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STAFF PAPER

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Project	**Amendments to IFRS 17**		
Paper topic	Asset for insurance acquisition cash flows—transition and business combinations		
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Purpose of the paper

1. At its December 2019 meeting, the International Accounting Standards Board (Board) tentatively decided to finalise the amendments proposed in the Exposure Draft *Amendments to IFRS 17* relating to the expected recovery of insurance acquisition cash flows. This paper discusses staff analysis and recommendations about how those amendments would apply:
   (a) on transition to IFRS 17 *Insurance Contracts*; and
   (b) in a transfer of insurance contracts that do not form a business and in a business combination within the scope of IFRS 3 *Business Combinations*.

Summary of staff recommendations

2. The staff recommendations are set out in paragraphs 3–8 of this paper.

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Transition to IFRS 17

3. The staff recommend the Board amend IFRS 17 to require an entity:

   (a) to identify, recognise and measure an asset for insurance acquisition cash flows at the transition date; and[1]

   (b) if, and only if, it is impracticable for the entity to apply IFRS 17 retrospectively to measure an asset for insurance acquisition cash flows at the transition date applying either:

      (i) the modified retrospective approach; or

      (ii) the fair value approach.

Modified retrospective approach

4. In the modified retrospective approach, the staff recommend the Board amend IFRS 17:

   (a) in line with the requirement in paragraph C8 of IFRS 17, to permit an entity to use the modifications in paragraphs 4(b)–4(d) of this paper only to the extent that an entity does not have reasonable and supportable information to apply a retrospective approach.

   (b) to the extent permitted by paragraph 4(a) of this paper, to require an entity to measure an asset for insurance acquisition cash flows using information available at the transition date by:

      (i) identifying the amount of insurance acquisition cash flows paid before the transition date (excluding the amount relating to the contracts that ceased to exist before the transition date); and

      (ii) allocating the amount determined in paragraph 4(b)(i) of this paper, using the same systematic and rational allocation method that the entity will apply going forward (see paragraphs 11–12 of this paper), to:

[1] The staff note that in practice an entity would recognise an asset for insurance acquisition cash flows for each group to which such cash flows had been allocated. For simplicity, in this paper the staff usually refer to a single asset for insurance acquisition cash flows.

a. groups of insurance contracts that are recognised at the transition date; and

b. groups of insurance contracts that are expected to be recognised after the transition date.

(c) to require an entity to adjust the measurement of the contractual service margin of the groups of insurance contracts that are recognised at the transition date by deducting the amount of insurance acquisition cash flows determined applying paragraph 4(b)(ii)a of this paper.

(d) to require an entity to recognise an asset for insurance acquisition cash flows for the groups of insurance contracts that are expected to be recognised after the transition date at the amount determined applying paragraph 4(b)(ii)b of this paper.

5. The staff recommend the Board amend IFRS 17 to require an entity, in the absence of reasonable and supportable information necessary to apply the modification described in paragraph 4 of this paper, to be able to apply the modified retrospective approach by determining at the transition date:

(a) an adjustment to the contractual service margin of the groups of insurance contracts that are recognised at the transition date as *nil*; and

(b) an asset for insurance acquisition cash flows for the groups of insurance contracts that are expected to be recognised after the transition date as *nil*.

Fair value approach

6. In the fair value approach, the staff recommend the Board amend IFRS 17 to require an entity to recognise an asset for insurance acquisition cash flows measured as the amount of insurance acquisition cash flows that the entity would incur at the transition date if the entity had not already paid those insurance acquisition cash flows to obtain the rights to:

(a) recover insurance acquisition cash flows from premiums of insurance contracts originated before the transition date but not yet recognised at the transition date; or

(b) obtain future contracts (including the expected renewals) after the transition date without paying again insurance acquisition cash flows the entity has already paid.

Transfer of insurance contracts and business combinations

7. The staff recommend the Board amend IFRS 3 and IFRS 17 to require an entity that acquires insurance contracts in a transfer of insurance contracts that do not form a business and in a business combination within the scope of IFRS 3 to recognise a separate asset for insurance acquisition cash flows measured at fair value at the acquisition date.

Impairment test

8. The staff recommend the Board clarify that on transition to IFRS 17 for the assets for insurance acquisition cash flows recognised at the transition date, an entity is not required to apply the recoverability assessment requirement in paragraph 28D of the Exposure Draft retrospectively—ie for the periods that occurred earlier than the transition date.

Structure of the paper

9. This paper provides:

   (a) an overview of the proposals in the Exposure Draft.

   (b) an overview of the feedback.

   (c) the staff analysis, recommendations and questions for Board members on each of the following topics:

      (i) recognition of an asset for insurance acquisition cash flows at transition;

      (ii) recognition of an asset for insurance acquisition cash flows in a transfer of insurance contracts that do not form a business and in a business combination within the scope of IFRS 3; and

      (iii) impairment test considerations on transition.

10. Appendix A to this paper illustrates the effect of recognising an asset for insurance acquisition cash flows at transition.

Proposals in the Exposure Draft

11. To recognise and measure an asset for insurance acquisition cash flows the Exposure Draft proposed that an entity:

    (a) allocate, on a systematic and rational basis, insurance acquisition cash flows that are directly attributable to a group of insurance contracts:

        (i) to that group; and

        (ii) to any groups that include contracts that are expected to arise from renewals of the contracts in that group.

    (b) consistent with the existing requirements of IFRS 17, recognise as an asset insurance acquisition cash flows paid before the group of insurance contracts to which they are allocated is recognised.

    (c) assess the recoverability of an asset for insurance acquisition cash flows if facts and circumstances indicate the asset may be impaired.

12. At its December 2019 meeting, the Board tentatively decided to finalise the proposed amendments described in paragraph 11 of this paper. At that meeting, the Board clarified that:

    (a) after the group has been recognised an entity cannot revise the amounts of insurance acquisition cash flows allocated to a group of insurance contracts; and

    (b) at each reporting date an entity should revise the amounts of insurance acquisition cash flows allocated to groups of insurance contracts yet to be recognised to reflect any change in the assumptions that determine the inputs to the method of allocation.

Feedback

13. Some respondents noted that the proposed amendments did not specify how to recognise and measure an asset for insurance acquisition cash flows at transition.

14. Those respondents suggested the Board provide transition reliefs to determine an asset for insurance acquisition cash flows when applying IFRS 17 for the first time.

15. A small number of respondents suggested a simplified method to measure an asset for insurance acquisition cash flows at the transition date regardless of which transition approach an entity uses. Applying this suggestion entities would measure an asset for insurance acquisition cash flows applying the fair value approach in the same way as they would measure the asset applying the modified retrospective approach.

Staff analysis and recommendations

Recognition of an asset for insurance acquisition cash flows at transition

Retrospective application and approaches if retrospective application is impracticable

16. The staff think the requirement in paragraph C3 of IFRS 17 to apply the Standard retrospectively unless impracticable should apply to all the balances determined in accordance with IFRS 17, including any assets for insurance acquisition cash flows. However, IFRS 17 does not provide specific requirements on recognising and measuring an asset for insurance acquisition cash flows at transition. In particular, paragraph C4 of IFRS 17—which lists the amounts to be recognised at the transition date—does not refer to an asset for insurance acquisition cash flows. Before the Board proposed amending the requirements to reflect expected renewals of contracts, any asset for insurance acquisition cash flows was expected to be relatively short-lived. The proposed amendments will result in assets with longer lives, and accordingly larger amounts.

17. Therefore, the staff recommend the Board amend paragraph C4 of IFRS 17 to require an entity at the transition date to identify, recognise and measure an asset for insurance acquisition cash flows as if IFRS 17 had always been applied.

18. However, the staff note that for many entities it could be impracticable to determine an asset for insurance acquisition cash flows at transition applying the requirements described in paragraphs 11 and 12 of this paper retrospectively. Similar to determining the contractual service margin, measuring such assets at transition

retrospectively would require an entity to reflect any revisions of estimates in periods after the assets would have been recognised initially (see paragraph 20 of this paper for further details).

19. Therefore, the staff recommend the Board amend IFRS 17 to require an entity if, and only if, it is impracticable for the entity to apply IFRS 17 retrospectively to measure an asset for insurance acquisition cash flows at the transition date applying either:

    (a) the modified retrospective approach; or

    (b) the fair value approach.

    This would be consistent with the existing approach in IFRS 17 that requires an entity to apply the modified retrospective approach or the fair value approach if, and only if, it is impracticable to apply the Standard retrospectively.[2]

Questions 1 and 2 for Board members
1. Do you agree the Board should amend IFRS 17 to require an entity at the transition date to identify, recognise and measure an asset for insurance acquisition cash flows? 2. Do you agree the Board should amend IFRS 17 to require an entity if, and only if, it is impracticable for the entity to apply IFRS 17 retrospectively to measure an asset for insurance acquisition cash flows at the transition date applying either: (a) the modified retrospective approach; or (b) the fair value approach?

Modified retrospective approach

20. To measure an asset for insurance acquisition cash flows applying the full retrospective approach, an entity would need to determine *retrospectively* what amount of insurance acquisition cash flows would have been allocated to the groups of insurance contracts described in paragraph 11(a) of this paper. This would involve

[2] As an exception to that requirement, at its December 2019 meeting the Board tentatively decided to permit an entity to apply the fair value approach to a group of insurance contracts with direct participation features when the entity can apply the Standard retrospectively if it meets specified criteria relating to risk mitigation.

assessing revisions of the amounts allocated to groups and impairments over time, for example if expectations about renewals had changed.

21. Therefore, the staff think that it might be impracticable for many entities to measure an asset for insurance acquisition cash flows applying a full retrospective approach. Consequently, the staff recommend the Board add a modification to the modified retrospective approach both for the general measurement model and the variable fee approach for the recognition and measurement of an asset for insurance acquisition cash flows. Consistent with the requirement of paragraph C8 of IFRS 17, to achieve the objective of the modified retrospective approach, an entity should be permitted to use the modification only to the extent that an entity does not have reasonable and supportable information to apply a retrospective approach to determine an asset for insurance acquisition cash flows.

22. The staff recommend that applying the additional modification an entity, to the extent permitted by paragraph C8 of IFRS 17, should measure an asset for insurance acquisition cash flows using information available at the transition date by:

    (a) identifying the amount of insurance acquisition cash flows paid before the transition date (excluding the amount relating to the contracts that ceased to exist before the transition date); and

    (b) allocating the amount determined applying paragraph 22(a) of this paper, using the same systematic and rational allocation method that the entity will apply going forward (see paragraphs 11−12 of this paper), to:

        (i) the groups of insurance contracts that are recognised at the transition date; and

        (ii) the groups of insurance contracts that are expected to be recognised after the transition date.

23. The staff recommend that an entity should adjust the measurement of the contractual service margin of the groups of insurance contracts that are recognised at the transition date by deducting the amount of insurance acquisition cash flows determined applying paragraph 22(b)(i) of this paper. This is consistent with the requirements in paragraph 38(b) of IFRS 17 for measuring the contractual service margin of a group of insurance contracts at initial recognition.

24. The staff recommend an entity should recognise an asset for insurance acquisition cash flows for the amount determined applying paragraphs 22(b)(ii) of this paper. The entity will include that asset in the measurement of the contractual service margin when the entity recognises the group of insurance contracts to which it is allocated, consistently with the requirement of paragraph 38(b) of IFRS 17.

25. The staff recommend the Board should amend IFRS 17 to require an entity, in the absence of reasonable and supportable information necessary to apply the modification described in paragraphs 22–24 of this paper, to be able to apply the modified retrospective approach by determining at the transition date:

    (a) an adjustment to the contractual service margin of the groups of insurance contracts that are recognised at the transition date as *nil*; and

    (b) an asset for insurance acquisition cash flows for the groups of insurance contracts that are expected to be recognised after the transition date as *nil*.

    This modification would prevent an entity from not being allowed to use the modified retrospective approach and having to use the fair value approach solely because of a lack of information about insurance acquisition cash flows.

Questions 3 and 4 for Board members

3. Do you agree the Board should amend IFRS 17 requirements for the modified retrospective approach:

    (a) in line with the requirement in paragraph C8 of IFRS 17, to permit an entity to use the modifications in (b)–(d) only to the extent that an entity does not have reasonable and supportable information to apply a retrospective approach.

    (b) to the extent permitted by (a), to require an entity to measure an asset for insurance acquisition cash flows using information available at the transition date by:

        (i) identifying the amount of insurance acquisition cash flows paid before the transition date (excluding the amount relating to the contracts that ceased to exist before the transition date), and

        (ii) allocating the amount determined in paragraph (b)(i) using the same systematic and rational allocation method that the entity

will apply going forward (see paragraphs 11 and 12 of this paper) to:

a. the groups of insurance contracts that are recognised at the transition date; and

b. the groups of insurance contracts that are expected to be recognised after the transition date.

(c) to require an entity to adjust the measurement of the contractual service margin for the groups of insurance contracts that are recognised at the transition date by deducting the amount of insurance acquisition cash flows determined applying (b)(ii)a.

(d) to require an entity to recognise an asset for insurance acquisition cash flows for the groups of insurance contracts that are expected to be recognised after the transition date at the amount determined applying (b)(ii)b.

4. Do you agree the Board should amend IFRS 17 to require an entity, in the absence of reasonable and supportable information necessary to apply the modification described in Question 3, to be able to apply the modified retrospective approach by determining at the transition date:

(a) an adjustment to the contractual service margin of the groups of insurance contracts that are recognised at the transition date as *nil*;

(b) an asset for insurance acquisition cash flows for the groups of insurance contracts that are expected to be recognised after the transition date as *nil*.

Fair value approach

26. The staff note that at the transition date an asset for insurance acquisition cash flows reflects the rights of an entity to:

(a) recover insurance acquisition cash flows from premiums of insurance contracts originated before the transition date but not yet recognised at the transition date; or

(b) obtain future contracts (including the expected renewals) after the transition date without paying again insurance acquisition cash flows the entity has already paid.

27. The staff think that recognising such an asset on transition ensures that an entity will be able to measure the contractual service margin on initial recognition of a group of insurance contracts consistently with the requirement in paragraph 38(b) of IFRS 17 after the transition date when the entity recognises the group to which the asset is related. As discussed in paragraph 17 of this paper, the staff therefore recommend the Board amend IFRS 17 to require an entity to recognise an asset for insurance acquisition cash flows. The staff also recommend that an entity applying the fair value approach measure that asset as the amount of insurance acquisition cash flows that the entity would incur at the transition date to obtain the rights described in paragraph 26 of this paper if the entity had not already paid insurance acquisition cash flows creating those rights. Appendix A to this paper illustrates the effect of recognising such an asset.

28. The staff considered whether an entity should be required to measure an asset for insurance acquisition cash flows at fair value, consistently with the requirements for business combinations (see paragraph 33 of this paper). However, the staff concluded that giving a more specific requirement on transition would be helpful.

A single transition approach

29. In the staff view, applying a single transition approach to measure an asset for insurance acquisition cash flows, as suggested by some respondents as discussed in paragraph 15 of this paper, might cause inconsistency with the contractual service margin measurement at transition. The staff think that:
    (a) using the approach based on past amounts recommended for the modified retrospective approach (see paragraphs 20–24 of this paper) would be inconsistent with the current value information used in the fair value approach; and
    (b) using the current value approach recommended for the fair value approach (see paragraphs 26–28 of this paper) would be inconsistent with the determination of other amounts based on past information in the modified retrospective approach.

Question 5 for Board members
5. Do you agree the Board should amend IFRS 17 to require an entity applying the fair value approach to recognise an asset for insurance acquisition cash flows measured as the amount of insurance acquisition cash flows that the entity would incur at the transition date if the entity had not already paid insurance acquisition cash flows to obtain the rights to: (a) recover insurance acquisition cash flows from premiums of insurance contracts originated before the transition date but not yet recognised at the transition date; or (b) obtain future contracts (including the expected renewals) after the transition date without paying again insurance acquisition cash flows the entity has already paid.

Recognition of an asset for insurance acquisition cash flows in a transfer of insurance contracts that do not form a business and in a business combination within the scope of IFRS 3

30. Similar to the transition requirements, IFRS 17 is silent on the treatment of an asset for insurance acquisition cash flows when an entity acquires insurance contracts in a transfer of insurance contracts that do not form and business or in a business combination within the scope of IFRS 3 (referred to as an 'acquirer' in this paper). Therefore, the staff also considered whether an acquirer should identify, recognise and measure an asset for insurance acquisition cash flows at the acquisition date.

31. The staff note that, at the acquisition date, an asset for insurance acquisition cash flows would represent the right of the acquirer to obtain future contracts (including the expected renewals) after the transition date without paying again insurance acquisition cash flows that have already been paid.[3]

32. The staff think that an entity should recognise such an asset separately from intangible assets recognised applying IFRS 3, for example from customer relationship intangible

[3] The staff note that the right described in paragraph 26(a) of this paper does not exist in a business combination because the acquisition date is the date of recognition of all existing contracts. Hence all insurance acquisition cash flows described in paragraph 26(a) of this paper will be captured in the measurement of the contractual service margin on initial recognition of a group of insurance contracts.

assets. This will allow the entity to account for the asset for insurance acquisition cash flows subsequently consistently with the measurement requirements in IFRS 17. For example, in line with those requirements, the entity will include the asset in the measurement of the contractual service margin once the entity recognises the group of insurance contracts to which it relates.

33. The staff therefore recommend the Board amend IFRS 3 and IFRS 17[4] to require an entity that acquires insurance contracts in a transfer of insurance contracts that do not form a business or in a business combination within the scope of IFRS 3 to recognise a separate asset for insurance acquisition cash flows. Consistent with the requirements in IFRS 3, the staff recommend the entity measure the asset at fair value at the acquisition date.

Question 6 for Board members
6. Do you agree the Board should amend IFRS 3 and IFRS 17 to require an entity that acquires insurance contracts in a transfer of insurance contracts that do not form a business or in a business combination within the scope of IFRS 3 to recognise a separate asset for insurance acquisition cash flows measured at fair value at the acquisition date?

Impairment test considerations on transition

34. The staff note that the recoverability assessment requirement described in paragraph 28D of the Exposure Draft should apply throughout the period an asset for insurance acquisition cash flows is recognised, if facts and circumstances indicate that an asset for insurance acquisition cash flows may be impaired.

35. However, the staff do not think entities need to identify retrospectively whether there were facts and circumstances indicating potential impairment of an asset for insurance acquisition cash flows—ie whether any such facts and circumstances occurred in the

[4] Amendments are needed to IFRS 17 because the requirements for recognising and measuring insurance contracts in a transfer of insurance contracts that do not form a business and in a business combination within the scope of IFRS 3 are set out in IFRS 17. An amendment is needed to the paragraph in IFRS 3 that refers to the paragraphs in IFRS 17.

periods earlier than the transition date—because the same effect will be captured by applying the recoverability assessment at the transition date.

36. Accordingly, the staff recommend the Board clarify that on transition to IFRS 17 for the assets for insurance acquisition cash flows recognised at the transition date, an entity is not required to apply the recoverability assessment requirement in paragraph 28D of the Exposure Draft retrospectively—ie for the periods that occurred earlier than the transition date.

Question 7 for Board members
7. Do you agree the Board should clarify that on transition to IFRS 17 for the assets for insurance acquisition cash flows recognised at the transition date, an entity is not required to apply the requirement in paragraph 28D of the Exposure Draft retrospectively—ie for the periods that occurred earlier than the transition date?

Appendix A—example of recognising an asset for insurance acquisition cash flows at transition

A1. The following example illustrates the recognition of an asset for insurance acquisition cash flows at transition applying the fair value approach.

A2. For simplicity, in this example it is assumed that:

(a) the groups of contracts arise from one insurance contract that is further described in paragraph A3 of this paper; and

(b) the risk adjustment for non-financial risk is nil.

Fact pattern

A3. An entity issues an initial insurance contract before the IFRS 17 transition date. The entity expects a renewal of this contract after the transition date. The expected renewal of the contract is outside the initial contract boundary. At inception of the initial contract an entity pays commission of CU300[5] which relates directly to:

(a) the initial contract recognised before the transition date; and

(b) the expected renewal to be recognised after the transition date.

A4. The commission is non-refundable irrespective of whether the initial contract is renewed or not after the transition date.

A5. The following table summarises the cash flows arising from the insurance contract.

Expected and actual cash flows	Initial contract	Expected renewal of initial contract	Total
Premium	1,000	1,000	**2,000**
Claim	(600)	(600)	**(1,200)**
Commission	(300)[6]	-	**(300)**

Asset recognition

A6. Having incurred commissions of CU300 for the expected total premium of CU2,000, the entity in this example concludes that it would incur a commission of CU150 at the

[5] In this paper amounts are denominated in 'currency units' (CU).

[6] As noted in paragraph A3 of this paper, although the commission of CU300 is paid upon initial contract recognition before the transition date it also relates to the renewal of this contract after the transition date.

transition date to obtain the expected premium of CU1,000 for the renewal if the entity had not already paid insurance acquisition cash flows. Therefore, at transition the entity recognises an asset for insurance acquisition cash flows in the amount of CU150.

Contract measurement at transition	**Transition after commission paid[7]**	**Transition after premium on initial contract is paid**
Fulfilment cash flows	400	(600)
Contractual service margin	(250)	(250)
Asset for insurance acquisition cash flows	150	150
Total assets/(liabilities) recognised	**300**	**(700)**

A7. After the transition date the entity will include the asset for insurance acquisition cash flows of CU150 in the measurement of the renewed contract when the entity recognises the renewed contract applying paragraph 38 of IFRS 17. This results in a contractual service margin for the renewal of CU250cr (premium of CU1,000 less claim of CU600 less derecognised asset for insurance acquisition cash flows of CU150). If the entity had not recognised an asset for insurance acquisition cash flows at the transition date, the contractual service margin for the renewal once recognised would be CU400cr.

Contract measurement after transition	**Without the amendment requiring the entity to recognise the asset**	**With the amendment requiring the entity to recognise the asset**
Premiums	1000	1000
Claims	(600)	(600)
Net fulfilment cash flows	**400**	**400**
Asset for insurance acquisition cash flows	n/a	(150)
Contractual service margin on the initial recognition of the renewed contract	**400**	**250**

[7] Assuming the group of contracts is recognised at transition even though the premium has not yet been paid.