. The Board also amended the early application provisions of ASU 2018-12.

Additional Information

For additional information about industry issues and trends, see Deloitte's [Financial Services Industry Outlooks](#).

Long-Duration Contracts

Background

In August 2018, the FASB issued [ASU 2018-12](#) (codified in ASC 944), which amends the accounting and disclosure model for certain long-duration insurance contracts under U.S. GAAP. The ASU's amendments are intended to improve the following aspects of financial reporting for 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 DAC.
- Presentation and disclosures.

Key Provisions of ASU 2018-12

Liability for Future Policy Benefits Related to Certain Insurance Contracts

For nonparticipating traditional and limited-payment long-duration contracts, the ASU's amendments change several aspects of how an insurer measures the liability for future policy benefits, including how frequently the insurer updates its cash flow and discount rate assumptions, the nature of those assumptions, the discount rate used for measurement, and how the insurer accounts for its updated cash flow and discount rate assumptions.

Under the revised measurement model, an insurer's measurement of the liability for future benefits incorporates various assumptions, including (1) discount rate, (2) mortality/morbidity, (3) terminations/lapses, and (4) expenses (excluding acquisition costs and costs required to be charged to expense as incurred). The insurer is prohibited from adding a provision for the risk of adverse deviation to its assumptions. To measure the liability for future policy benefits, the insurer uses a discount rate that (1) is based on the yield of an "upper-medium-grade (low-credit-risk) fixed-income instrument" (which would be the equivalent of an A-rated security in today's market) and (2) reflects the duration characteristics of the liability.

Frequency of Assumption Updates

Under ASU 2018-12, for nonparticipating traditional and limited-payment contracts, an insurer updates its discount rate assumptions on each reporting date (i.e., in both interim and annual periods). The insurer should review the cash flow assumptions it uses to measure the liability for future policy benefits at least annually (at the same time each year) or more frequently if warranted and update them as necessary. The updated assumptions should reflect the insurer's revised estimate of cash flows expected over the contract group's entire life by using (1) actual historical experience and (2) updated future cash flow assumptions. An insurer may also make an entity-wide election to lock in its expense assumption(s) at contract inception.

Accounting for Assumption Updates

Under ASU 2018-12, when an insurer measures the liability for future policy benefits related to nonparticipating traditional and limited-payment contracts and is determining the level of aggregation to use for the measurement, it cannot "group contracts . . . from different issue years but [must aggregate them] into quarterly or annual groups." When the insurer determines the impact of the change in

cash flow assumptions for the contract group being measured, it should first recalculate a revised net premium ratio as of contract inception and then (1) calculate revised estimates of net premiums by applying the new net premium ratio, (2) compute an updated liability for future policy benefits as of the beginning of the reporting period by using the original (i.e., at contract issuance) discount rate, and (3) compare that updated liability with the liability's previous carrying amount (excluding the effect of previous discount rate changes) at the beginning of the current reporting period and recognize a cumulative catch-up adjustment in current-period earnings. The catch-up adjustment is presented separately from the current reporting period's benefit expense in the insurer's statement of operations. The insurer should also compute the current reporting period's benefit expense by using the revised net premium ratio that was computed as of the beginning of the reporting period. Experience adjustments are recognized in the same reporting period in which they arise. Thereafter, the insurer should measure the liability for future policy benefits by using the revised net premium ratio (until the next assumption update).

If the revised cash flow assumptions indicate that the present value of future benefits and expenses will exceed the present value of future gross premiums, the insurer must recognize an immediate charge to net income for the period so that net premiums will equal gross premiums (i.e., the net premium ratio cannot exceed 100 percent). The premium deficiency test required under current U.S. GAAP is eliminated for nonparticipating traditional and limited-payment insurance contracts after adoption of the ASU.

If the insurer recognizes a loss because the net premium ratio exceeds 100 percent, it must continue to accrue the liability for future policy benefits in subsequent periods (i.e., until assumptions are subsequently updated) with net premiums set equal to gross premiums. The balance of the liability for future policy benefits for a contract group can never be less than zero.

For updates to the discount rate, the insurer recognizes any changes in the liability for future policy benefits arising from changes in the discount rate as an adjustment to other comprehensive income (OCI) at the time the discount rate is updated (i.e., in the current period). However, the liability's interest accretion rate will continue to be the discount rate that was in effect at contract issuance.

Contracts or Contract Features That Provide for Potential Benefits in Addition to the Account Balance

ASU 2018-12 amends the accounting model for certain universal life-type contracts or contracts that contain features that could provide nontraditional contract benefits in addition to the insured's account balance. An insurer that writes such contracts should first assess whether those features meet the definition of market risk benefits. If so, the insurer applies the market risk benefit guidance described below (see Market Risk Benefits discussion); if not, the insurer should assess whether to account for the features as derivatives or embedded derivatives under ASC 815.

If the benefits do not meet the criteria to be accounted for as derivatives or embedded derivatives, the insurer determines whether the potential additional benefits are payable only upon annuitization (e.g., annuity purchase guarantees or two-tier annuities). If so, the insurer records an additional liability for the contract feature if the present value of the expected annuitization payments on the expected annuitization date exceeds the expected account balance on the expected annuitization date. The insurer also assesses whether "amounts assessed against the contract holder each period for the insurance benefit feature . . . are assessed in a manner that is expected to result in profits in earlier years and losses in subsequent years from the insurance benefit function." If so, in addition to the account balance, the insurer records a liability for the death or other insurance benefits.

The accounting models for annuitization and death or other insurance benefits generally have not changed; however, certain aspects of those models have been revised to align with other aspects of the ASU. Those changes were discussed in the [January 2019 edition](#) of this publication.

Market Risk Benefits

ASU 2018-12 establishes new accounting requirements for market risk benefits. Examples of market risk benefits include guaranteed minimum benefit features (e.g., guaranteed minimum death benefits or guaranteed minimum income benefits), commonly known as “GMxBs,” but market risk benefits also may include other contract features.

Under the ASU, insurers apply the new market risk benefit accounting model to contracts or contract features contained in both separate-account and general-account nontraditional products. Under that accounting model, a “contract or contract feature that both provides protection to the contract holder from other-than-nominal capital market risk and exposes the insurance entity to other-than-nominal capital market risk shall be recognized as a market risk benefit.”

When a long-duration contract has multiple market risk benefits, an insurer must bundle those benefits together into a single compound market risk benefit.

The ASU requires insurers to:

- Initially measure a market risk benefit at fair value. The insurer recognizes subsequent changes in fair value in current earnings; however, any changes in the fair value of a market risk benefit in a liability position that are attributable to changes in the instrument-specific credit risk are recognized in OCI.
- Separately present (1) market risk benefits in the statement of financial position and (2) the change in fair value related to market risk benefits in net income (other than that portion of the fair value change attributable to changes in the instrument-specific credit risk, which would be reported in OCI).

ASU 2018-12 also modifies certain aspects of how an entity computes the additional liability for annuitization or death or other insurance benefits for consistency with the ASU’s other amendments.

Deferred Acquisition Costs

ASU 2018-12 changes the manner and timing of DAC amortization for all long-duration contracts, including participating contracts. The amendments also apply to other capitalized balances (e.g., unearned revenue liability for universal life-type contracts) that were previously amortized in proportion to premiums, gross profits, or gross margins.

The ASU establishes a principle that DAC (and the other capitalized costs referred to above) should be amortized to expense “on a constant level basis — either on an individual contract basis or on a grouped contract basis — over the expected term of the related contract(s).”¹ No interest would accrue on the balance of unamortized DAC.

Under the ASU, an insurer amortizes DAC by using assumptions that are consistent with those used to determine the liability for future policy benefits or related balances for the associated contracts (e.g., terminations). The insurer also (1) reduces the DAC balance to reflect actual experience that exceeds expected experience (e.g., an unexpected contract termination) and (2) prospectively treats the effects

¹ When an insurance contract has accumulation and payout phases, the insurer treats the payout phase as a separate contract. Accordingly, the insurer amortizes DAC related to the contract over the duration of the accumulation phase.

of any changes in future estimates (e.g., a change in lapse or mortality assumptions) as a revision of future amortization amounts. However, changes in a contract's profitability do not trigger an adjustment to DAC. An insurer does not assess DAC for impairment.

Revenue Recognition for Limited-Payment Contracts

Under ASC 944, insurers defer the amount of any gross premium received over net premiums for limited-payment contracts. An insurer recognizes these deferred amounts (the "deferred profit liability" or DPL) in income either (1) in a constant relationship with the discounted amount of insurance in force (for life insurance contracts) or (2) with the amount of expected future benefit payments (for annuity contracts) and accrues interest on the unamortized balance. The ASU changes certain aspects of the DPL accounting model to align with the changes made to the accounting model for the liability for future policy benefits for nonparticipating traditional and limited-payment long-duration contracts. Such changes include (1) using the upper-medium-grade fixed-income instrument yield as the discount rate; (2) accreting interest by using the original discount rate as of the date of contract issuance; (3) reviewing and, if necessary, updating the cash flow assumptions used to determine changes in the DPL at least annually; (4) recalculating the beginning of period DPL on the basis of actual experience, the updated cash flow assumptions, and the amortization method; and (5) recognizing a cumulative catch-up adjustment in current-period earnings.

Disclosures

ASU 2018-12 enhances the disclosures that an insurer must provide in both interim and annual financial statements to allow "users to understand the amount, timing, and uncertainty of future cash flows arising from the [insurance] liabilities." The ASU imposes significant additional disclosure requirements, including those under which an insurer must provide, in interim and annual periods, disaggregated rollforwards and reconciliations of those rollforwards to the aggregate carrying amounts in the statement of financial position for the certain balances.

Effective Date and Transition

Effective Date

On November 5, 2020, in recognition of potential disruptions and challenges related to the COVID-19 pandemic, the FASB issued [ASU 2020-11](#), which defers the effective date of ASU 2018-12 and modifies its transition provisions. ASU 2020-11 defers ASU 2018-12's effective date to (1) January 1, 2023, for all SEC filers other than smaller reporting companies (SRCs), as defined by the SEC, and (2) January 1, 2025, for other insurers. An insurer can elect to apply ASU 2018-12's amendments before the applicable effective date, in which case it can choose to apply the amendments as of the beginning of either the prior period presented or the earliest period presented. As a result of the deferral, the effective date for SEC filers aligns with the effective date of IFRS 17.

For more information, see Deloitte's June 2020 [Insurance Spotlight](#).

Transition

ASU 2018-12 provides account-specific transition guidance, as summarized in the [January 2019 edition](#) of this publication.

Comparison With IFRS Standards

As discussed in the [January 2019 edition](#) of this publication, certain aspects of the accounting and disclosure model for insurance contracts in IFRS 17 differ significantly from those in ASU 2018-12.

Additional information about IFRS 17 is available on Deloitte's IASPlus [Web site](#).

Revenue Recognition

Standard Setting

On June 3, 2020, the FASB issued [ASU 2020-05](#), which amends the effective dates of the new revenue standard (ASC 606) to give immediate relief to certain entities as a result of the business disruptions caused by the COVID-19 pandemic and the widespread adverse economic effects. ASU 2020-05 permits certain entities that had not issued financial statements (or made financial statements available for issuance) reflecting the adoption of ASC 606 as of June 3, 2020, to adopt ASC 606 for (1) annual reporting periods beginning after December 15, 2019, and (2) interim reporting periods within annual reporting periods beginning after December 15, 2020. For more information, see Deloitte's June 3, 2020, [Heads Up](#).

In the [January 2019 edition](#) of this publication, we addressed implementation topics related to insurance, including accounting for third-party extended service warranty contracts. The AICPA's [Insurance Entities Revenue Recognition Task Force](#) has addressed these and other implementation issues. Finalized Issues are included in Chapter 14 of the AICPA Audit and Accounting Guide *Revenue Recognition*.

Disclosure Themes Upon Adoption

While some companies made wholesale changes to their financial statements upon the adoption of ASC 606, others were not significantly affected by the new guidance. However, the standard's new and modified quantitative and qualitative disclosure guidance significantly increased the amount of information that entities in the insurance industry must disclose about revenue activities and related transactions.

Deloitte's [A Roadmap to SEC Comment Letter Considerations, Including Industry Insights](#) highlights some key themes regarding the application of ASC 606 in connection with accounting and disclosure requirements and includes excerpts of SEC comments. As entities navigate ASC 606's disclosure requirements, they may benefit from evaluating the trends described in that publication.

For more information on ASC 606, see Deloitte's [A Roadmap to Applying the New Revenue Recognition Standard](#).

Financial Instruments

Codification Improvements

In April 2019, the FASB issued [ASU 2019-04](#), which clarified certain aspects of the guidance in [ASU 2016-01](#) on the accounting for financial instruments:

- *Held-to-maturity debt securities fair value disclosures* — Entities other than PBEs are exempt from the “fair value disclosure requirements for financial instruments not measured at fair value on the balance sheet.”
- *Measurement alternative in ASC 321-10-35-2* — The measurement alternative in ASC 321-10-35-2 for equity securities without readily determinable fair values represents a nonrecurring fair value measurement under ASC 820; therefore, such securities should be remeasured at fair value when an entity identifies an orderly transaction “for an identical or similar investment of the same issuer,” and applicable ASC 820 disclosures are required.
- *Remeasurement of equity securities at historical exchange rates* — An entity should remeasure foreign-denominated equity securities without readily determinable fair values subject to the measurement alternative at historical exchange rates. In addition, the historical exchange rate used should be the rate that existed on the later of (1) the acquisition date or (2) the most recent fair value measurement date.

The amendments in ASU 2019-04 related to ASU 2016-01 are effective for fiscal years beginning after December 15, 2019, including interim periods therein. Early adoption is permitted in any interim period after the issuance of ASU 2019-04 for those entities that have already adopted ASU 2016-01.

The amendments related to equity securities without readily determinable fair values require prospective application; however, the remaining amendments should be “applied on a modified-retrospective transition basis by means of a cumulative-effect adjustment to the opening retained earnings balance in the statement of financial position as of the date an entity adopted all of the amendments in Update 2016-01.” ASU 2019-04 also requires certain transition disclosures.

In March 2020, the FASB issued [ASU 2020-03](#), which affects all reporting entities and clarifies the guidance in U.S. GAAP related to the following:

1. *Fair value option disclosures* — ASU 2016-01 relieves entities other than public entities from the requirement to disclose the fair values of financial instruments measured at an amortized cost basis. However, entities that elect the fair value option would measure the financial instruments at fair value. ASU 2020-03 clarifies that such entities are required to disclose the fair values of the financial instruments.
2. *Disclosures for depository and lending institutions* — ASU 2020-03 clarifies that the disclosure requirements in ASC 320-10-50-3 and ASC 320-10-50-5 through 50-5C related to securities classified as held to maturity apply to the disclosure requirements in ASC 942. In addition, securities with multiple maturity dates, such as mortgaged-backed securities, may be disclosed separately rather than allocated to several maturity groupings.
3. *Cross-reference to line-of-credit or revolving-debt arrangements* — ASU 2020-03 added cross-references between ASC 470-50-40-21 (modifications and extinguishments for line-of-credit or revolving-debt arrangements) and ASC 470-50-40-17 and 40-18 (modifications and extinguishments “for fees between the debtor and creditor and third-party costs, respectively”).

4. *Disclosures for net asset value practical expedient* — ASU 2020-03 clarifies that the disclosure requirements in ASC 820-10-50-2 do not apply to entities using the net asset value practical expedient.
5. *Interaction of leases and credit losses* — ASU 2020-03 added a definition of “lease term” to ASC 326 and clarifies that the lease term of a net investment in a lease should be the contractual term used to measure expected credit losses.
6. *Interaction of sales of financial assets and credit losses* — ASU 2020-03 clarifies that an entity should record an allowance for credit losses in accordance with ASC 326 when it regains control of financial assets sold under ASC 860-20.

The amendments in ASU 2020-03 are effective as follows:

- *Items 1, 3, and 4 above* — For PBEs, they were effective when the ASU was issued (March 2020). For all other entities, they are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years beginning after December 15, 2020. Early adoption is permitted.
- *Item 2 above* — For all entities, they are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years.
- *Items 5 and 6 above* — For PBEs that have not yet adopted ASU 2016-13, they are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. For all other entities that have not yet adopted ASU 2016-13, they are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. For entities that have adopted ASU 2016-13, they are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years.

In August 2020, the FASB issued [ASU 2020-06](#), which simplifies the accounting for convertible instruments and contracts on an entity's own equity. Key provisions include the following:

- Removal from ASC 470-20 of the separation models for (1) convertible debt with a cash conversion feature and (2) convertible instruments with a beneficial conversion feature. After adoption, entities will not separate embedded conversion features unless such features require bifurcation as derivatives or the convertible debt instrument is issued at a substantial premium.
- Expansion of the disclosure requirements for convertible instruments related to terms and features.
- Removal from ASC 815-40-25-10 of the following three conditions for equity classification:
 - “Settlement permitted in unregistered shares. The contract permits the entity to settle in unregistered shares.”
 - “No counterparty rights rank higher than shareholder rights. There are no provisions in the contract that indicate that the counterparty has rights that rank higher than those of a shareholder of the stock underlying the contract.”
 - “No collateral required. There is no requirement in the contract to post collateral at any point or for any reason.”
- For calculation of diluted EPS, entities must apply the if-converted method to all convertible instruments. The treasury stock method is no longer available.

The amendments in ASU 2020-06 are effective as follows:

- For PBEs that are not SRCs, fiscal years beginning after December 15, 2021, and interim periods within those fiscal years.
- For all other entities, fiscal years beginning after December 15, 2023, and interim periods within those fiscal years.
- Early adoption is allowed for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years.

For more information about ASU 2020-06, see Deloitte's August 5, 2020, [Heads Up](#).

In addition, the FASB issued a [proposed ASU](#) in September 2019 aimed at reducing the cost and complexity of determining whether debt should be classified as current or noncurrent in a classified balance sheet. The proposed ASU would amend the current guidance in ASC 470-10 and establish a uniform principle for determining debt classification. It would also provide application guidance that clarifies how covenant violations, covenant waivers, post-balance-sheet refinancing transactions, and subjective acceleration clauses affect debt classification. For more information, see Deloitte's September 19, 2019, [Heads Up](#).

Receivables — Nonrefundable Fees and Other Costs

In March 2017, the FASB issued [ASU 2017-08](#), which amends the amortization period for certain purchased callable debt securities held at a premium, shortening such period to the earliest call date.

Before adopting ASU 2017-08, entities generally amortized the premium on a callable debt security as an adjustment of yield over the contractual life (to maturity date) of the instrument. Accordingly, entities did not take into account early payment of principal, and any unamortized premium was recorded as a loss in earnings upon the debtor's exercise of a call on a purchased callable debt security held at a premium.

The amendments will require entities to amortize the premium on certain purchased callable debt securities to the earliest call date regardless of how the premium is generated (e.g., DAC and cumulative fair value hedge adjustments that increase the amortized cost basis of a callable security above par value). Therefore, entities will no longer recognize a loss in earnings upon the debtor's exercise of a call on a purchased callable debt security held at a premium.



Connecting the Dots

Under ASU 2017-08, if an entity amortizes a premium to a call price greater than the par value of the debt security (e.g., because the debt security is callable at a premium to par on the earliest call date) and the debt security is not called on the earliest call date, the entity should reset the yield by using the payment terms of the debt security. If the security contains additional future call dates, the entity should consider whether the amortized cost basis exceeds the amount repayable by the issuer on the next call date. If the entity determines that the amortized cost basis does exceed the amount repayable, it should amortize the excess to the next call date.

Purchased callable debt securities within the scope of ASU 2017-08 are those that contain explicit, noncontingent call features that are exercisable at fixed prices and on preset dates (see the [January 2019 edition](#) of this publication for additional information about ASU 2017-08, including detailed discussion of the ASU's scope, as well as its effective dates and transition approaches). In October 2020, the FASB issued [ASU 2020-08](#), which clarifies that an entity should reevaluate whether a callable debt security with multiple call dates is within the scope of ASC 310-20-35-33 for each reporting period.

For PBEs, the amendments in ASU 2020-08 are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Early application is not permitted. For all other entities, the amendments in the ASU are effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early application is permitted for all other entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020.

Credit Losses

Background

The approach used to recognize impairment losses on financial assets has long been identified as a major weakness in current U.S. GAAP, resulting in delayed recognition of such losses and leading to increased scrutiny during the 2008 financial crisis. After years of deliberating various models to remedy that weakness (some jointly with the International Accounting Standards Board), the FASB issued its new standard on the measurement of expected credit losses, [ASU 2016-13](#) (codified as ASC 326).

ASU 2016-13 adds to U.S. GAAP an impairment model (known as the current expected credit loss (CECL) model) that is based on expected losses rather than incurred losses. That is, the expected credit losses estimated over the lifetime of a financial instrument are recognized at inception (i.e., on day 1). Under the new guidance, an entity recognizes its estimate of expected credit losses as an allowance, which is presented as either (1) an offset to the amortized cost basis of the related asset (for on-balance-sheet exposures) or (2) a separate liability (for off-balance-sheet exposures).

For certain financial assets secured by collateral, the ASU allows entities to “use, as a practical expedient, a method that compares the amortized cost basis with the fair value of collateral at the reporting date to measure the estimate of expected credit losses.” The FASB believes that the new guidance will result in more timely recognition of such losses. ASU 2016-13 is also intended to reduce the complexity of U.S. GAAP by decreasing the number of credit impairment models that entities use to account for debt instruments. For comprehensive guidance, see Deloitte’s [A Roadmap to Accounting for Current Expected Credit Losses](#).

Effective Date and Transition

Upon the adoption of ASU 2016-13, all entities record a cumulative-effect adjustment in retained earnings on the balance sheet as of the beginning of the year of adoption (i.e., retrospective application is prohibited). In November 2019, the FASB issued [ASU 2019-10](#), which gives private companies, not-for-profit (NFP) organizations, and certain small public companies additional time to implement the FASB’s standards on credit losses, leases, and hedging (for more information about ASU 2019-10, see Deloitte’s November 19, 2019, [Heads Up](#)).

For more information about ASU 2016-13, see Deloitte’s June 17, 2016, [Heads Up](#).

Other Developments

In February 2020, the FASB issued [ASU 2020-02](#), which, in accordance with [SAB 119](#), adds the text of [SAB Topic 6.M](#) to ASC 326-20-S99-1. Further, in March 2020, the FASB issued [ASU 2020-03](#) to address various financial instrument issues, including two topics related to ASC 326. ASU 2020-03 clarifies that:

- The lease term of a net investment in a lease under ASC 842 should be the contractual term used to measure expected credit losses under ASC 326.
- When an entity regains control of financial assets sold, it should record an allowance for credit losses in accordance with ASC 326.

Derivatives, Hedging, and Equity Method Investments

Clarifying the Interaction of ASC 321, ASC 323, and ASC 815

In January 2020, the FASB issued [ASU 2020-01](#), which clarifies the interaction of the accounting for equity securities under ASC 321, equity method investments under ASC 323, and certain forward contracts and purchased options under ASC 815. The ASU, which was issued in response to the EITF's consensus on Issue 19-A, addresses the accounting for certain equity securities for entities that apply or discontinue the equity method of accounting and provides scope considerations related to forward contracts and purchased options on certain securities.

For more information, see Deloitte's November 2019 [EITF Snapshot](#) as well as the FASB's [press release](#).

Key Provisions of ASU 2020-01

Accounting for Certain Equity Securities if the Equity Method of Accounting Is Applied or Discontinued

[ASU 2016-01](#), which added ASC 321, provides a measurement alternative that an entity can use "to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer." ASU 2020-01 clarifies that when an investment that was accounted for by using the measurement alternative in ASC 321 becomes subject to the equity method under ASC 323 (e.g., an additional purchase causes the investment to qualify for the equity method), the investor should remeasure the investment at fair value immediately before applying the equity method if it determines that the transaction results in an observable price change in an orderly transaction for an identical or a similar investment of the same issuer. Similarly, if an investment that was accounted for by using the equity method becomes subject to ASC 321 (e.g., a partial sale of the investment results in the discontinuance of the equity method), the investor should remeasure the investment at fair value immediately before applying the measurement alternative in ASC 321 if it determines that the transaction results in an observable price change in an orderly transaction for an identical or a similar investment of the same issuer.

Scope Considerations Related to Forward Contracts and Purchased Options on Certain Securities

ASU 2020-01 clarifies that if certain forward contracts and purchased options to acquire securities do not meet the definition of a derivative under ASC 815, such forward contracts and purchased options should be accounted for under ASC 321 even if they would otherwise be accounted for under the equity method of accounting in ASC 323 upon their settlement. Further, an entity should not consider whether, upon the settlement of a forward contract or exercise of a purchased option, individually or with existing investments, the underlying securities would be accounted for under the equity method in ASC 323 or the fair value option in accordance with the financial instruments guidance in ASC 825.

Effective Date and Transition

For PBEs, ASU 2020-01 is effective for fiscal years beginning after December 15, 2020, including interim periods therein. For all other entities, the ASU is effective for fiscal years beginning after December 15, 2021, including interim periods therein. Early adoption is permitted, including in an interim period for which financial statements have not yet been issued (PBEs) and for periods for which financial statements have not yet been made available to issue (for all other entities). The ASU should be applied prospectively.

Targeted Improvements to the Accounting for Hedging Activities

Background

In August 2017, the FASB issued [ASU 2017-12](#), which amends the hedge accounting recognition and presentation requirements in ASC 815. The Board's objectives in issuing the ASU were to (1) improve the transparency and understandability of information conveyed to financial statement users about an entity's risk management activities by better aligning the entity's financial reporting for hedging relationships with those risk management activities and (2) reduce the complexity, and simplify the application, of hedge accounting by preparers. However, as a result of subsequent stakeholder feedback on the ASU, the FASB decided to make certain Codification improvements, some of which were addressed in [ASU 2019-04](#) (see discussion below).

Key Changes to the Hedge Accounting Model

ASU 2019-04 clarified various aspects of ASU 2017-12, including its guidance on the following:

- Certain aspects of partial-term fair value hedges of interest rate and foreign exchange risk.
- The amortization period for fair value hedge basis adjustments.
- Disclosure requirements for fair value hedge basis adjustments when the hedged item is an available-for-sale debt instrument.
- The requirement that entities using the hypothetical derivative method to assess the effectiveness of a cash flow hedge must consider the hedged contractually specified interest rate when evaluating whether the hypothetical derivative qualifies for the shortcut method.
- Application of a first-payments-received cash flow hedging technique to overall cash flows on a group of variable interest payments.
- The requirements for NFP entities related to the treatment of an excluded component in a fair value hedge.
- The transition relief provided for certain NFP entities.
- Transition guidance for all entities.

See Deloitte's May 7, 2019, [Heads Up](#) for more information about ASU 2019-04.

Effective Date and Transition

In November 2019, the FASB issued [ASU 2019-10](#), which (1) provides a framework to stagger effective dates for future major accounting standards and (2) gives private companies, NFP organizations, and certain small public companies additional time to implement the FASB's major standards on credit losses, leases, and hedging.

ASU 2019-10 does not change the effective date of ASU 2017-12 and ASU 2019-04 for PBEs. Thus, for PBEs, the ASUs are effective for fiscal years beginning after December 15, 2018, and interim periods therein. However, ASU 2019-10 amends the effective date of ASU 2017-12 and ASU 2019-04 for all other entities. Accordingly, such entities will apply the ASUs for years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021.

For more information about ASU 2019-10, see Deloitte's November 19, 2019, [Heads Up](#).

Implementation Developments

The FASB is continuing its efforts to improve ASU 2017-12. In November 2019, the Board issued a [proposed ASU](#) that would clarify certain aspects of its guidance related to (1) changes in hedged risk in a cash flow hedge, (2) contractually specified components in cash flow hedges of nonfinancial forecasted transactions, (3) foreign-currency-denominated debt instruments designated as hedging instruments and hedged items, and (4) use of the term “prepayable” under the shortcut method. Comments on the proposed ASU were due to the FASB by January 13, 2020. The Board is redeliberating the proposed ASU on the basis of feedback received from stakeholders, and a final standard will be drafted after those redeliberations. See Deloitte’s November 26, 2019, [Heads Up](#) for more information about the proposed ASU.

In addition, the FASB has on its technical agenda a narrow-scope project on the last-of-layer method. As indicated on the Board’s [project update](#) page, the FASB held a meeting on January 22, 2020, at which it made tentative decisions regarding disclosures and transition considerations related to the last-of-layer hedging proposed amendments. See the [tentative Board decisions](#) from the January 22, 2020, meeting for further details.

Reference Rate Reform

As global markets transition away from the use of LIBOR and other interbank offered reference rates in favor of alternative reference rates, the FASB and SEC have made efforts to address the accounting and reporting implications of reference rate reform.

In March 2020, the FASB issued [ASU 2020-04](#) (codified as ASC 848), which provides optional guidance for a limited period to ease the potential burden of accounting for or recognizing the effects of reference rate reform on financial reporting. The ASU applies “to all entities, subject to meeting certain criteria, that have contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform.”

The main forms of relief offered by ASU 2020-04 are related to the accounting of the following:

- Contract modifications for receivables under ASC 310, debt under ASC 470, leases under ASC 840 or ASC 842, embedded derivatives under ASC 815-15, and other contracts.
- Hedging relationships.
- Sales or transfers of held-to-maturity securities.

The optional relief under ASU 2020-04 is available to entities from March 12, 2020, through December 31, 2022.

For more information about the ASU, see Deloitte’s March 23, 2020, [Heads Up](#).

In connection with reference rate reform, certain central clearing parties have been enacting changes to the interest rate used for discounting cash flows and computing variation margin settlements and price alignment interest. In addition, bilateral counterparties to noncleared cash-collateralized derivatives are considering enacting similar changes. To address how ASU 2020-04 could apply to derivative contracts affected by such reference rate reform activities and certain corresponding hedging relationships, on October 29, 2020, the FASB issued a [proposed ASU](#) that would refine the scope of and clarify certain guidance in ASC 848. Comments on the proposed ASU were due by November 13, 2020.

For more information about the proposed ASU, see Deloitte’s November 6, 2020, [Heads Up](#).

The FASB's technical agenda also contains a narrow-scope project on reference rate reform related to fair value hedging. As indicated on the Board's [project update](#) page, the FASB held a meeting on July 29, 2020, at which it decided to consider developing a principle for identifying benchmark interest rates eligible for fair value hedge accounting both within and outside the United States.

In addition to the FASB's activity, in July 2019 the SEC staff issued a [statement](#) on LIBOR transition that includes:

- A discussion of the expected discontinuation of LIBOR use and how the transition from LIBOR may significantly affect financial markets and market participants (including public companies, investment companies and advisers, and broker-dealers).
- Questions and considerations for market participants related to new or existing contracts and other business risks.
- Specific guidance from the SEC's divisions of Corporation Finance, Investment Management, and Trading and Markets and its Office of the Chief Accountant.

The SEC staff strongly encourages market participants that have not already done so to begin assessing their risks associated with the transition. The SEC staff notes that it is actively monitoring participants' progress with their risk identification and risk management efforts related to the LIBOR transition for both existing and new contracts. Further, the SEC staff urges registrants to consider other business risks that may be affected by the discontinuation of LIBOR as well as to consider providing additional disclosures about the status of risk identification and appropriate information regarding exposures.

See Deloitte's August 6, 2019, [Heads Up](#) for more information about the statement.

TDR Relief Under the CARES Act and Interagency Statement

On March 27, 2020, President Trump signed into law the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), which provides relief from certain requirements under U.S. GAAP. Section 4013 of the CARES Act gives entities temporary relief from the accounting and disclosure requirements for troubled debt restructurings (TDRs) under ASC 310-40 in certain situations. In addition, on April 7, 2020, a group of banking agencies issued an [interagency statement](#) that offers some practical expedients for evaluating whether loan modifications that occur in response to the COVID-19 pandemic are TDRs. (The interagency statement was originally issued in March 2020 but revised in April to address the relationship between the statement's TDR accounting and disclosure guidance and the TDR guidance in Section 4013 of the CARES Act.)

Under Section 4013 of the CARES Act, a loan modification made in response to the COVID-19 pandemic that would normally be considered a TDR in accordance with ASC 310-40 would not be considered a TDR if (1) the borrower was not more than 30 days past due as of December 31, 2019, and (2) the modification is related to arrangements that defer or delay the payment of principal or interest, or change the interest rate on the loan.

By contrast, the interagency statement interprets, but does not suspend, ASC 310-40. It indicates that a lender can conclude that a borrower is not experiencing financial difficulty if short-term (e.g., six months) modifications are made in response to COVID-19, such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant related to loans on which the borrower is less than 30 days past due on its contractual payments at the time a modification program is implemented. In addition, a modification or deferral program that is mandated by the federal government or a state government (e.g., a state program that requires all institutions within that state to suspend mortgage payments for a specified period) does not represent a TDR because the lender

did not choose to provide a concession. Accordingly, any loan modification made in response to the COVID-19 pandemic that meets either of these practical expedients would not be considered a TDR. Note that in its discussion of short-term modifications, the interagency statement does not interpret the meaning of an insignificant delay in payment; ASC 310-40 provides guidance on determining whether a delay in payment is insignificant.

See Deloitte's *Heads Up*, "Frequently Asked Questions About Troubled Debt Restructurings Under the CARES Act and Interagency Statement" for more information about the TDR relief provided by the CARES Act and interagency statement.

Leases

As discussed in the [January 2019 edition](#) of this publication, the primary objective of the FASB's leases project was to address the off-balance-sheet treatment of lessees' operating leases. The standard's lessee model requires a lessee to adopt a right-of-use (ROU) asset approach that brings substantially all leases, with the exception of short-term leases² (i.e., those with a lease term of less than 12 months), on the balance sheet. Under this approach, the lessee would record an ROU asset representing its right to use the underlying asset during the lease term and a corresponding lease liability (in a manner similar to the current approach for capital leases). For comprehensive guidance, see Deloitte's [A Roadmap to Applying the New Leasing Standard](#).

2020 Developments

FASB Relief for Rent Concessions Offered as a Result of COVID-19

On April 10, 2020, the FASB issued a [staff Q&A](#)³ (the "Staff Q&A") to clarify its remarks at the April 8, 2020, Board meeting about accounting for rent concessions that result from the COVID-19 pandemic. Specifically, the Staff Q&A affirms the guidance provided at the April 8 meeting by allowing entities to forgo performing a legal analysis to determine whether contractual provisions in an existing lease agreement provide enforceable rights and obligations related to lease concessions as long as the concessions are related to COVID-19 and the changes to the lease do not result in a substantial increase in the lessor's rights or the lessee's obligations. In addition, the Staff Q&A affirms that entities may make an election (the "Election") to account for eligible concessions, regardless of their form, by either (1) applying the modification framework for these concessions in accordance with ASC 840 or ASC 842 as applicable or (2) accounting for the concessions as if they were made under the enforceable rights included in the original agreement and are thus outside of the modification framework.

This Election applies to all entities, including both lessees and lessors. Thus, insurance company lessors that have obligations to provide, or may be asked to provide, rent rebates or other rent relief (such as a temporary decrease in rent or a change to variable lease payments that depend on sales) should consider whether such relief is within the scope of the FASB's guidance. For more information, see the Lease/Rent Concessions section of Deloitte's [Financial Reporting Alert](#), "Financial Reporting Considerations Related to COVID-19 and an Economic Downturn."

² Assuming that the lessee has made an accounting policy election not to account for short-term leases on the balance sheet.

³ FASB Staff Q&A, *Topic 842 and Topic 840: Accounting for Lease Concessions Related to the Effects of the COVID-19 Pandemic*.

FASB Roundtable

On September 18, 2020, the FASB held a public roundtable to discuss ASC 842 implementation challenges. This roundtable was part of the Board's broader outreach effort to solicit feedback from stakeholders on the difficulties they experienced in applying the new standard, whether because of the complexity of interpreting the new guidance or undue difficulty in operationalizing it. The roundtable was held in two separate sessions and included all FASB Board members as well as members of industry groups, preparers (representing both public and private companies), users, and public accounting firms. Representatives from the staffs of the SEC and PCAOB also observed the meeting.

The roundtable discussion addressed five topics identified by the FASB staff through their outreach efforts. To facilitate the discussion, the staff provided a [handout](#) that summarized, for each topic, the background on the issue, the relevant guidance, and the feedback the staff had received through outreach efforts made before the roundtable. The handout also raised potential proposed solutions. The topics discussed were as follows:

- Topic 1 — Lessee Application of Rate Implicit in the Lease.
- Topic 2 — Lessee Application of Incremental Borrowing Rate.
- Topic 3 — Embedded Leases.
- Topic 4 — Lease Modifications.
- Topic 5 — Lessee Allocation of Fixed and Variable Payments.

See Deloitte's September 28, 2020, [Heads Up](#) for more information on each of these topics and the ensuing discussion.

On the Horizon

As a result of the implementation challenges identified by the Board through its outreach activities and feedback received from PBEs that have already adopted the standard, the FASB decided at its July 29, 2020, Board meeting to add a project to its technical agenda to amend certain aspects of the new leasing standard. On October 20, 2020, the FASB issued a [proposed ASU](#) that is intended to provide targeted improvements to the standard to address a number of issues identified, which include:

1. Sales-type leases involving substantial variable lease payments (lessor only).
2. Option to remeasure lease liability for index or rate changes.
3. Modifications that reduce the scope of a lease contract.

Comments on the proposed ASU are due by December 4, 2020. The Board will consider the comment letter feedback received on the proposed ASU during its redeliberations of the standard. Stay tuned for further information.

Effective Date Changes

In November 2019, the FASB issued [ASU 2019-10](#), which (1) provides a framework for staggering effective dates for future major accounting standards and (2) gives private companies, NFP organizations, and certain small public companies additional time to implement the FASB's major standards on credit losses, leases, and hedging. Before this deferral was provided, the SEC staff announcement codified in ASC 842-10-S65-1 had offered relief from the requirement to apply the PBE effective date in ASU 2016-02 to entities that met the definition of a PBE solely because their financial statements or financial information was included in an SEC filing, such as disclosures required by SEC Regulation S-X, Rules 3-05, 3-09, 3-14, or 4-08(g). However, the dates specified in the SEC staff announcement were not amended in connection

with the issuance of ASU 2019-10. Therefore, at the 2019 AICPA Conference on Current SEC and PCAOB Developments, the SEC staff announced that it would not object if those specified PBEs adopt ASC 842 by using ASU 2019-10's effective dates that apply to non-PBEs. This position was subsequently codified in [ASU 2020-02](#), which was issued in February 2020.

On June 3, 2020, the FASB issued [ASU 2020-05](#), which further amends the effective dates of ASC 842 to give immediate relief to certain entities as a result of the widespread adverse economic effects and business disruptions caused by COVID-19. Specifically, the Board deferred the effective dates of ASC 842 for private companies, private NFP entities, and public NFP entities.⁴ The deferrals apply only if those entities have not yet issued their financial statements (or made them available for issuance) as of June 3, 2020. We understand that the SEC staff will not object if specified PBEs adopt ASC 842 on the basis of the additional deferral of the effective dates of ASC 842 for non-PBEs to fiscal years beginning after December 15, 2021, under ASU 2020-05.

See Deloitte's November 19, 2019, [Heads Up](#) for more information about ASU 2019-10 and Deloitte's June 3, 2020, [Heads Up](#) for more information about ASU 2020-05.

Income Taxes

New and Proposed Accounting Standards

FASB Issues ASU 2019-12 to Simplify the Accounting for Income Taxes

In December 2019, the FASB issued [ASU 2019-12](#), which modifies ASC 740 to simplify the accounting for income taxes under GAAP. The ASU's amendments are based on changes that were suggested by stakeholders in connection with the FASB's simplification initiative, which is intended to reduce complexity in accounting standards.

ASU 2019-12 affects various aspects of ASC 740, including the accounting for taxes under hybrid tax regimes, the accounting for increases in goodwill, the allocation of tax amounts to separate company financial statements within a group that files a consolidated tax return, intraperiod tax allocation, interim-period accounting, and the accounting for ownership changes in investments, among other minor codification improvements.

The ASU specifies that an entity is not required to allocate the consolidated amount of current and deferred tax expense to a legal entity that is not subject to tax in its separate financial statements. However, an entity may elect to do so (on an entity-by-entity basis) for a legal entity that is both not subject to tax and disregarded by the taxing authority.

For PBEs, the amendments in ASU 2019-12 are effective for fiscal years beginning after December 15, 2020, including interim periods therein. Early adoption is permitted, including adoption in any interim period for which financial statements have not yet been issued.

For all other entities, the amendments in the ASU are effective for fiscal years beginning after December 15, 2021, and for interim periods beginning after December 15, 2022. Early adoption for these entities is also permitted, including adoption in any interim period for which financial statements have not yet been made available for issuance.

For additional information about the ASU, see Deloitte's December 19, 2019, [Heads Up](#).

⁴ A public NFP entity is an NFP entity that 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.

FASB Proposes Changes to Income Tax Disclosure Requirements

In March 2019, the FASB issued a [proposed ASU](#) that would modify or eliminate certain requirements related to income tax disclosures as well as establish new disclosure requirements. The proposed guidance, which is part of the Board's disclosure framework project, is intended to increase the relevance of income tax disclosures for financial statement users.

The proposed ASU is a revised version of the FASB's July 2016 exposure draft on changes to the income tax disclosure requirements. The Board discussed stakeholder feedback on the initial exposure draft in January 2017 and again in November 2018, when it also assessed whether updates would be needed as a result of the 2017 Tax Cuts and Jobs Act.

The proposed ASU would affect various disclosure topics in ASC 740, including those related to the disaggregation of certain metrics (i.e., income (or loss) from continuing operations), indefinitely reinvested foreign earnings, unrecognized tax benefits, valuation allowances, a company's rate reconciliation, and operating loss and tax credit carryforwards. It would also affect interim disclosure requirements and make other minor changes to existing guidance. Entities would be required to adopt the proposed ASU's guidance prospectively. The FASB will determine an effective date, and whether early adoption is permitted, in subsequent meetings about the proposal.

Comments on the proposed ASU were due by May 31, 2019. At its February 2020 meeting, the Board discussed comment letter feedback on the March 2019 proposed ASU and directed the staff to perform additional research and outreach. The staff will present its findings to the Board, and the final standard will be drafted after the Board's redeliberations.

For more information about the proposed ASU, see Deloitte's March 29, 2019, [Heads Up](#).

SEC Comment Letter Themes Related to Income Taxes

The SEC staff's comments to registrants about income taxes continue to focus on (1) valuation allowances, (2) disclosures related to the income tax rate, (3) the tax effects of significant or unusual transactions that occurred during a period, and (4) noncompliance with disclosure requirements (e.g., omission of required disclosures).

Further, the SEC staff often asks registrants to provide early-warning disclosures to help financial statement users understand key estimates and assumptions related to recording these items and how changes to those estimates and assumptions could potentially affect the financial statements in the future. The SEC staff also continues to issue comments on non-GAAP measures, with a particular focus on the income tax impact of adjustments made to GAAP measures. For additional information about non-GAAP measures, see Deloitte's [A Roadmap to Non-GAAP Financial Measures and Metrics](#).

Historically, the SEC staff has stated that boilerplate language should be avoided with respect to income tax disclosures in MD&A and that approaches more conducive to effective disclosure would include:

- Using the income tax rate reconciliation as a starting point and describing the details of the material items.
- Discussing significant foreign jurisdictions, including statutory rates, effective rates, and the current and future impact of reconciling items.
- Providing meaningful disclosures about known trends and uncertainties, including expectations regarding the countries where registrants operate.

For more information about SEC comment letter themes that pertain to the insurance industry, see Deloitte's [A Roadmap to SEC Comment Letter Considerations, Including Industry Insights](#) and Appendix E of Deloitte's [A Roadmap to Accounting for Income Taxes](#), which contains sample disclosures of income taxes.

Consolidation

ASU 2018-17

In October 2018, the FASB issued [ASU 2018-17](#), which amends two aspects of the related-party guidance in ASC 810. Specifically, the ASU (1) adds an elective private-company scope exception to the variable interest entity (VIE) guidance for entities under common control and (2) removes a sentence in ASC 810-10-55-37D regarding the evaluation of fees paid to decision makers to conform with the amendments in [ASU 2016-17](#) (issued in October 2016).

Key Provisions of ASU 2018-17

Private-Company Scope Exception to the VIE Guidance for Certain Entities

ASU 2018-17 broadens the existing accounting alternative available to private companies by allowing all legal entities under common control to elect not to apply the VIE guidance as long as the reporting entity, the common-control parent, and the legal entity being evaluated for consolidation are not PBEs and meet the criteria in ASC 810-10-15-17AD (added by the ASU). ASC 810-10-15-17AD states, in part:

A legal entity need not be evaluated by a private company (reporting entity) under the guidance in the Variable Interest Entities Subsections if all of the following criteria are met:

- a. The reporting entity and the legal entity are under common control.
- b. The reporting entity and the legal entity are not under common control of a public business entity.
- c. The legal entity under common control is not a public business entity.
- d. The reporting entity does not directly or indirectly have a controlling financial interest in the legal entity when considering the General Subsections of this Topic. The Variable Interest Entities Subsections shall not be applied when making this determination.

ASC 810-10-15-17AE (added by the ASU) provides guidance on applying criterion (a) above, which requires a determination that “[t]he reporting entity and the legal entity are under common control.” Specifically, ASC 810-10-15-17AE states that *solely* for the purpose of applying criterion (a), a private-company reporting entity should consider *only* the voting interest model when making this determination. That is, a private-company reporting entity is not required to consider the VIE guidance when determining whether criterion (a) is met.

As stated above, a reporting entity that wishes to apply the private-company scope exception in ASU 2018-17 is required to determine whether the reporting entity and legal entity are under common control solely on the basis of the voting interest model. Therefore, in structures in which a common-control parent has the majority vote in both the reporting entity and the legal entity and no other investors have substantive participating rights, criterion (a) in ASC 810-10-15-17AD would be met (i.e., the reporting entity and legal entity would be determined to be under common control). In addition, criterion (d) would be met because the common-control parent rather than the reporting entity would have a controlling financial interest in the legal entity. Consequently, the reporting entity would be eligible to apply the scope exception provided that the common-control parent, reporting entity, and legal entity are not PBEs in accordance with criteria (b) and (c) in ASC 810-10-15-17AD.

The FASB decided that the guidance in ASU 2018-17 would supersede the existing accounting alternative under ASC 810 (from ASU 2014-07) because the Board believes that the new guidance on common-control relationships for private companies would encompass existing leasing arrangements that qualified for the previous scope exception. Like the accounting alternative under current guidance, the private-company scope exception in ASU 2018-17 would be considered an accounting policy that, if elected, should be applied consistently to all legal entities that qualify for it.

Private-company reporting entities that apply the scope exception because they have met all the criteria in ASC 810-10-15-17AD would not consolidate under the VIE model and also would not consolidate under the voting interest entity model since those entities would not have qualified for the scope exception if they had a controlling financial interest under the voting interest entity model per criterion (d). Consequently, private-company reporting entities that apply the scope exception will be required to provide enhanced disclosures in a manner similar to entities that apply the VIE guidance. For a list of the disclosure requirements, see the appendix of Deloitte's November 19, 2018, *Heads Up*.

If a reporting entity applies the new private-company scope exception upon transition to ASU 2018-17 and one of the entities (the parent, reporting entity, or legal entity) subsequently becomes a PBE, the reporting entity can no longer apply the scope exception. In that case, the accounting would depend on which entity became a PBE. If the reporting entity is not the entity that became a PBE, prospective application of the VIE guidance would be required. However, if the reporting entity is the entity that became a PBE, retrospective application of the VIE guidance would be required. Therefore, the reporting entity must continually assess whether it can continue to apply the scope exception.

For further discussion of private-company accounting alternatives, see [Section 3.5](#) of Deloitte's *A Roadmap to Consolidation — Identifying a Controlling Financial Interest*.

Evaluation of Fees Paid to a Decision Maker

ASC 810 currently requires indirect interests held by related parties under common control to be considered in their entirety⁵ in the evaluation of whether a decision maker's fee arrangement is a variable interest under ASC 810-10-55-37(c). ASU 2016-17 amended ASC 810-10-25-42 to require consideration of these indirect interests on a proportionate basis in the primary-beneficiary analysis but did not align current guidance with the considerations related to the variable interest analysis. Accordingly, ASU 2018-17 aligns the guidance by removing a sentence in ASC 810-10-55-37D⁶ to conform the guidance in that paragraph with the amendments in ASU 2016-17.

The changes made by ASU 2018-17 do not affect interests held through a subsidiary since such interests should be treated as direct interests of the consolidated group in a consolidation assessment.

For further discussion, see [Section 4.3.11.4](#) of Deloitte's *A Roadmap to Consolidation — Identifying a Controlling Financial Interest*.

Effective Date and Transition

For entities other than private companies, ASU 2018-17 is effective for fiscal years beginning after December 15, 2019, including interim periods therein. For private companies, the ASU is effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Early adoption is permitted. Like the amendments in previously issued ASUs related

⁵ Specifically, ASC 810-10-55-37D.

⁶ ASU 2018-17 removes the following sentence: "Indirect interests held through related parties that are under common control with the decision maker should be considered the equivalent of direct interests in their entirety."

to ASC 810, the amendments in ASU 2018-17 must be applied retrospectively, with a cumulative-effect adjustment to retained earnings at the beginning of the earliest period presented.

Compensation

Improvements to Nonemployee Share-Based Payment Accounting

In June 2018, the FASB issued [ASU 2018-07](#), which simplifies the accounting for share-based payments granted to nonemployees for goods and services. Before adopting the ASU, entities apply ASC 505-50 to account for share-based payments to nonemployees and ASC 718 to account for share-based payments to employees, and the guidance in ASC 505-50 and ASC 718 differs significantly. The ASU supersedes ASC 505-50 and expands the scope of ASC 718 to include all share-based payment arrangements related to the acquisition of goods and services from both nonemployees and employees. However, some differences remain between the accounting for employees and nonemployees under ASC 718, primarily related to (1) the manner and period of cost recognition and (2) fair-value-based measurement.

For additional information about the ASU, see [Chapter 9](#) of Deloitte's *A Roadmap to Accounting for Share-Based Payment Awards* and Deloitte's June 21, 2018, *Heads Up*.

FASB Clarifies the Accounting for Share-Based Payments Issued as Sales Incentives to Customers

In November 2019, the FASB issued [ASU 2019-08](#), which clarifies the accounting for share-based payments issued as consideration payable to a customer in accordance with ASC 606. Under the ASU, entities apply the guidance in ASC 718 to measure and classify share-based payments issued to a customer that are not in exchange for a distinct good or service (i.e., share-based sales incentives).

For more information about the ASU, see Deloitte's November 13, 2019, *Heads Up*.

Cloud Computing Arrangements

Background

In August 2018, the FASB issued [ASU 2018-15](#), which amends ASC 350-40 to address a customer's accounting for implementation costs incurred in a cloud computing arrangement (CCA) that is a service contract. ASU 2018-15 aligns the accounting for costs incurred to implement a CCA that is a service arrangement with the guidance on capitalizing costs associated with developing or obtaining internal-use software. Therefore, a customer should apply the framework in ASC 350-40 to determine which implementation costs should be capitalized in a CCA that is considered a service contract.

The FASB clarified in [ASU 2015-05](#) that a CCA is considered to be a service contract if the customer either does not have the "right to take possession of the software at any time during the hosting period without significant penalty" or cannot feasibly "either run the software on its own hardware or contract with another party unrelated to the vendor to host the software."

Common examples of CCAs include software as a service, platform or infrastructure as a service, and other similar types of hosting arrangements. Many companies in the insurance sector are increasing their use of CCAs to reduce the costs of maintaining their IT infrastructure, improve data security, and boost the efficiency and effectiveness of core operations (e.g., underwriting and managing claims).

See Deloitte's April 17, 2015, [Heads Up](#) for more information about ASU 2015-05 and Deloitte's September 11, 2018, [Heads Up](#); Deloitte's October 29, 2019, [Accounting Spotlight](#); or the [January 2019 edition](#) of this publication for more information about ASU 2018-15, including detailed discussion of its key provisions as well as the effective dates and transition approaches.

NAIC Update

The National Association of Insurance Commissioners (NAIC) continues to establish the statutory accounting principles for financial reporting in the insurance industry. For highlights of NAIC meetings (including updates on the accounting and reporting changes that were discussed, adopted, and exposed by the Statutory Accounting Principles Working Group, the Accounting Practices and Procedures Task Force, and the Financial Condition Committee), see Deloitte's [NAIC updates collection](#).

The next virtual format NAIC Fall 2020 National Meeting will be held December 3–9, 2020.

Appendix A — Titles of Standards and Other Literature

AICPA Literature

Audit and Accounting Guide

Revenue Recognition

EITF Literature

Issue No.19-A, “Financial Instruments — Clarifying the Interactions Between Topic 321, Topic 323, and Topic 815”

FASB Literature

ASC Topics

ASC 310, *Receivables*

ASC 320, *Investments — Debt and Equity Securities*

ASC 321, *Investments — Equity Securities*

ASC 323, *Investments — Equity Method and Joint Ventures*

ASC 325, *Investments — Other*

ASC 326, *Financial Instruments — Credit Losses*

ASC 350, *Intangibles — Goodwill and Other*

ASC 470, *Debt*

ASC 505, *Equity*

ASC 606, *Revenue From Contracts With Customers*

ASC 718, *Compensation — Stock Compensation*

ASC 740, *Income Taxes*

ASC 810, *Consolidation*

ASC 815, *Derivatives and Hedging*

ASC 820, *Fair Value Measurement*

ASC 825, *Financial Instruments*

ASC 840, *Leases*

ASC 842, *Leases*

ASC 848, *Reference Rate Reform*

ASC 860, *Transfers and Servicing*

ASC 942, *Financial Services — Depository and Lending*

ASUs

ASU 2014-07, *Consolidation (Topic 810): Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements* — a consensus of the Private Company Council

ASU 2014-09, *Revenue From Contracts With Customers (Topic 606)*

ASU 2015-05, *Intangibles — Goodwill and Other — Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*

ASU 2016-01, *Financial Instruments — Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*

ASU 2016-02, *Leases (Topic 842)*

ASU 2016-13, *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*

ASU 2016-17, *Consolidation (Topic 810): Interests Held Through Related Parties That Are Under Common Control*

ASU 2017-08, *Receivables — Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*

ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*

ASU 2018-07, *Compensation — Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*

ASU 2018-12, *Financial Services — Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*

ASU 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*

ASU 2018-17, *Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities*

ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments — Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*

ASU 2019-08, *Compensation — Stock Compensation (Topic 718) and Revenue From Contracts With Customers (Topic 606): Codification Improvements — Share-Based Consideration Payable to a Customer*

ASU 2019-10, *Financial Instruments — Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*

ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*

ASU 2020-01, *Investments — Equity Securities (Topic 321), Investments — Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying the Interactions Between Topic 321, Topic 323, and Topic 815* — a consensus of the FASB Emerging Issues Task Force

ASU 2020-02, *Financial Instruments — Credit Losses (Topic 326) and Leases (Topic 842): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 119 and Update to SEC Section on Effective Date Related to Accounting Standards Update No. 2016-02, Leases (Topic 842)*

ASU 2020-03, *Codification Improvement to Financial Instruments*

ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*

ASU 2020-05, *Revenue From Contracts With Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*

ASU 2020-06, *Debt — Debt With Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging — Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*

ASU 2020-08, *Codification Improvements to Subtopic 310-20, Receivables — Nonrefundable Fees and Other Costs*

ASU 2020-11, *Financial Services — Insurance (Topic 944): Effective Date and Early Application*

Proposed ASUs

No. 2019-500, *Income Taxes (Topic 740): Disclosure Framework — Changes to the Disclosure Requirements for Income Taxes (Revised)*

No. 2019-780, *Debt (Topic 470): Simplifying the Classification of Debt in a Classified Balance Sheet (Current Versus Noncurrent) (Revised)*

No. 2019-790, *Derivatives and Hedging (Topic 815): Codification Improvements to Hedge Accounting*

No. 2020-700, *Leases (Topic 842): Targeted Improvements*

No. 2020-900, *Reference Rate Reform (Topic 848): Scope Refinement*

IFRS Literature

IFRS 17, *Insurance Contracts*

SEC Literature

Regulation S-X

Rule 3-05, "Financial Statements of Businesses Acquired or to Be Acquired"

Rule 3-09, "Separate Financial Statements of Subsidiaries Not Consolidated and 50 Percent or Less Owned Persons"

Rule 3-14, "Special Instructions for Real Estate Operations to Be Acquired"

Rule 4-08(g), "Summarized Financial Information of Subsidiaries Not Consolidated and 50 Percent or Less Owned Persons"

SAB Topics

No. 6.M, "Financial Reporting Release No. 28 — Accounting for Loan Losses by Registrants Engaged in Lending Activities Subject to FASB ASC Topic 326"

Appendix B — Abbreviations

Abbreviation	Description
AICPA	American Institute of Certified Public Accountants
ASC	FASB Accounting Standards Codification
ASU	FASB Accounting Standards Update
CCA	cloud computing arrangement
CECL	current expected credit loss
DAC	deferred acquisition costs
DPL	deferred profit liability
EITF	FASB's Emerging Issues Task Force
EPS	earnings per share
FASB	Financial Accounting Standards Board
GAAP	generally accepted accounting principles
LIBOR	London Interbank Offered Rate
MD&A	Management's Discussion and Analysis

Abbreviation	Description
NAIC	National Association of Insurance Commissioners
NFP	not-for-profit
OCI	other comprehensive income
PBE	public business entity
PCAOB	Public Company Accounting Oversight Board
Q&A	question and answer
ROU	right of use
SAB	SEC Staff Accounting Bulletin
SEC	U.S. Securities and Exchange Commission
SRC	smaller reporting company
TDR	troubled debt restructuring
VIE	variable interest entity