



Understanding ASU 2022-05 – A Guide for Insurers

Key Aspects of ASU 2022-05:

ASU 2022-05 Financial Services – Insurance (Topic 944) provides transition guidance for insurance entities related to accounting for sold contracts. This ASU provides an optional policy election for insurance entities to avoid applying the complexities of long-duration targeted improvements (LDTI) rules to contracts that are no longer held. To qualify for the election, the contracts must meet two criteria, 1) the contracts were sold or disposed of (derecognized) prior to the LDTI's effective date and 2) the entity has no continuing involvement with those contracts after the transaction (sale or disposal).

Situational Example #1 – Insurance Contracts Sold, No Continuing Involvement:

An insurance company sells a block of long-duration life insurance contracts to another insurer in 2024, before the LDTI effective date. The Company has no significant continuing involvement with the sold contracts.

How should the insurance company account for these sold contracts?

The Company elects not to apply LDTI to these contracts and discloses the transaction in its 2025 financial statements, since both criteria are met – the contracts were sold, and the Company has not had continuing involvement with the contracts that were sold.

Situational Example #2 – Insurance Contracts Sold, Continuing Involvement:

An insurance company sells a portion of its insurance contracts in 2024 but retains significant continuing involvement (e.g., through servicing or reinsurance arrangements).

How should the insurance company account for these sold contracts?

The Company cannot apply the ASU 2022-05 election to these contracts and must apply LDTI to them, since the Company retains its involvement in the contracts.

Required Disclosures:

- If the transition relief election is made, the entity must provide a qualitative description in the notes to the financial statements of each sale or disposal transaction to which the election was applied.
- The disclosure should clearly describe the nature of the transaction and the contracts excluded from the application of LDTI due to the election.

Summary:

ASU 2022-05 is effective for fiscal years beginning after December 15, 2024 for non-public business entities. This ASU strives to simplify the requirements for LDTI contracts that have been sold and the insurer has no continuing involvement with the sold contracts.