405 - Liabilities

405-**10** - Overall

405-10-**00** - Status

> **General Note:** The Status Section identifies changes to this Subtopic resulting from Accounting Standards Updates. The Section provides references to the affected Codification content and links to the related Accounting Standards Updates. Nonsubstantive changes for items such as editorial, link and similar corrections are included separately in Maintenance Updates.

General

405-10-00-**1** The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
405-10-05-1	Amended	Accounting Standards Update No. 2022-04	09/29/2022
405-10-05-1	Amended	Maintenance Update 2014-20	09/29/2014
405-10-05-2	Amended	Accounting Standards Update No. 2023-04	08/03/2023
405-10-05-2	Amended	Accounting Standards Update No. 2014-09	05/28/2014

405-10-**05** - Overview and Background

> **General Note:** The Overview and Background Section provides overview and background material for the guidance contained in the Subtopic. It does not provide the historical background or due process. It may contain certain material that users generally consider useful to understand the typical situations addressed by the standards. The Section does not summarize the accounting and reporting requirements.

General

405-10-05-**1** The Liabilities Topic includes the following Subtopics:

a. Overall
b. Extinguishments of Liabilities
c. Insurance-Related Assessments
d. Obligations Resulting from Joint and Several Liability Arrangements
e. Supplier Finance Programs.

405-10-05-**2** This Subtopic identifies the locations in the Codification that provide guidance for liabilities. The following Topics directly discuss the recognition of liabilities:

a. Asset Retirement and Environmental Obligations, see Topic 410
b. Exit or Disposal Cost Obligations, see Topic 420
c. Deferred Revenue and Contract Liabilities, see Topic 430
d. Commitments, see Topic 440
e. Contingencies, see Topic 450
f. Guarantees, see Topic 460
g. Debt, see Topic 470
h. Distinguishing Liabilities from Equity, see Topic 480.

405-10-05-**3** Other Topics, including industries, may contain guidance related to specific liabilities associated with those Topics.

405-10-**S00** - Status

> **General Note:** The Status Section identifies changes to this Subtopic resulting from Accounting Standards Updates. The Section provides references to the affected Codification content and links to the related Accounting Standards Updates. Nonsubstantive changes for items such as editorial, link and similar corrections are included separately in Maintenance Updates.

General

405-10-S00-**1** The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date

Paragraph	Action	Accounting Standards Update	Date
405-10-S99-1	Amended	Accounting Standards Update No. 2025-02	03/18/2025
405-10-S99-1	Added	Accounting Standards Update No. 2023-04	08/03/2023

405-10-S99 - SEC Materials

> **General Note:** As more fully described in About the Codification, the Codification includes selected SEC and SEC Staff content for reference by public companies. The Codification does not replace or affect how the SEC or SEC Staff issues or updates SEC content. SEC Staff content does not constitute Commission-approved rules or interpretations of the SEC.

General

SEC Staff Guidance

Staff Accounting Bulletins

SAB Topic 5.FF, Accounting for Obligations To Safeguard Crypto-Assets an Entity Holds for Its Platform Users

405-10-S99-**1** The following is the text of SAB Topic 5.FF. Removed by SAB 122.

405-20 - Extinguishments of Liabilities

405-20-00 - Status

> **General Note:** The Status Section identifies changes to this Subtopic resulting from Accounting Standards Updates. The Section provides references to the affected Codification content and links to the related Accounting Standards Updates. Nonsubstantive changes for items such as editorial, link and similar corrections are included separately in Maintenance Updates.

General

405-20-00-**1** The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
405-20-10-1	Superseded	Accounting Standards Update No. 2009-16	12/23/2009
405-20-15-2	Amended	Accounting Standards Update No. 2016-04	03/08/2016
405-20-40-1	Amended	Accounting Standards Update No. 2016-04	03/08/2016
405-20-40-3	Added	Accounting Standards Update No. 2016-04	03/08/2016
405-20-40-4	Added	Accounting Standards Update No. 2016-04	03/08/2016
405-20-50-1	Amended	Accounting Standards Update No. 2009-16	12/23/2009
405-20-50-2	Added	Accounting Standards Update No. 2016-04	03/08/2016
405-20-55-2	Amended	Accounting Standards Update No. 2012-04	10/01/2012
405-20-55-4	Amended	Accounting Standards Update No. 2015-10	06/12/2015
405-20-55-4	Amended	Accounting Standards Update No. 2012-04	10/01/2012
405-20-55-6 through 55-8	Superseded	Accounting Standards Update No. 2009-16	12/23/2009
405-20-65-1	Added	Accounting Standards Update No. 2016-04	03/08/2016

405-20-05 - Overview and Background

> **General Note:** The Overview and Background Section provides overview and background material for the guidance contained in the Subtopic. It does not provide the historical background or due process. It may contain certain material that users generally consider useful to understand the typical situations addressed by the standards. The Section does not summarize the accounting and reporting requirements.

General

405-20-05-**1** This Subtopic addresses extinguishments of liabilities. This Subtopic does not address debt conversions or troubled debt restructurings. The accounting guidance for those areas is addressed in Subtopics 470-20 and 470-60.

405-20-05-**2** An entity may settle a liability by transferring assets to the creditor or otherwise obtaining an unconditional release. Alternatively, an entity may enter into other arrangements designed to set aside assets dedicated to eventually settling a liability. Accounting for those arrangements has raised issues about when a liability should be considered extinguished. This Subtopic establishes standards for resolving those issues.

405-20-**10 - Objectives**

> **General Note:** The Objectives Section provides the high-level objectives that the Subtopic is intended to accomplish or attain. The Section does not summarize or discuss the main principles of accounting and reporting requirements.

General

405-20-10-**1** Paragraph superseded by Accounting Standards Update No. 2009-16.

405-20-**15 - Scope and Scope Exceptions**

> **General Note:** The Scope and Scope Exceptions Section outlines the items (for example, the entities, transactions, instruments, or events) to which the guidance in the Subtopic does or does not apply. In some cases, the Section may contain definitional or other text to frame the scope.

General

Entities

405-20-15-**1** The guidance in this Subtopic applies to all entities.

Transactions

405-20-15-**2** The guidance in this Subtopic applies to extinguishments of all liabilities, including both financial and nonfinancial liabilities, unless derecognition of a financial or nonfinancial liability is addressed in another Topic (for example, the derecognition guidance for gaming chips in Subtopic 924-405 on casinos or the breakage guidance in Topic 606 on revenue from contracts with customers). Derivative instruments that are nonfinancial liabilities (for example, a written commodity option) are included in the scope of this Subtopic.

405-20-**40 - Derecognition**

> **General Note:** The Derecognition Section provides guidance on determining whether and when an entity should remove an item from the financial statements. For example, the entity would derecognize an asset because it no longer has rights to the asset or it would derecognize a liability because it no longer has any obligation.

General

405-20-40-**1** Unless addressed by other guidance (for example, paragraphs 405-20-40-3 through 40-4 or paragraphs 606-10-55-46 through 55-49), a debtor shall derecognize a liability if and only if it has been extinguished. A liability has been extinguished if either of the following conditions is met:

a. The debtor pays the creditor and is relieved of its obligation for the liability. Paying the creditor includes the following:
    1. Delivery of cash
    2. Delivery of other financial assets
    3. Delivery of goods or services
    4. Reacquisition by the debtor of its outstanding debt securities whether the securities are cancelled or held as so-called treasury bonds.

b. The debtor is legally released from being the primary obligor under the liability, either judicially or by the creditor. For purposes of applying this Subtopic, a sale and related assumption effectively accomplish a legal release if nonrecourse debt (such as certain mortgage loans) is assumed by a third party in conjunction with the sale of an asset that serves as sole collateral for that debt.

405-20-40-**2** If a creditor releases a debtor from primary obligation on the condition that a third party assumes the obligation and that the original debtor becomes secondarily liable, that release extinguishes the original debtor's liability. However, in those circumstances, whether or not explicit consideration was paid for that guarantee, the original debtor becomes a guarantor. As a guarantor, it shall recognize a guarantee obligation in the same manner as would a guarantor that had never been primarily liable to that creditor, with due regard for the likelihood that the third party will carry out its obligations. The guarantee obligation shall be initially measured at fair value, and that amount reduces the gain or increases the loss recognized on extinguishment. See Topic 460 for accounting guidance related to guarantees.

Prepaid Stored-Value Products

405-20-40-**3** Prepaid stored-value products are products in physical and digital forms with stored monetary values that are issued for the purpose of being commonly accepted as payment for goods or services. While the holder of a prepaid stored-value product also may be permitted to redeem the product for cash, prepaid stored-value products do not include products that only can be redeemed by the product holder for cash (for example, nonrecourse debt, bearer bonds, or trade payables). Examples of prepaid stored-value products include prepaid gift cards issued on a specific payment network and redeemable at network-accepting merchant locations, prepaid telecommunication cards, and traveler's checks. The derecognition guidance in paragraph 405-20-40-4 does not apply to liabilities related to either of the following:

a. Prepaid stored-value products (or portions of those products) for which any breakage (that is, the portion of the dollar value of prepaid stored-value products that ultimately is not redeemed by product holders for cash or not used to purchase goods and/or services) must be remitted in accordance with unclaimed property laws

b. Prepaid stored-value products that are attached to a segregated bank account like a customer depository account.

The guidance also does not apply to customer loyalty programs or transactions within the scope of other Topics (for example, Topic 606 on revenue from contracts with customers).

405-20-40-**4** If an entity expects to be entitled to a breakage amount for a liability resulting from the sale of a prepaid stored-value product in the scope of paragraph 405-20-40-3, the entity shall derecognize the amount related to the expected breakage in proportion to the pattern of rights expected to be exercised by the product holder only to the extent that it is probable that a significant reversal of the recognized breakage amount will not subsequently occur. If an entity does not expect to be entitled to a breakage amount for prepaid stored-value products in the scope of paragraph 405-20-40-3, the entity shall derecognize the amount related to breakage when the likelihood of the product holder exercising its remaining rights becomes remote. At the end of each period, an entity shall update the estimated breakage amount to represent faithfully the circumstances present at the end of the period and the changes in circumstances during the period. Changes to an entity's estimated breakage amount shall be accounted for as a change in accounting estimate in accordance with paragraphs 250-10-45-17 through 45-20.

405-20-**50 - Disclosure**

> **General Note:** The Disclosure Section provides guidance regarding the disclosure in the notes to financial statements. In some cases, disclosure may relate to disclosure on the face of the financial statements.

General

405-20-50-**1** See paragraph 470-50-50-1 for a disclosure requirement for debt considered to be extinguished by in-substance defeasance. In addition, see paragraph 860-30-50-1A for disclosure requirements for assets that are set aside solely for the purpose of satisfying scheduled payments of a specific obligation.

Prepaid Stored-Value Products

405-20-50-**2** An entity that recognizes a breakage amount in accordance with paragraph 405-20-40-4 shall disclose the methodology used to recognize breakage and significant judgments made in applying the breakage methodology.

405-20-**55 - Implementation Guidance and Illustrations**

> **General Note:** The Implementation Guidance and Illustrations Section contains implementation guidance and illustrations that are an integral part of the Subtopic. The implementation guidance and illustrations do not address all possible variations. Users must consider carefully the actual facts and circumstances in relation to the requirements of the Subtopic.

General

Implementation Guidance

405-20-55-**1** This Section provides implementation guidance related to the extinguishment of liabilities.

Application of Liability Extinguishment Criteria

405-20-55-**2** The following provides guidance on the application of the liability extinguishment criteria, specifically related to the following:

a. In-substance defeasance transactions

b. Transfers of noncash financial assets in settlement of a creditor's receivable

c. Subparagraph superseded by Accounting Standards Update No. 2012-04.

d. Extinguishment via legal defeasance.

In-Substance Defeasance Transactions

405-20-55-**3** In an in-substance defeasance transaction, a debtor transfers essentially risk-free assets to an irrevocable defeasance trust and the cash flows from those assets approximate the scheduled interest and principal payments of the debt being extinguished.

405-20-55-**4** An in-substance defeasance transaction does not meet the derecognition criteria in either Section 405-20-40 for the liability or in Section 860-10-40 for the asset. The transaction does not meet the criteria because of the following:

a. The debtor is not released from the debt by putting assets in the trust; if the assets in the trust prove insufficient, for example, because a default by the debtor accelerates its debt, the debtor must make up the difference.

b. The lender is not limited to the cash flows from the assets in trust.

c. The lender does not have the ability to dispose of the assets at will or to terminate the trust.

d. If the assets in the trust exceed what is necessary to meet scheduled principal and interest payments, the transferor can remove the assets.

e. Subparagraph superseded by Accounting Standards Update No. 2012-04.

f. The debtor does not surrender control of the benefits of the assets because those assets are still being used for the debtor's benefit, to extinguish its debt, and because no asset can be an asset of more than one entity, those benefits must still be the debtor's assets.

Transfers of Noncash Financial Assets in Settlement of a Creditor's Receivable

405-20-55-**5** A cash payment or conveyance of noncash financial assets from a debtor to a creditor results in full or partial settlement of the creditor's receivable from the debtor. Whether or not that settlement is an extinguishment is governed by paragraph 405-20-40-1. However, if a noncash financial asset was conveyed to the creditor in full or partial settlement of a creditor's receivable, it would be rare to conclude that debt has been extinguished if the criteria of paragraph 860-10-40-5 were not also met.

405-20-55-**6** Paragraphs 405-20-55-6 through 55-8 superseded by Accounting Standards Update No. 2009-16.

Extinguishment Via Legal Defeasance

405-20-55-**9** In a legal defeasance, generally the creditor legally releases the debtor from being the primary obligor under the liability. Liabilities are extinguished by legal defeasances if the condition in paragraph 405-20-40-1(b) is satisfied. Whether the debtor has in fact been released and the condition in that paragraph has been met is a matter of law. Conversely, in an in-substance defeasance, the debtor is not released from the debt by putting assets in the trust. For the reasons identified in paragraph 405-20-55-4, an in-substance defeasance is different from a legal defeasance and the liability is not extinguished.

405-20-**65 - Transition and Open Effective Date Information**

> **General Note:** The Transition Section contains a description of the required transition provisions and a list of the related paragraphs that have been modified. This Section will retain the transition content during the transition period. After the transition period, the transition content will be removed yet will be available in archived versions of the Section.

General

405-20-65-**1** Paragraph superseded on 08/12/2020 after the end of the transition period stated in Accounting Standards Update No. 2016-04, Liabilities-Extinguishments of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products.

405-**30 - Insurance-Related Assessments**

405-30-**00 - Status**

> **General Note:** The Status Section identifies changes to this Subtopic resulting from Accounting Standards Updates. The Section provides references to the affected Codification content and links to the related Accounting Standards Updates. Nonsubstantive changes for items such as editorial, link and similar corrections are included separately in Maintenance Updates.

General

405-30-00-**1** The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Reinsurance	Added	Accounting Standards Update No. 2016-19	12/14/2016
405-30-05-1	Amended	Accounting Standards Update No. 2011-06	07/21/2011

405-30-15-3	Amended	Accounting Standards Update No. 2016-19	12/14/2016
405-30-15-3	Amended	Accounting Standards Update No. 2011-06	07/21/2011
405-30-30-7	Amended	Accounting Standards Update No. 2016-19	12/14/2016

405-30-**05 - Overview and Background**

> **General Note:** The Overview and Background Section provides overview and background material for the guidance contained in the Subtopic. It does not provide the historical background or due process. It may contain certain material that users generally consider useful to understand the typical situations addressed by the standards. The Section does not summarize the accounting and reporting requirements.

General

405-30-05-**1** Insurance entities as well as noninsurance entities are subject to a variety of assessments related to insurance activities, including those by state guaranty funds and workers' compensation second-injury funds. Some entities may be subject to insurance-related assessments because they self-insure against loss or liability. This Subtopic provides guidance on accounting for insurance-related assessments. The annual fee imposed on health insurers by the Patient Protection and Affordable Care Act as amended by the Health Care and Education Reconciliation Act (the Acts) is not considered an insurance-related assessment. The accounting for the Acts' fee is addressed in Subtopic 720-50.

State Guaranty Funds

405-30-05-**2** States have enacted legislation establishing guaranty funds. The state guaranty funds assess entities licensed to sell insurance in the state to provide for the payment of covered claims or to meet other insurance obligations-subject to prescribed limits-of insolvent insurance entities. The assessments are generally based on premium volume for certain covered lines of business. Most state guaranty funds assess entities for costs related to a particular insolvency after the insolvency occurs. At least one state, however, assesses entities before insolvencies.

405-30-05-**3** State guaranty funds use a variety of methods for assessing entities. This Subtopic identifies the following four primary methods of guaranty-fund assessments:

a. Retrospective-premium-based assessments. Guaranty funds covering benefit payments of insolvent life, annuity, and health insurance entities typically assess entities based on premiums written or received in one or more years before the year of insolvency. Assessments in any year are generally limited to an established percentage of an entity's average premiums for the three years preceding the insolvency. Assessments for a given insolvency may take place over several years.

b. Prospective-premium-based assessments. Guaranty funds covering claims of insolvent property and casualty insurance entities typically assess entities based on premiums written in one or more years after the insolvency. Assessments in any year are generally limited to an established percentage of an entity's premiums written or received for the year preceding the assessment. Assessments for a given insolvency may take place over several years.

c. Prefunded-premium-based assessments. At least one state uses this kind of assessment to cover claims of insolvent property and casualty insurance entities. This kind of assessment is intended to prefund the costs of future insolvencies. Assessments are imposed before any particular insolvency and are based on the current level of written premiums. Rates to be applied to future premiums are adjusted as necessary.

d. Administrative-type assessments. These assessments are typically a flat (annual) amount per entity to fund operations of the guaranty association, regardless of the existence of an insolvency.

405-30-05-**4** State laws often allow for recoveries of guaranty-fund assessments by entities subject to assessments through such mechanisms as premium tax offsets, policy surcharges, and future premium rate structures. The policy surcharges referred to in this Subtopic are those surcharges that are intended to provide an opportunity for assessed entities to recover some or all of the amounts assessed over a period of time.

Other Insurance-Related Assessments

405-30-05-**5** Entities are subject to a variety of other insurance-related assessments. Many states and a number of local governmental units have established other funds supported by assessments. The two most prevalent uses for such assessments are as follows:

a. To fund operating expenses of state insurance regulatory bodies (for example, the state insurance department or workers' compensation board)

b. To fund second-injury funds, which provide reimbursement to insurance carriers or employers for workers' compensation claims when the cost of a second injury combined with a prior accident or disability is greater than what the second accident alone would have produced. The employer of an injured or handicapped worker is responsible only for the workers' compensation benefit for the most recent injury; the second-injury fund would cover the cost of any additional benefits for aggravation of a prior condition or injury. The intent of the fund is to help insure that employers are not made to suffer a greater monetary loss or increased insurance costs because of hiring previously injured or handicapped employees.

405-30-05-**6** The primary methods used to assess for these other insurance-related assessments are the following:

a. Premium-based. The assessing entity imposes the assessment based on the entity's written premiums. The assessing entity may be at the state, county, municipality, or other such level. The base year of premiums is generally either the current year or the year preceding the assessment.

b. Loss-based. The assessing entity imposes the assessment based on the entity's incurred losses or paid losses in relation to that amount for all entities subject to that assessment in the particular jurisdiction.

405-30-**10 - Objectives**

General Note: The Objectives Section provides the high-level objectives that the Subtopic is intended to accomplish or attain. The Section does not summarize or discuss the main principles of accounting and reporting requirements.

General

405-30-10-**1** The objective of this Subtopic is to establish consistent accounting and disclosures for guaranty-fund and other insurance-related assessments to improve comparability of reported information.

405-30-**15 - Scope and Scope Exceptions**

General Note: The Scope and Scope Exceptions Section outlines the items (for example, the entities, transactions, instruments, or events) to which the guidance in the Subtopic does or does not apply. In some cases, the Section may contain definitional or other text to frame the scope.

General

Entities

405-30-15-**1** The guidance in this Subtopic applies to all entities that are subject to guaranty-fund and other insurance-related assessments, including entities that are subject to insurance-related assessments because they self-insure against loss or liability. For example, one state specifies that self-insurers of workers' compensation should use as a base for assessment the amount of premium the self-insurer would have paid if it had insured its liability with an insurer for the previous calendar year.

Transactions

405-30-15-**2** The guidance in this Subtopic applies to assessments mandated by statute or regulatory authority that are related directly or indirectly to underwriting activities (including self-insurance), except for income taxes and premium taxes.

405-30-15-**3** The guidance in this Subtopic does not apply to the following transactions and activities:

a. Amounts payable or paid as a result of reinsurance contracts or arrangements that are in substance reinsurance, including assumed reinsurance activities and certain involuntary pools that are covered by Topic 944.

b. Assessments of depository institutions related to bank insurance and similar funds.

c. The annual fee imposed on health insurers by the Patient Protection and Affordable Care Act as amended by the Health Care and Education Reconciliation Act (the Acts). The accounting for the Acts' fee is addressed in Subtopic 720-50.

405-30-**20 - Glossary**

General Note: The Master Glossary contains all terms identified as glossary terms throughout the Codification. Clicking on any term in the Master Glossary will display where the term is used. The Master Glossary may contain identical terms with different definitions, some of which may not be appropriate for a particular Subtopic. For any particular Subtopic, users should only use the glossary terms included in the particular Subtopic Glossary Section (Section 20).

Incurred Losses

Losses paid or unpaid for which the entity has become liable during a period.

In-Force Policies

Policies effective before a specified date that have not yet expired or been cancelled.

Involuntary Pools

A residual market mechanism for insureds who cannot obtain insurance in the voluntary market.

Life, Annuity, and Health Insurance Entities

An entity that may issue annuity, endowment, and accident and health insurance contracts as well as life insurance contracts. Life and health insurance entities may be either stock or mutual entities.

Obligated to Write

A circumstance in which an entity has no discretion to cancel a policy because of legal obligation under state statute, contract terms, or regulatory practice and is required to offer or issue insurance policies for a period in the future.

Premium Tax Offsets

Offsets against premium taxes levied on insurance entities by states.

Premiums Written

The premiums on all policies an entity has issued in a period.

Property and Casualty Insurance Entity

An entity that issues insurance contracts providing protection against either of the following:

a. Damage to or loss of property caused by various perils, such as fire and theft

b. Legal liability resulting from injuries to other persons or damage to their property.

Property and liability insurance entities may be either stock or mutual entities.

Reinsurance

A transaction in which a reinsurer (assuming entity), for a consideration (premium), assumes all or part of a risk undertaken originally by another insurer (ceding entity). For indemnity reinsurance, the legal rights of the insured are not affected by the reinsurance transaction and the insurance entity issuing the insurance contract remains liable to the insured for payment of policy benefits. Assumption or novation reinsurance contracts that are legal replacements of one insurer by another extinguish the ceding entity's liability to the policyholder.

405-30-**25 - Recognition**

> **General Note:** The Recognition Section provides guidance on the required criteria, timing, and location (within the financial statements) for recording a particular item in the financial statements. Disclosure is not recognition.

General

Reporting Liabilities

405-30-25-**1** Entities subject to assessments shall recognize liabilities for insurance-related assessments when all of the following conditions are met:

a. Probability of assessment. An assessment has been imposed or information available before the financial statements are issued or are available to be issued (as discussed in Section 855-10-25) indicates it is probable that an assessment will be imposed.

b. Obligating event. The event obligating an entity to pay (underlying cause of) an imposed or probable assessment has occurred on or before the date of the financial statements.

c. Ability to reasonably estimate. The amount of the assessment can be reasonably estimated.

See Examples 1 through 3 (paragraphs 405-30-55-1 through 55-15) for illustrations of the computation of assessment liabilities.

Probability of Assessment

405-30-25-**2** Premium-based guaranty-fund assessments, except those that are prefunded, are presumed probable when a formal determination of insolvency occurs, and presumed not probable before a formal determination of insolvency. For purposes of this Subtopic, a formal determination of insolvency occurs when an entity meets a state's (ordinarily the state of domicile of the insolvent insurer) statutory definition of an insolvent insurer. In most states, the entity must be declared to be financially insolvent by a court of competent jurisdiction. In some states, there must also be a final order of liquidation.

405-30-25-**3** Prefunded guaranty-fund assessments and premium-based administrative-type assessments, as defined in paragraph 405-30-05-3, are presumed probable when the premiums on which the assessments are expected to be based are written. Loss-based administrative-type and second-injury fund assessments are presumed probable when the losses on which the assessments are expected to be based are incurred.

Obligating Event

405-30-25-**4** Because of the fundamental differences in how assessment mechanisms operate, the event that makes an assessment probable (for example, an insolvency) may not be the event that obligates an entity. The following defines the event that obligates an entity to pay an assessment for each kind of assessment identified in this Subtopic:

a. For premium-based assessments, the event that obligates the entity is generally writing the premiums or becoming obligated to write or renew (such as multiple-year, noncancelable policies) the premiums on which the assessments are expected to be based. Some states, through law or regulatory practice, provide that an insurance entity cannot avoid paying a particular assessment even if that insurance entity reduces its premium writing in the future. In such circumstances, the event that obligates the entity is a formal determination of insolvency or similar triggering event. For example, in certain states, an insurance entity may remain liable for assessments even though the insurance entity discontinues the writing of premiums. In this circumstance, the underlying cause of the liability is not the writing of the premium, but the insolvency. Regulatory practice would be determined based on the stated intentions or prior history of the insurance regulators.

b. For loss-based assessments, the event that obligates an entity is an entity's incurring the losses on which the assessments are expected to be based.

Ability to Reasonably Estimate

405-30-25-**5** One of the conditions (see paragraph 450-20-25-2(b)) for recognition of a liability is that the amount can be reasonably estimated. Paragraph 450-20-25-5 provides that some amount of loss can be reasonably estimated when available information indicates that the estimated amount of the loss is within a range of amounts. Paragraph 450-20-30-1 explains that, if no amount within the range is a better estimate than any other amount, the minimum amount in the range should be accrued.

Applying the Recognition Criteria

405-30-25-**6** Application of the recognition criteria in paragraphs 405-30-25-1 through 25-5 to the methods used to address guaranty-fund assessments and other insurance-related assessments, as described in paragraphs 405-30-05-3 through 05-6, is as follows:

a. Retrospective-premium-based guaranty-fund assessments. An assessment is probable of being imposed when a formal determination of insolvency occurs. At that time, the premium that obligates the entity for the assessment liability has already been written. Accordingly, an entity that has the ability to reasonably estimate the amount of the assessment shall recognize a liability for the entire amount of future assessments related to a particular insolvency when a formal determination of insolvency is rendered.

b. Prospective-premium-based guaranty-fund assessments. The event that obligates the entity for the assessment liability generally is the writing of, or becoming obligated to write or renew, the premiums on which the expected future assessments are to be based (for example, multiple-year contracts under which an insurance entity has no discretion to avoid writing future premiums). Therefore, the event that obligates the entity generally will not have occurred at the time of the insolvency. Law or regulatory practice affects the event that obligates the entity in either of the following ways:

    1. In states that, through law or regulatory practice, provide that an entity cannot avoid paying a particular assessment in the future (even if the entity reduces premium writings in the future), the event that obligates the entity is a formal determination of insolvency or a similar event. An entity that has the ability to reasonably estimate the amount of the assessment shall recognize a liability for the entire amount of future assessments that cannot be avoided related to a particular insolvency when a formal determination of insolvency occurs.

    2. In states without such a law or regulatory practice, the event that obligates the entity is the writing of, or becoming obligated to write, the premiums on which the expected future assessments are to be based. An entity that has the ability to reasonably estimate the amount of the assessments shall recognize a liability when the related premiums are written or when the entity becomes obligated to write the premiums.

c. Prefunded-premium-based guaranty-fund assessments. A liability for an assessment arises when premiums are written. Accordingly, an entity that has the ability to reasonably estimate the amount of the assessment shall recognize a liability as the related premiums are written.

d. Other premium-based assessments. Other premium-based assessments, as described in paragraph 405-30-05-5, would be accounted for in the same manner as prefunded-premium-based guaranty-fund assessments.

e. Loss-based assessments. An assessment is probable of being asserted when the loss occurs. The obligating event of the assessment also has occurred when the loss occurs. Accordingly, an entity that has the ability to reasonably estimate the amount of the assessment shall recognize a liability as the related loss is incurred.

405-30-25-**7** Administrative-type assessments are generally expensed in the period assessed.

Asset for Premium Tax Offsets and Policy Surcharges

405-30-25-**8** When it is probable that a paid or accrued assessment will result in an amount that is recoverable from premium tax offsets or policy surcharges, an asset shall be recognized for that recovery.

405-30-25-**9** For retrospective-premium-based assessments, to the extent that it is probable that paid or accrued assessments will result in a recoverable amount in a future period from business currently in force considering appropriate persistency rates for long-duration contracts (see paragraph 405-30-30-11), an asset shall be recognized at the time the liability is recorded.

405-30-25-**10** An asset shall not be established for paid or accrued assessments that are recoverable through future premium rate structures.

405-30-25-**11** Policy surcharges that are required as a pass-through to the state or other regulatory bodies shall be accounted for in a manner such that amounts collected or receivable are not recorded as revenues and amounts due or paid are not expensed (meaning, similar to accounting for sales tax).

405-30-**30 - Initial Measurement**

> **General Note:** The Initial Measurement Section provides guidance on the criteria and amounts used to measure a particular item at the date of initial recognition.

General

Estimating the Liability

405-30-30-**1** Entities subject to assessments may be able to obtain information to assist in estimating the total guaranty-fund cost or the following years' assessments, as appropriate, for an insolvency from entities such as the state guaranty fund associations, the National Organization of Life and Health Insurance Guaranty Associations, and the National Conference of Insurance Guaranty Funds.

405-30-30-**2** An entity need not be able to compute the exact amounts of the assessments or be formally notified of such assessments by a guaranty fund to make a reasonable estimate of its liability. Entities subject to assessments may have to make assumptions about future events, such as when the fund will incur costs and pay claims that will determine the amounts and the timing of assessments.

405-30-30-**3** The best available information about market share or premiums by state and premiums by line of business shall be used to estimate the amount of an insurance entity's future assessments.

405-30-30-**4** If a noninsurance entity's assessments are based on premiums, it may be necessary to consider the amount of premium the self-insurer would have paid if it had insured its liability with an insurer. If a noninsurance entity's assessments are based on losses, it shall consider the losses that have been incurred by the entity when determining the liability. Most often, assessments that have an impact on noninsurance entities that self-insure workers' compensation obligations are for second-injury funds. Second-injury funds generally assess insurance entities and self-insurers based on paid losses.

405-30-30-**5** A noninsurance entity may develop an accrual for its second-injury liability based on any of the following:

a. The ratio of the entity's prior period paid workers' compensation claims to aggregate workers' compensation claims in the state that was used as a basis for previous assessments

b. Total fund assessments in prior periods

c. Known changes in the current period to either the number of employees self-insured by the entity or the number of workers who are the subject of recoveries from the second-injury fund that might alter total fund assessments and the entity's proportion of the total fund assessments.

405-30-30-**6** Estimates of loss-based assessments shall be consistent with estimates of the underlying incurred losses and shall be developed based on enacted laws or regulations and expected assessment rates.

405-30-30-**7** Estimates of some insurance-related assessment liabilities may be difficult to derive. The development or determination of estimates is particularly difficult for guaranty-fund assessments because of uncertainties about the cost of the insolvency to the guaranty fund and the portion that will be recovered through assessment. Examples of uncertainties include the following:

a. Limitations, as provided by statute, on the amount of individual contract liabilities that the guaranty fund will assume, that cause the guaranty fund associations' liability to be less than the amount by which the entity is insolvent

b. Contract provisions (for example, credited rates) that may be modified at the time of the insolvency or alternative payout options that may be offered to contract holders that affect the level and payout of the guaranty fund's liability

c. The extent and timing of available reinsurance recoveries, which may be subject to significant uncertainties

d. Alternative strategies for the liquidation of assets of the insolvent entity that affect the timing and level of assessments

e. Certain liabilities of the insolvent insurer that may be particularly difficult to estimate (for example, asbestos or environmental liabilities).

405-30-30-**8** Because of the uncertainties surrounding some insurance-related assessments, the range of assessment liability may have to be reevaluated regularly during the assessment process. For some ranges, there may be amounts that appear to be better estimates than any other within the range. If this is the case, the liability recorded shall be based on the best estimate within the range. For ranges in which there is no such best estimate, the liability that should be recorded shall be based on the amount representing the minimum amount in the range.

Present Value Measurement of the Obligation

405-30-30-**9** Current practice in the insurance industry is to allow, but not require (with limited exceptions, such as pensions and postretirement benefits), the discounting of liabilities to reflect the time value of money when the aggregate amount of the obligation and the amount and timing of the cash payments are fixed or reliably determinable for a particular liability.

405-30-30-**10** Similarly, for assessments that meet those criteria, the liability may be recorded at its present value by discounting the estimated future cash flows at an appropriate interest rate.

Asset for Premium Tax Offsets and Policy Surcharges

405-30-30-**11** The asset recognized under paragraph 405-30-25-8 shall be measured based on current laws and projections of future premium collections or policy surcharges from in-force policies. In determining the asset to be recorded, in-force policies do not include expected renewals of short-duration contracts but do include assumptions as to persistency rates for long-duration contracts.

405-30-30-**12** The time value of money need not be considered in the determination of the recorded amount of a potential recovery if the liability is not discounted. In instances in which the recovery period for an asset is substantially longer than the payout period for the liability, it may be appropriate to record the asset on a discounted basis regardless of whether the liability is discounted.

405-30-30-**13** The recognition of such assets related to prospective-premium-based assessments is limited to the amount of premium an entity has written or is obligated to write and to the amounts recoverable over the life of the in-force policies. The expected premium tax offset or policy surcharge asset related to the accrual of prospective-premium-based assessments shall be based on and limited to the amount recoverable as a result of premiums the insurer has written or is obligated to write.

405-30-**35 - Subsequent Measurement**

> **General Note:** The Subsequent Measurement Section provides guidance on an entity's subsequent measurement and subsequent recognition of an item. Situations that may result in subsequent changes to carrying amount include impairment, credit losses, fair value adjustments, depreciation and amortization, and so forth.

General

Asset for Premium Tax Offsets and Policy Surcharges

405-30-35-**1** The asset recorded under paragraph 405-30-25-8 for premium tax offsets and policy surcharges shall be subject to a valuation allowance to reflect any portion of the asset that is no longer probable of realization. Considering expected future premiums other than on in-force policies in evaluating the recoverability of premium tax offsets or policy surcharges is not appropriate.

405-30-**50 - Disclosure**

> **General Note:** The Disclosure Section provides guidance regarding the disclosure in the notes to financial statements. In some cases, disclosure may relate to disclosure on the face of the financial statements.

General

405-30-50-**1** Sections 275-10-50 and 450-20-55 address disclosures related to loss contingencies. That guidance is applicable to assessments covered by this Subtopic. Additionally, if amounts have been discounted, the entity shall disclose in the financial statements the undiscounted amounts of the liability and any related asset for premium tax offsets or policy surcharges as well as the discount rate used. If amounts have not been discounted, the entity shall disclose in the financial statements the amounts of the liability, any related asset for premium tax offsets or policy surcharges, the periods over which the assessments are expected to be paid, and the period over which the recorded premium tax offsets or policy surcharges are expected to be realized.

405-30-**55 - Implementation Guidance and Illustrations**

> **General Note:** The Implementation Guidance and Illustrations Section contains implementation guidance and illustrations that are an integral part of the Subtopic. The implementation guidance and illustrations do not address all possible variations. Users must consider carefully the actual facts and circumstances in relation to the requirements of the Subtopic.

General

Illustrations

Example 1: Prospective-Premium-Based Assessment

405-30-55-**1** This Example illustrates application of the recognition and measurement guidance in this Subtopic to a prospective-premium-based assessment. This kind of assessment is considered prospective because the assessment relates to premium written after the insolvency. As a result of insolvencies in prior years, ABC Property & Liability Insurance Company (ABC) expects to be assessed in the future by the guaranty fund in a state where it writes premiums. Any such assessments will be limited to 2 percent of premium writings in the prior year and are recoverable through premium tax offsets on a ratable basis over the 5-year period following the year of each assessment.

405-30-55-**2** Although it does not expect to do so, ABC is free to cease writing the lines of business that are subject to the guaranty-fund assessments.

405-30-55-**3** As of December 31, 19X0, ABC has neither paid nor received a notice of an assessment related to the insolvencies. Based on communications from the state guaranty association, ABC expects to receive an assessment in 19X1, which is allocated among entities based on 19X0 market share, for at least 1 percent of 19X0 premiums that are subject to the assessment. A best estimate cannot be determined, and no amount within the range of estimates (meaning, from 1 to 2 percent of 19X0 premiums) is a better estimate than any other amount, therefore the minimum amount in the range shall be accrued.

405-30-55-**4** As of December 31, 19X0, ABC should recognize a liability equal to 1 percent of the premiums written in 19X0 that are subject to the assessment. No additional liability should be recognized, and no asset related to the premium tax offset should be recognized. Disclosure of the loss contingency of up to an additional 1 percent of the subject premiums should be considered.

405-30-55-**5** ABC would recognize a liability only for those future assessments it is obligated to pay as a result of the premiums written. Because ABC is not obligated to write any future premiums, its liability is limited to that related to premiums written in 19X0. Because no amount within the range of estimates is a better estimate than any other amount, the minimum amount in the range is accrued. Further, because the premium tax offset is realizable only on business that will be written in the future (that is, 19X2 and subsequent years), no asset or receivable is recognized as of December 31, 19X0.

Example 2: Retrospective-Premium-Based Assessment

405-30-55-**6** This Example illustrates application of the recognition and measurement guidance in this Subtopic to a retrospective-premium-based assessment. As a result of an insolvency that occurred during 19X0, DEF Life and Health Insurance Company (DEF) expects to be assessed in the future by the guaranty fund in a state where it has written business. Any such assessment will be based on DEF's average market share, determined based on premiums that are subject to the assessment for the three years before the insolvency, and limited to 2 percent of the average annual subject premiums for the three years before the insolvency. Further, such assessments are recoverable through premium tax offsets over the five-year period following the year of payment for each assessment.

405-30-55-**7** As of December 31, 19X0, DEF has not paid or received a notice of an assessment related to the insolvency. Based on initial input from the National Organization of Life and Health Insurance Guaranty Associations and experience with other insolvencies, DEF assumes that the first assessment will not be made until 19X3 and that it will take three to five annual assessments for the guaranty fund to be able to meet its obligations. Based on the estimated nationwide cost of the insolvency and the distribution of the insolvent entity's business, DEF estimates that its assessment will be at least 1 percent of the average annual premiums that are subject to the assessment. No amount within the range of estimates (meaning, from 1 to 2 percent of the average annual premiums for 3 to 5 years) is a better estimate than any other amount, therefore the minimum amount in the range shall be accrued.

405-30-55-**8** As of December 31, 19X0, DEF should recognize a liability for 3 years of assessments at 1 percent of the average annual premiums that are subject to the assessment (that is, the assessments expected in 19X3, 19X4, and 19X5). Disclosure of the loss contingency for additional assessments (meaning, in 19X6 and 19X7) or assessment of greater than 1 percent of the average annual premiums that are subject to the assessment should be considered. An asset related to premium tax offsets that are available on accrued assessments would be recorded provided there were sufficient premium taxes based on business in force at December 31, 19X0 (with assumed levels of policy retention), to allow realization of the asset.

405-30-55-**9** The resulting recognized liability and asset are as follows (shown on both a discounted and undiscounted basis, based on paragraphs 405-30-30-9 through 30-12, discounting is optional), assuming average annual subject premiums of $100,000 for the 3 years before the insolvency.

	Recorded at	Cash Payments									
Assessments	12/31/19X0	19X1	19X2	19X3	19X4	19X5	19X6	19X7	19X8	19X9	20X0
19X3 Assessment				1,000							
19X4 Assessment					1,000						
19X5 Assessment						1,000					
Total	3,000			1,000	1,000	1,000					
Premium tax offset											
19X3 Assessment (a)					200	200	200	200	200		
19X4 Assessment (a)						200	200	200	200	200	
19X5 Assessment (a)							200	200	200	200	200
Total	3,000				200	400	600	600	600	400	200
Present value of assessments At 12/31/19X0 (b)	2,470										
Present value of premium Tax offset at 12/31/19X0 (b)	2,139										

(a) Assumed that, based upon anticipated levels of policy retention from the business in force at December 31, 19X0, there will be sufficient premium to realize the premium tax offset.
(b) Discounted at 5 percent, assuming all assessments are paid and offsets realized at the end of each year.

405-30-55-**10** DEF would record a liability for all future assessments related to the insolvency. Because no amount within the range of estimates (meaning, from 1 to 2 percent of the average annual premiums for 3 to 5 years) is a better estimate than any other amount, the minimum amount in the range (meaning, 1 percent per year for 3 years of assessments) is accrued.

405-30-55-**11** Since it is assumed that based on the anticipated levels of policy retention from the business in force at December 31, 19X0, there will be sufficient premium to realize the premium tax offset, the premium tax offset is recorded.

Example 3: Loss-Based Assessment

405-30-55-**12** This Example illustrates application of the recognition and measurement guidance in this Subtopic to a loss-based assessment. GHI Industrial Company (GHI) is self-insured for workers' compensation and therefore participates in the second injury fund in the state where it conducts operations. GHI is entitled to recover from the fund some or all of the indemnity claims for previously injured workers. GHI is also subject to annual assessments (maximum of 1 percent per year) on indemnity claims paid each year.

405-30-55-**13** Assessment rates have been climbing steadily, from 0.6 percent 5 years previous to 0.75 percent in 19X0.

405-30-55-**14** As of December 31, 19X0, GHI should have an assessment liability recognized for 0.75 percent of its liability for the payment of future indemnity claims, unless there was information to support the assessment rate being reduced or the assessments being eliminated in the future. Disclosure of the loss contingency of up to an additional 0.25 percent of the liability for the payment of future indemnity claims should be considered.

405-30-55-**15** GHI would recognize a liability based on the current assessment rate, unless there was clear evidence that the rate would change. The liability would be based on the entire liability base that was subject to the assessment.

405-**40 - Obligations Resulting from Joint and Several Liability Arrangements**

405-40-**00 - Status**

General Note: The Status Section identifies changes to this Subtopic resulting from Accounting Standards Updates. The Section provides references to the affected Codification content and links to the related Accounting Standards Updates. Nonsubstantive changes for items such as editorial, link and similar corrections are included separately in Maintenance Updates.

General

405-40-00-**1** The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Conduit Debt Security	Added	Maintenance Update 2014-20	09/29/2014
Nonpublic Entity (Def. 1)	Amended	Maintenance Update 2014-20	09/29/2014
Nonpublic Entity	Added	Accounting Standards Update No. 2013-04	02/28/2013
405-40-05-1	Added	Accounting Standards Update No. 2013-04	02/28/2013
405-40-15-1	Added	Accounting Standards Update No. 2013-04	02/28/2013
405-40-15-2	Added	Accounting Standards Update No. 2016-19	12/14/2016
405-40-25-1	Added	Accounting Standards Update No. 2013-04	02/28/2013
405-40-25-2	Added	Accounting Standards Update No. 2013-04	02/28/2013
405-40-30-1	Added	Accounting Standards Update No. 2013-04	02/28/2013
405-40-30-2	Added	Accounting Standards Update No. 2013-04	02/28/2013
405-40-35-1	Added	Accounting Standards Update No. 2013-04	02/28/2013
405-40-50-1	Added	Accounting Standards Update No. 2013-04	02/28/2013
405-40-50-2	Added	Accounting Standards Update No. 2013-04	02/28/2013
405-40-65-1	Added	Accounting Standards Update No. 2013-04	02/28/2013

405-40-**05 - Overview and Background**

General Note: The Overview and Background Section provides overview and background material for the guidance contained in the Subtopic. It does not provide the historical background or due process. It may contain certain material that users generally consider useful to understand the typical situations addressed by the standards. The Section does not summarize the accounting and reporting requirements.

General

Overall Guidance

405-40-05-**1** This Subtopic addresses the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements.

405-40-**15 - Scope and Scope Exceptions**

General Note: The Scope and Scope Exceptions Section outlines the items (for example, the entities, transactions, instruments, or events) to which the guidance in the Subtopic does or does not apply. In some cases, the Section may contain definitional or other text to frame the scope.

General

Overall Guidance

405-40-15-**1** The guidance in this Subtopic applies to obligations resulting from joint and several liability arrangements for which the total amount under the arrangement is fixed at the reporting date, except for obligations otherwise accounted for under the following Topics:

a. Asset Retirement and Environmental Obligations, see Topic 410

b. Contingencies, see Topic 450

c. Guarantees, see Topic 460

d. Compensation-Retirement Benefits, see Topic 715

e. Income Taxes, see Topic 740.

For the total amount of an obligation under an arrangement to be considered fixed at the reporting date there can be no measurement uncertainty at the reporting date relating to the total amount of the obligation within the scope of this Subtopic. However, the total amount of the obligation may change subsequently because of factors that are unrelated to measurement uncertainty. For example, the amount may be fixed at the reporting date but change in future periods because an additional amount was borrowed under a line of credit for which an entity is jointly and severally liable or because the interest rate on a joint and several liability arrangement changed.

405-40-15-**2** Although the total amount of the obligation of the entity and its co-obligors must be fixed at the reporting date to be within the scope of this Subtopic, the amount that the entity expects to pay on behalf of its co-obligors may be uncertain at the reporting date.

405-40-**20 - Glossary**

> **General Note:** The Master Glossary contains all terms identified as glossary terms throughout the Codification. Clicking on any term in the Master Glossary will display where the term is used. The Master Glossary may contain identical terms with different definitions, some of which may not be appropriate for a particular Subtopic. For any particular Subtopic, users should only use the glossary terms included in the particular Subtopic Glossary Section (Section 20).

Conduit Debt Securities

Certain limited-obligation revenue bonds, certificates of participation, or similar debt instruments issued by a state or local governmental entity for the express purpose of providing financing for a specific third party (the conduit bond obligor) that is not a part of the state or local government's financial reporting entity. Although conduit debt securities bear the name of the governmental entity that issues them, the governmental entity often has no obligation for such debt beyond the resources provided by a lease or loan agreement with the third party on whose behalf the securities are issued. Further, the conduit bond obligor is responsible for any future financial reporting requirements.

Nonpublic Entity

Any entity that does not meet any of the following conditions:

a. Its debt or equity securities trade in a public market either on a stock exchange (domestic or foreign) or in an over-the-counter market, including securities quoted only locally or regionally.

b. It is a conduit bond obligor for conduit debt securities that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets).

c. It files with a regulatory agency in preparation for the sale of any class of debt or equity securities in a public market.

d. It is required to file or furnish financial statements with the Securities and Exchange Commission.

e. It is controlled by an entity covered by criteria (a) through (d).

405-40-**25 - Recognition**

> **General Note:** The Recognition Section provides guidance on the required criteria, timing, and location (within the financial statements) for recording a particular item in the financial statements. Disclosure is not recognition.

General

405-40-25-**1** An entity shall recognize obligations resulting from joint and several liability arrangements when the arrangement is included in the scope of this Subtopic. In some circumstances, the arrangement is included in the scope of this Subtopic at the inception of the arrangement (for example, a debt arrangement); in other circumstances, the arrangement is included in the scope of this Subtopic after the inception of the arrangement (for example, when the total amount of the obligation becomes fixed, consistent with paragraph 405-40-15-1).

405-40-25-**2** The corresponding entry or entries shall depend on facts and circumstances of the obligation. Examples of corresponding entries include the following:

a. Cash for proceeds from a debt arrangement

b. An expense for a legal settlement

c. A receivable (that is assessed for impairment) for a contractual right

d. An equity transaction with an entity under common control.

405-40-**30 - Initial Measurement**

> **General Note:** The Initial Measurement Section provides guidance on the criteria and amounts used to measure a particular item at the date of initial recognition.

General

405-40-30-**1** Obligations resulting from joint and several liability arrangements included in the scope of this Subtopic initially shall be measured as the sum of the following:

a. The amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors.

b. Any additional amount the reporting entity expects to pay on behalf of its co-obligors. If some amount within a range of the additional amount the reporting entity expects to pay is a better estimate than any other amount within the range, that amount shall be the additional amount included in the measurement of the obligation. If no amount within the range is a better estimate than any other amount, then the minimum amount in the range shall be the additional amount included in the measurement of the obligation.

405-40-30-**2** The corresponding entry or entries shall depend on the facts and circumstances of the obligation.

405-40-**35 - Subsequent Measurement**

> **General Note:** The Subsequent Measurement Section provides guidance on an entity's subsequent measurement and subsequent recognition of an item. Situations that may result in subsequent changes to carrying amount include impairment, credit losses, fair value adjustments, depreciation and amortization, and so forth.

General

405-40-35-**1** Obligations resulting from joint and several liability arrangements included in the scope of this Subtopic subsequently shall be measured using the guidance in Section 405-40-30.

405-40-**50 - Disclosure**

> **General Note:** The Disclosure Section provides guidance regarding the disclosure in the notes to financial statements. In some cases, disclosure may relate to disclosure on the face of the financial statements.

General

405-40-50-**1** An entity shall disclose the following information about each obligation, or each group of similar obligations, resulting from joint and several liability arrangements included in the scope of this Subtopic:

a. The nature of the arrangement, including:

   1. How the liability arose

   2. The relationship with other co-obligors

   3. The terms and conditions of the arrangement.

b. The total outstanding amount under the arrangement, which shall not be reduced by the effect of any amounts that may be recoverable from other entities

c. The carrying amount, if any, of an entity's liability and the carrying amount of a receivable recognized, if any

d. The nature of any recourse provisions that would enable recovery from other entities of the amounts paid, including any limitations on the amounts that might be recovered

e. In the period the liability is initially recognized and measured or in a period the measurement changes significantly:

   1. The corresponding entry

   2. Where the entry was recorded in the financial statements.

405-40-50-**2** The disclosures required by this Section do not affect the related-party disclosure requirements in Topic 850. The disclosure requirements in this Section are incremental to those requirements.

405-40-**65 - Transition and Open Effective Date Information**

> **General Note:** The Transition Section contains a description of the required transition provisions and a list of the related paragraphs that have been modified. This Section will retain the transition content during the transition period. After the transition period, the transition content will be removed yet will be available in archived versions of the Section.

General

405-40-65-**1** Paragraph superseded on 07/08/2016 after the end of the transition period stated in Accounting Standards Update No. 2013-04, Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date.

405-**50 - Liabilities-Supplier Finance Programs**

405-50-**00 - Status**

> **General Note:** The Status Section identifies changes to this Subtopic resulting from Accounting Standards Updates. The Section provides references to the affected Codification content and links to the related Accounting Standards Updates. Nonsubstantive changes for items such as editorial, link and similar corrections are included separately in Maintenance Updates.

General

405-50-00-**1** The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
405-50-05-1	Added	Accounting Standards Update No. 2022-04	09/29/2022
405-50-10-1	Added	Accounting Standards Update No. 2022-04	09/29/2022
405-50-10-2	Added	Accounting Standards Update No. 2022-04	09/29/2022
405-50-15-1 through 15-4 405-50-15-2 405-50-15-3 405-50-15-4	Added	Accounting Standards Update No. 2022-04	09/29/2022
405-50-50-1 through 50-4 405-50-50-2 405-50-50-3 405-50-50-4	Added	Accounting Standards Update No. 2022-04	09/29/2022
405-50-55-1 through 55-5 405-50-55-2 405-50-55-3 405-50-55-4 405-50-55-5	Added	Accounting Standards Update No. 2022-04	09/29/2022
405-50-65-1	Added	Accounting Standards Update No. 2022-04	09/29/2022

405-50-**05 - Overview and Background**

> **General Note:** The Overview and Background Section provides overview and background material for the guidance contained in the Subtopic. It does not provide the historical background or due process. It may contain certain material that users generally consider useful to understand the typical situations addressed by the standards. The Section does not summarize the accounting and reporting requirements.

General

405-50-05-**1** This Subtopic addresses the disclosures applicable for an entity that uses a supplier finance program in connection with the purchase of goods and services (the buyer in a supplier finance program). A supplier finance program also may be referred to as a reverse factoring, payables finance, or structured payables arrangement.

405-50-**10 - Objectives**

> **General Note:** The Objectives Section provides the high-level objectives that the Subtopic is intended to accomplish or attain. The Section does not summarize or discuss the main principles of accounting and reporting requirements.

General

405-50-10-**1** The objective of this Subtopic is to establish disclosures that enhance the transparency of a supplier finance program used by an entity in connection with the purchase of goods and services (the buyer in a supplier finance program).

405-50-10-**2** This Subtopic does not address either of the following:

a. A buyer's recognition, measurement, or financial statement presentation of an obligation in connection with a supplier finance program

b. The accounting and disclosure for other parties involved in a supplier finance program.

405-50-**15 - Scope and Scope Exceptions**

> **General Note:** The Scope and Scope Exceptions Section outlines the items (for example, the entities, transactions, instruments, or events) to which the guidance in the Subtopic does or does not apply. In some cases, the Section may contain definitional or other text to frame the scope.

General

Entities

405-50-15-**1** The guidance in this Subtopic applies to all entities that use supplier finance programs in connection with the purchase of goods and services (buyers in a supplier finance program).

Transactions

405-50-15-**2** The guidance in this Subtopic applies to obligations in connection with supplier finance programs. A supplier finance program is an arrangement that has all the following characteristics:

a. An entity enters into an agreement with a finance provider or an intermediary.

b. The entity confirms supplier invoices as valid to the finance provider or intermediary under the agreement described in (a).

c. The entity's supplier has the option to request early payment from a party other than the entity for invoices that the entity has confirmed as valid.

405-50-15-**3** Although not determinative, an indicator that an entity may have a supplier finance program is the commitment to pay a party other than the supplier for a confirmed invoice without offset, deduction, or any other defenses to payment.

405-50-15-**4** In determining whether an entity has established a supplier finance program and, therefore, is subject to the disclosures required by this Subtopic, all available evidence shall be considered, including arrangements between the entity and its finance provider or intermediary and between the entity and its suppliers whose invoices the entity has confirmed as valid to the finance provider or intermediary.

405-50-**20 - Glossary**

> **General Note:** The Master Glossary contains all terms identified as glossary terms throughout the Codification. Clicking on any term in the Master Glossary will display where the term is used. The Master Glossary may contain identical terms with different definitions, some of which may not be appropriate for a particular Subtopic. For any particular Subtopic, users should only use the glossary terms included in the particular Subtopic Glossary Section (Section 20).

405-50-**50 - Disclosure**

> **General Note:** The Disclosure Section provides guidance regarding the disclosure in the notes to financial statements. In some cases, disclosure may relate to disclosure on the face of the financial statements.

General

405-50-50-**1** The objective of the requirements in this Subtopic is for an entity to disclose sufficient information to enable users of financial statements to understand the nature, activity during the period, changes from period to period, and potential magnitude of the entity's supplier finance programs. To achieve that objective, an entity shall disclose qualitative and quantitative information about its supplier finance programs.

405-50-50-**2** An entity shall consider the level of detail necessary to satisfy the disclosure objective. If an entity uses more than one supplier finance program, the entity may aggregate disclosures, but not to the extent that useful information is obscured by the aggregation of programs that have substantially different characteristics.

405-50-50-**3** In each annual reporting period, an entity shall disclose all the following information about its supplier finance programs:

a. The key terms of the program, including, but not limited to:

1. A description of the payment terms, including payment timing and the basis for its determination

2. Assets pledged as security or other forms of guarantees provided for the committed payment to the finance provider or intermediary.

See paragraphs 405-50-55-1 through 55-3405-50-55-2405-50-55-3 for an illustrative example.

b. The amount of obligations outstanding at the end of the reporting period that the entity has confirmed as valid to the finance provider or intermediary under the program (that is, the amount of obligations confirmed under the program that remains unpaid by the entity) and the following information about those obligations:

1. Where those obligations are presented in the balance sheet. If those obligations are presented in more than one balance sheet line item, then the entity shall disclose the amount outstanding at the end of the reporting period in each line item.

2. A rollforward of those obligations showing, at a minimum, all the following:

i. The amount of those obligations outstanding at the beginning of the reporting period

ii. The amount of those obligations added to the program during the reporting period

iii. The amount of those obligations settled during the reporting period

iv. The amount of those obligations outstanding at the end of the reporting period.

405-50-50-**4** In each interim reporting period, an entity shall disclose the amount of obligations outstanding that the entity has confirmed as valid to the finance provider or intermediary under the supplier finance program at the end of the reporting period.

405-50-**55 - Implementation Guidance and Illustrations**

General Note: The Implementation Guidance and Illustrations Section contains implementation guidance and illustrations that are an integral part of the Subtopic. The implementation guidance and illustrations do not address all possible variations. Users must consider carefully the actual facts and circumstances in relation to the requirements of the Subtopic.

General

Illustrations

Example 1: Disclosure about the Key Terms of a Supplier Finance Program

405-50-55-**1** Based on the limited facts and hypothetical fact pattern described in paragraph 405-50-55-2, this Example illustrates how an entity might apply the guidance in paragraph 405-50-50-3(a) to disclose the key terms of a supplier finance program, including a description of the payment terms (which includes payment timing and basis for its determination) and the assets pledged as security or other forms of guarantees provided for the committed payment to the finance provider or intermediary. This Example is not intended to illustrate every aspect of the key terms of a program that should be disclosed by a buyer entity. Identifying the key terms of a supplier finance program is a matter of judgment, based upon the facts of the arrangement.

405-50-55-**2** Entity A enters into a supplier finance program with Bank B in which Entity A agrees to pay Bank B on the invoice maturity dates the stated amount of invoices that Entity A has confirmed on Bank B's supplier finance platform. Entity A pays Bank B an annual subscription fee for the supplier finance platform and a service fee for related support. Entity A or Bank B may terminate the agreement upon at least 90 days' notice. The agreement with Bank B does not require that Entity A provide assets pledged as security or other forms of guarantees for the supplier finance program. Bank B does not advise Entity A of the maximum size of the program. Bank B also enters into a separate arrangement with Entity A's suppliers and provides them with the option to request early payment from Bank B for invoices confirmed by Entity A. Entity A does not determine the terms or conditions of the arrangement between Bank B and Entity A's suppliers. Entity A does not participate in the transactions between its suppliers and Bank B. The supplier invoices that have been confirmed as valid under the program require payment in full within 90 days of the invoice date.

405-50-55-**3** Entity A determined that it should disclose the following information on the key terms of its supplier finance program:

> Under a supplier finance program, Entity A agrees to pay a bank the stated amount of confirmed invoices from its designated suppliers on the original maturity dates of the invoices, an annual subscription fee for the supplier finance platform, and service fees for related support. Entity A or the bank may terminate the agreement upon at least 90 days' notice. The supplier invoices that have been confirmed as valid under the program require payment in full within 90 days of the invoice date.

Example 2: Disclosure of a Rollforward of Obligations Confirmed as Valid under a Supplier Finance Program

405-50-55-**4** This Example provides an illustration of the guidance in paragraph 405-50-50-3(b)(2) based on the assumptions that Entity A provides one comparative balance sheet and that its supplier finance program is denominated in Entity A's reporting currency.

405-50-55-**5** The following illustrates the disclosures in a tabular format.

The rollforwards of Entity A's outstanding obligations confirmed as valid under its supplier finance program for years ended December 31, 20X2, and 20X1, are as follows (in thousands):

		20X2		20X1
Confirmed obligations outstanding at the beginning of the year	$	733	$	712
Invoices confirmed during the year		2,435		2,278
Confirmed invoices paid during the year		(2,315)		(2,257)
Confirmed obligations outstanding at the end of the year	$	853	$	733

405-50-**65 - Transition and Open Effective Date Information**

> **General Note:** The Transition Section contains a description of the required transition provisions and a list of the related paragraphs that have been modified. This Section will retain the transition content during the transition period. After the transition period, the transition content will be removed yet will be available in archived versions of the Section.

General

Transition Related to Accounting Standards Update No. 2022-04, Liabilities-Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations

405-50-65-**1** Accounting Standards Update 2022-04 2024-6-13
The following represents the transition and effective date information related to Accounting Standards Update No. 2022-04, Liabilities-Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations:

a. The pending content that links to this paragraph shall be effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2022, except for the pending content in paragraph 405-50-50-3(b)(2) that links to this paragraph, which shall be effective for fiscal years beginning after December 15, 2023. Early adoption is permitted.

b. In the period of initial adoption, an entity shall apply the pending content that links to this paragraph retrospectively to all periods in which a balance sheet is presented, except for the pending content in paragraph 405-50-50-3(b)(2) that links to this paragraph, which shall be applied prospectively.

c. During the first fiscal year of applying the pending content that links to this paragraph, an entity shall apply the pending content in paragraph 405-50-50-3(a) through (b)(1) that links to this paragraph for each interim period.