IFRS 17 issues – Acquisition cash flows
Amended draft for discussion

1 Current IASB requirements and TRG discussions ... 1
1.1 IFRS 17 ... 1
1.2 TRG ... 4
1.3 Tentative Board's decisions ... 4
1.4 Current understanding of the accounting treatment ... 7
2 Issue ... 8
2.1 Substance of the transactions ... 8
2.2 Illustration ... 8
EU Case study ... 8
Other EU illustrations of the issue raised ... 9
Macroeconomic approach ... 9
2.3 Consistency with other standards ... 9
Consistency with IFRS 15 ... 9
Consistency with US GAAP ASC 944 ... 9
3 Suggested solution (tentative) ... 10
3.1 Discussion ... 10
3.2 Suggested modifications to the standard ... 11
3.3 Suggested modifications (on the basis of the staff suggestion) ... 12
3.4 Impairment test ... 12
3.5 ANC suggested alternative solution ... 12

Draft for discussion

1 Current IASB requirements and TRG discussions

1.1 IFRS 17

1	IFRS 17.26:	[…] An entity is required to determine whether any contracts form a group of onerous contracts applying paragraph 16 before the earlier of the dates set out in paragraphs 25(a) and 25(b) if facts and circumstances indicate there is such a group.
2	IFRS 17.27:	An entity shall recognise an asset or liability for any insurance acquisition cash flows relating to a group of issued insurance contracts that the entity pays or receives before the group is recognised, unless it chooses to recognise them as expenses or income applying paragraph 59(a). An entity shall derecognise the asset or liability resulting from such insurance acquisition cash flows when the group of insurance contracts to which the cash flows are allocated is recognised (see paragraph 38(b)).
3	IFRS 17.35:	An entity shall not recognise as a liability or as an asset any amounts relating to expected premiums or expected claims outside the boundary of the insurance contract. Such amounts relate to future insurance contracts.
4	IFRS 17.59:	In applying the premium allocation approach, an entity: (a) may choose to recognise any insurance acquisition cash flows as expenses when it incurs those costs, provided that the coverage period of each contract in the group at initial recognition is no more than one year. (b) shall measure the liability for incurred claims for the group of insurance contracts at the fulfilment cash flows relating to incurred claims, applying paragraphs 33–37 and B36–B92. However, the entity is not required to adjust future cash flows for the time value of money and the effect of financial risk if those cash flows are expected to be paid or received in one year or less from the date the claims are incurred.
5	IFRS 17.109:	For insurance contracts other than those to which the premium allocation approach described in paragraphs 53–59 or 69–70 has been applied, an entity shall disclose an explanation of when it expects to recognise the contractual service margin remaining at the end of the reporting period in profit or loss, either quantitatively, in appropriate time bands, or by providing qualitative information. Such information shall be provided separately for insurance contracts issued and reinsurance contracts held.
6	Appendix A:	Insurance acquisition cash flows: Cash flows arising from the costs of selling, underwriting and starting a group of insurance contracts that are directly attributable to the portfolio of insurance contracts to which the group belongs. Such cash flows include cash flows that are not directly attributable to individual contracts or groups of insurance contracts within the portfolio.
7	IFRS17.B65:	Cash flows within the boundary of an insurance contract are those that relate directly to the fulfilment of the contract, including cash

Draft for discussion

flows for which the entity has discretion over the amount or timing. The cash flows within the boundary include:

(a) premiums (including premium adjustments and instalment premiums) from a policyholder and any additional cash flows that result from those premiums.

(b) payments to (or on behalf of) a policyholder, including claims that have already been reported but have not yet been paid (ie reported claims), incurred claims for events that have occurred but for which claims have not been reported and all future claims for which the entity has a substantive obligation (see paragraph 34).

(c) payments to (or on behalf of) a policyholder that vary depending on returns on underlying items.

(d) payments to (or on behalf of) a policyholder resulting from derivatives, for example, options and guarantees embedded in the contract, to the extent that those options and guarantees are not separated from the insurance contract (see paragraph 11(a)).

(e) an allocation of insurance acquisition cash flows attributable to the portfolio to which the contract belongs.

(f) claim handling costs (ie the costs the entity will incur in investigating, processing and resolving claims under existing insurance contracts, including legal and loss-adjusters' fees and internal costs of investigating claims and processing claim payments).The cash flows within the boundary include an allocation of insurance acquisition cash flows attributable to the portfolio to which the contract belongs.

(g) costs the entity will incur in providing contractual benefits paid in kind.

(h) policy administration and maintenance costs, such as costs of premium billing and handling policy changes (for example, conversions and reinstatements). Such costs also include recurring commissions that are expected to be paid to intermediaries if a particular policyholder continues to pay the premiums within the boundary of the insurance contract.

(i) transaction-based taxes (such as premium taxes, value added taxes and goods and services taxes) and levies (such as fire service levies and guarantee fund assessments) that arise directly from existing insurance contracts, or that can be attributed to them on a reasonable and consistent basis.

(j) payments by the insurer in a fiduciary capacity to meet tax obligations incurred by the policyholder, and related receipts.

(k) potential cash inflows from recoveries (such as salvage and subrogation) on future claims covered by existing insurance contracts and, to the extent that they do not qualify for recognition as separate assets, potential cash inflows from recoveries on past claims.

(l) an allocation of fixed and variable overheads (such as the costs of accounting, human resources, information technology and support, building depreciation, rent, and maintenance and utilities) directly attributable to fulfilling insurance contracts. Such overheads are allocated to groups of contracts using methods that

Draft for discussion

are systematic and rational, and are consistently applied to all costs that have similar characteristics.

(m) any other costs specifically chargeable to the policyholder under the terms of the contract.

8 IFRS 17.B125: An entity shall determine insurance revenue related to insurance acquisition cash flows by allocating the portion of the premiums that relate to recovering those cash flows to each reporting period in a systematic way on the basis of the passage of time. An entity shall recognise the same amount as insurance service expenses.

9 IFRS 17.BC 176: The measurement approach required in IFRS 17 represents a change from many previous accounting models that measure insurance contract liabilities initially at the amount of the premiums received, with deferral of insurance acquisition cash flows. Such models treat insurance acquisition cash flows as a representation of the cost of a recognisable asset, which, depending on the model, might be described as a contract asset or a customer relationship intangible asset. The Board concluded that such an asset either does not exist, if the entity recovers insurance acquisition cash flows from premiums already received, or relates to future cash flows that are included in the measurement of the contract. The Board noted that an entity typically charges the policyholder a price the entity regards as sufficient to compensate it for undertaking the obligation to pay for insured losses and for the cost of originating the contracts. Thus, a faithful representation of the remaining obligation to pay for insured losses should not include the part of the premium intended to compensate for the cost of originating the contracts.

10 IFRS 15.101: An entity shall recognise an impairment loss in profit or loss to the extent that the carrying amount of an asset recognised in accordance with paragraph 91 or 95 exceeds:

(a) the remaining amount of consideration that the entity expects to receive in exchange for the goods or services to which the asset relates; less

(b) the costs that relate directly to providing those goods or services and that have not been recognised as expenses (see paragraph 97).

11 IFRS 15.102: For the purposes of applying paragraph 101 to determine the amount of consideration that an entity expects to receive, an entity shall use the principles for determining the transaction price (except for the requirements in paragraphs 56–58 on constraining estimates of variable consideration) and adjust that amount to reflect the effects of the customer's credit risk.

12 IFRS 15.103: Before an entity recognises an impairment loss for an asset recognised in accordance with paragraph 91 or 95, the entity shall recognise any impairment loss for assets related to the contract that are recognised in accordance with another Standard (for example, IAS 2, IAS 16 and IAS 38). After applying the impairment test in paragraph 101, an entity shall include the resulting carrying amount of the asset recognised in accordance with paragraph 91 or 95 in the carrying amount of the cash-generating unit to which it belongs for the purpose of applying IAS 36 Impairment of Assets to that cash-generating unit.

Draft for discussion

13 IFRS 15.104: An entity shall recognise in profit or loss a reversal of some or all of an impairment loss previously recognised in accordance with paragraph 101 when the impairment conditions no longer exist or have improved. The increased carrying amount of the asset shall not exceed the amount that would have been determined (net of amortisation) if no impairment loss had been recognised previously.

1.2 TRG

14 Issues relating to acquisition cash-flows have been discussed at the TRG meeting in February 2018.

15 TRG 2018-02 AP04.4: For a group of contracts accounted for under:

(a) the general requirements, insurance acquisition cash flows are included in the measurement of the contractual service margin (see paragraph 38 of IFRS 17).

(b) the premium allocation approach, insurance acquisition cash flows reduce the liability for remaining coverage (see paragraph 55 of IFRS 17).

16 TRG 2018-02 AP04.14: Incorporating all available information by applying paragraph 33 of IFRS 17, the acquisition cash flows are triggered solely when the contract is initially written. Therefore, the acquisition cash flows are within the boundary of the initially written contracts.

17 TRG 2018-02 AP04.15: Additionally, even if the entity contemplates that most contracts will be renewed, applying paragraph 35 of IFRS 17, an entity cannot recognise part of the acquisition cash flows as an asset for future groups that will be recognised when the contracts are renewed. The renewals are outside the boundary of the initially written contracts. Applying this view, the acquisition cash flows are considered only in the measurement of the group to which the initially written contract belongs.

18 TRG 2018-02 Summary.19(e): When a "commission is paid unconditionally on the initially written contract (i.e. it is not refundable) […] it cannot be allocated to future groups and accordingly the specified commission is included in the measurement of the group to which the initially issued contract belongs".

Draft for discussion

1.3 Tentative Board's decisions

19 Issues relating to acquisition cash-flows have been discussed at the June 2018 and January 2019 IASB Board meetings.

20 During the June 2018 meeting, IASB Staff suggested the following amendments

21 IFRS 17.27: An entity shall recognise an asset or liability for any insurance acquisition cash flows relating to a group of ~~issued~~ insurance contracts issued or expected to be issued that the entity pays or receives before the group is recognised, unless it chooses to recognise them as expenses or income applying paragraph 59(a). An entity shall derecognise the asset or liability resulting from such insurance acquisition cash flows when the group of insurance contracts to which the cash flows are allocated is recognised (see paragraph 38(b)).

22 During the January 2019, IASB agreed on staff's recommendations.

23 IASB 2019-01.AP 2A.2: The staff recommend the International Accounting Standards Board (Board) amend IFRS 17 to require an entity to:

(a) allocate to any anticipated contract renewals part of the insurance acquisition cash flows directly attributable to newly issued contracts.

(b) recognise the insurance acquisition cash flows allocated to anticipated contract renewals as an asset applying paragraph 27 of IFRS 17 until the renewed contracts are recognised.

(c) assess the recoverability of the asset recognised according to paragraph 27 of IFRS 17 each period before the related contracts are recognised. The recoverability assessment would be based on the expected fulfilment cash flows of the related group of contracts.

(d) recognise a loss in profit or loss for any unrecoverable carrying amounts of the asset recognised by applying paragraph 27 of IFRS 17.

24 Tentative decisions as summarised for the March 2019 board meeting:

25 IASB 2019-03.AP 2.A3: The Board tentatively decided to:

(a) amend the terminology in paragraph 27 of IFRS 17 to include insurance acquisition cash flows relating to insurance contracts in the group yet to be issued.

(b) amend IFRS 17 to require an entity to allocate to any expected contract renewals their related part of the insurance acquisition cash flows directly attributable to newly issued contracts.

(c) amend IFRS 17 to require an entity to recognise the insurance acquisition cash flows allocated to expected contract renewals as assets applying paragraph 27 of IFRS 17 until the renewed contracts are recognised.

(d) amend IFRS 17 to require an entity to assess the recoverability of any asset recognised applying paragraph 27 of IFRS 17 each period before the related contracts are recognised. The recoverability assessment would be based on the expected fulfilment cash flows of the related group of contracts.

(e) amend IFRS 17 to require an entity to recognise a loss in profit or loss for any unrecoverable carrying amounts of the asset recognised by applying paragraph 27 of IFRS 17.

(f) amend IFRS 17 to require an entity to recognise in profit or loss the reversal of some or all of any such loss previously recognised when the impairment conditions no longer exist or have improved.

26 IASB 2019-03.AP 2G § 20: The proposed amendments would extend the period for which such an asset exists for acquisition cash flows related to renewals, and consequently is expected to increase the amount of the asset. Furthermore, the timing of when the entity expects that asset to be derecognised and included in the measurement of the group of contracts will vary depending on the entity's assumptions related to renewals such as the timing and number of renewals. Consequently, even though such assets existed in IFRS 17 before

Draft for discussion

the proposed amendments, the staff think it is appropriate to reconsider the related disclosure requirements.

27 IASB 2019-03.AP 2G § 22: The staff think that quantitative information about such insurance acquisition cash flows will be more important for users of financial statements after the proposed amendments to IFRS 17. This is because, as discussed in paragraph 20 of this paper, there could be a longer period until the cash flows are included in the measurement of a group of insurance contracts and hence a greater amount not yet included in that measurement compared to those arising under the existing IFRS 17 requirements. Therefore, the staff recommend the Board amend IFRS 17 to require specific reconciliation of the acquisition cash flows asset at the beginning and the end of the period and its changes, specifically recognition of any impairment loss or reversals.

28 IASB 2019-03.AP 2G § 25: Consequently, the staff recommend the Board amend IFRS 17 to require a quantitative disclosure, similar to that required in paragraph 109 of IFRS 17 on when the entity expects to recognise the contractual service margin in profit or loss (see paragraph 9 of this paper). This new disclosure would require an entity to disclose when it expects to include insurance acquisition cash flows as part of the initial measurement on recognition of a group of insurance contracts.

Draft for discussion

1.4 Current understanding of the accounting treatment

29 The accounting treatment of cash flows relating to the acquisition of insurance contracts is currently understood to be the following:

30 Before a group of contracts is issued or recognised, pre-recognition cash flows relating to the acquisition of issued contracts (or expected to be issued) are to be accounted for as an asset or a liability (IFRS 17.27). There is no specific requirement for an impairment of such an asset if the asset appears not recoverable, however the provisions relating to onerous contracts apply before recognition (IFRS 17.26).

31 At the time of recognition of the group of contracts, the asset or liability is transferred to the contractual service margin (IFRS 17.27). The post-recognition acquisition cash flows are part of the fulfilment cash flows and as a consequence affect also the contractual service margin (IFRS 17.B 65(e)).

32 According to the TRG staff analysis (TRG 2018-02 AP04.34), because acquisition costs incurred (pre and post-recognition) are paid unconditionally on the initially written contract, the commission is within the boundary of the initial contract and not to the group of contracts it belongs to and as a consequence may not relate to future groups to which the future contract once renewed would belong. This provision therefore prohibits keeping any asset or liability in relation to expected renewals irrespective of the underlying pricing assumptions.

33 In the provisions relating to the treatment of onerous contracts there is no specific provision allowing for excluding from the computation the acquisition costs related to expected renewals.

34 There is an option for expensing acquisition costs related to contracts accounted for under the premium allocation approach (IFRS 17.59(a)). This option applies to pre and post-recognition acquisition cash flows.

35 Provisions set out under IFRS 17.B65 indicate that acquisition cash flows can be allocated on a portfolio approach (e) and, as a general rule, do consider an allocation of fixed and variable overheads that are directly attributable (l). As a consequence acquisition cash flows include both direct and indirect costs as well as both external and internal costs.

36 On the whole, suggestions made in this document are in line with the suggestions made by IASB in the June 2018 and January 2019 meetings.

37 IASB also expressed the view that it would be appropriate to reconsider the disclosure requirements, since the proposed amendments would extend the period for which such an asset exists for acquisition cash flows related to renewals, and consequently is expected to increase the amount of the asset.

38 Accordingly following requirement have been tentatively added:

- A specific reconciliation of the acquisition cash flows asset at the beginning and the end of the period and its changes, specifically recognition of any impairment loss or reversals;
- A quantitative disclosure (similar to IFRS 17.109) on when the entity expects to include insurance acquisition cash flows as part of the initial measurement on recognition of a group of insurance contracts (in appropriate time bands).

Draft for discussion

2 Issue

2.1 Substance of the transactions

39 Costs incurred for initiating a new insurance contract with a policyholder (acquisition costs *per se)* are generally significantly higher than costs incurred following inception for servicing (contract renewal with information update, premium determination and collection, claims handling costs, customer relationship programme…) that contractual relationship in the context of an ongoing stream of renewals (which are most of the time concluded tacitly, i.e. the initial contract is ongoing unless one of the two parties - the policyholder or the insurer - takes the initiative of terminating the contractual relationship). Acquisition costs can be incurred before issuance of the contract, between issuance and recognition of the contract and after recognition. Incidentally ongoing servicing costs are incurred by the insurer either upon renewal (commissions for instance) or during the coverage period of the renewed contract and beyond (for instance claims handling costs).

40 The structure of commissions generally reflects such a situation. In other words, an analysis of costs incurred in the first period shall be performed in order to separate acquisition costs relating to the acquisition/creation of a new customer relationship from those relating to servicing the contractual relationship while performing the obligation. The former being in line with the definition of "insurance acquisition cash flows" in IFRS 17 as "costs of selling, underwriting and starting" insurance contracts attributable to a portfolio.

41 As a consequence, a fair representation of the substance of the transactions implies:

- linking acquisition costs relating to the creation of a new customer relationship with the period during which the insurer is actually expecting benefits from that relationship. This period includes the initial period as well as expected future periods derived from probable renewals, unless acquisition costs are financed by the policyholder via a different premium in the first year (which appears to be seldom the case);
- providing different accounting treatments for the two natures of costs incurred during the initial period: acquisition costs *per se* and servicing costs.

42 In addition, when reflecting the substance of the transaction:

- the recognition of an asset for acquisition costs relating to the creation of a new customer relationship does not depend on whether such costs have already been paid or not.
- the period to which acquisition costs relating to the creation of a new customer relationship are allocated does not depend on whether such costs are refundable or not. Acquisition costs are generally non-refundable.

2.2 Illustration

EU Case study

43 Participants to the EU case study have illustrated the impact of IFRS 17 requirements (and current TRG conclusions) on short term contracts in a motor portfolio applying the PAA. They noted that attributing the acquisition costs to new clients only can lead to identifying more onerous contracts (especially when the combined ratio of the underlying product is close to 100% as it is the case in the motor insurance sector). On the opposite, when spread over both new clients and renewals, no contract was identified as onerous. The latter better reflects the economic characteristics of the

Draft for discussion

business, as a significant part of contracts related to new clients is underwritten with relatively high levels of commission initially paid to the intermediary. These commissions are then financed by the renewals of these new contracts. If the volume of business is stable from one year to the other, similar results are expected, but there is an asset not accounted for. Conversely in the development phase of a new portfolio, the new standard would have a negative impact in the first years.

Other EU illustrations of the issue raised

44 In addition to the case study itself, preparers have also explained that, in the case of a business combination, the separate recognition of an intangible including customer lists (which may be broader than existing customers) is required under certain conditions (IFRS 3.B33) to properly reflect the substance that would otherwise be accounted for in the goodwill. This intangible incorporates as a basis, but not exclusively, the acquisition cash flows that can be allocated to contracts expected to be renewed.

Macroeconomic approach

45 An « order of magnitude » approach, for illustration purposes only, can be derived from considering a significant market and estimating what could be the acquisition costs to be allocated to expected contracts at balance sheet level. Assuming (i) that the contracts eligible to the PAA model represent a premium income of 100 b€, this amount being assumed fairly stable and paid on January 1st and (ii) that any initiated contract is likely to be renewed four times, every percentage point of acquisition costs incurred should give rise at market level to assets of 0,6 b€ (premium income/5 x (1%+0,8%+0,6%+0,4%+0,2%)). For five/seven percentage points the assets would be 3,0/4,2 b€ for such a market. Incidentally, it must be considered that the issue appears to be significant for contracts eligible to the PAA.

2.3 Consistency with other standards

Consistency with IFRS 15

46 With regards to "revenue", IFRS 15.99 states that incremental costs of obtaining a contract with a customer that are recognised as an asset "in accordance with paragraph 91 or 95 shall be amortised on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. The asset may relate to goods or services to be transferred under a specific anticipated contract (as described in paragraph 95(a))." Such an asset is also subject to impairments requirements according to IFRS 15.101-104.

Consistency with US GAAP ASC 944

47 Main features regarding acquisition costs under US-GAAP are as follows:

- ASC 944-30-25 stipulates that costs that may be deferred are limited and that only acquisition costs resulting from actually acquiring a contract (i.e. successful efforts) can be capitalised as DAC (deferred acquisition costs);
- The amortisation method is required to be applied consistently over the expected term of the related contracts;
- Under the new guidance, DAC is not subject to impairment testing. The principle is that deferred costs represent historical rather than future cash flows.

Draft for discussion

3 Suggested solution (tentative)

3.1 Discussion

48 The current standard already provides for:

- Recognising pre-recognition acquisition cash flows as a separate asset or a liability (IFRS 17.27);
- Recoverability / impairment test of such an asset tested according to IFRS 17.26;
- Allocating acquisition costs to different groups, even if not yet issued, when they relate to different portfolios (IFRS 17.B 65(e));
- Amortising acquisition costs (paid or not yet paid, i.e. in the fulfilment cash flows) for long duration insurance contracts over a duration that (i) may exceed one year and that (ii) may be less than the contractual term (taking into account the expected duration of a group, i.e. considering potential cancellation options). Accordingly, there is no "over-prudence" requiring immediately expensing such costs (the option offered to contracts with duration of less than one year is rather a practical expedient than prudence even if there is prudence as a consequence). In addition the amortisation period not only depends on the contractual period but also factors in certain economic behaviours (IFRS 17.B125).

49 The rationale of the accounting treatment is not convincing:

- BC 176 concludes on the reasons for not recognising acquisition costs as an asset for customer relationship in a way that does not correspond to the substance of the transactions:
  - "such an asset […] does not exist, if the entity recovers insurance acquisition cash flows from premiums already received". => there is confusion here between cash flows received from the initial premium and cash-flows expected from the future benefits linked with the asset. The comment does not consider the situation where the entity intends to recover insurance acquisition cash flows from premiums already received and from premiums expected to be received in the future following renewals. In addition, acquisition costs are related to a service provided by the intermediary facilitating insurance business. Once the commission is paid, the undertaking has the right to be part of the contract without paying further commissions. Thus, the asset reflects this right and needs to be allocated along all the service received, which is the whole relationship with the policyholder including future renewals. Therefore the asset does exist and reflects a right acquired by the undertaking.
  - "such an asset […] relates to future cash flows that are included in the measurement of the contract. The Board noted that an entity typically charges the policyholder a price the entity regards as sufficient to compensate it for undertaking the obligation to pay for insured losses and for the cost of originating the contracts". => assuming that such an asset only relates to the future cash flows of the contract (and potentially onerous because not properly priced) does not reflect the substance of the transaction (§ 2.1). This assumption leaves aside the situation where acquisition costs also relate to expected future renewals. The argument is not valid since the conclusion for not recognising a customer relationship asset is actually included in the assumption not to consider future renewals.

Draft for discussion

- Recognising an asset would be required applying IFRS 3.B 33 in case of a business combination.
- There is no conceptual linkage between the non-refundability of costs and the duration of the expected benefits of incurring them.
- Immediately expensing acquisition costs in IFRS 17.59(a) is less an “option” than a “practical expedient”.

3.2 Suggested modifications to the standard

50 An interpretation does not appear sufficient to properly address the issue.

51 Amending IFRS 17.27 in order to separately recognise as an asset acquisition costs that (i) actually relate to the creation of a new customer relationship and (ii) are expected to generate benefits for the initial period and subsequent periods, (iii) provided that test of impairment/ onerousness is performed and (iv) disregarding the date of payment.

52 It would consequently be also required to provide additional information in the notes on the major assumptions retained on expected renewals as well as on how the unallocated costs are allocated to renewals.

53 Finally, several solutions may be contemplated regarding the required valuation test of that asset:

(a) build on the “onerous” test included in IFRS 17.26 requiring “to determine whether ***any contracts*** form a group of onerous contracts applying paragraph 16 ***before*** [the recognition of that group] if facts and circumstances indicate there is such a group”. By contract, we may refer to the amendments proposed by the staff in IFRS 17.27 referring to “contracts issued or expected to be issued”. Accordingly, the standard as currently written would already require to assess whether a contract expected to be issued may be onerous before it is recognised.

(b) add an assessment on whether contract renewals happened as expected and where they did not, the associated unallocated acquisition costs being released to profit or loss immediately.

(c) add an impairment test.

54 There are two possible approaches: one centred on the idea of amortising an asset (if the renewal pattern changes the amortisation pattern should change, possibly only in case of a need for quicker amortisation) and the other centred on the idea of allocating costs (if the renewal pattern changes, more costs will then be borne by future groups of contracts with a risk of them becoming onerous).

55 In the approach discussed in January 2019, IASB has retained the amortisation approach and added an impairment test. Suggested amendment have not yet been presented but ANC also considered such a solution (see below § 60).

56 ANC also suggested an alternative simpler to apply but that would lead to recognise a loss based exclusively on a renewal pattern not happenning as expected i.e. even when the group is not onerous. Since acquisition cash flows are mainly an issue for short term contracts, e.g. PAA contracts, this alternative is providing a simple impairment test that does not require extensive analysis of future cash flows in order to assess whether the group of contracts becomes onerous.

57 If a full impairment test is preferred (as already expressed by IASB in its tentative decisions in January 2019), in our view, an onerous test should be performed only if the change in the renewal pattern introduces a significant risk of group of contracts becoming onerous.

Draft for discussion

3.3 Suggested modifications (on the basis of the staff suggestion)

58 IFRS 17.27 (marked-up): An entity shall recognise an asset or liability for any insurance acquisition cash flows relating to a group of ~~issued~~ insurance contracts issued or expected to be issued ~~that the entity pays or receives before the group is recognised~~, unless it chooses to recognise them as expenses or income applying paragraph 59(a). An entity shall derecognise the asset or liability resulting from such insurance acquisition cash flows ~~when~~ upon initial recognition of the group of insurance contracts and expected subsequent renewals to which the cash flows are allocated ~~is recognised~~ (see paragraph 38(b))

59 IFRS 17.27 (clean): An entity shall recognise an asset or liability for any insurance acquisition cash flows attributable to insurance contracts issued or expected to be issued, unless it chooses to recognise them as expenses or income applying paragraph 59(a). An entity shall derecognise the asset or liability resulting from such insurance acquisition cash flows upon initial recognition of the group of insurance contracts and expected subsequent renewals to which the cash flows are allocated (see paragraph 38(b))

3.4 Impairment test

60 The following specific requirement might be added if IFRS 17.26 as it stands is not considered sufficient to address the valuation test of the asset recognised according to IFRS 17.27(option B see § 53):

"An entity shall recognise an impairment loss of the carrying amount of the assets related to expected renewals to the extent such amount is related to future groups expected to be onerous.

3.5 ANC suggested alternative solution

61 The following specific requirement might be added if IFRS 17.26 as it stands is not considered sufficient to address the valuation test of the asset recognised according to IFRS 17.27 (option B see § 53):

"An entity shall assess whether contract renewals are likely to happen as expected and where they did not, the associated not yet allocated acquisition costs being then released to profit or loss immediately".

Draft for discussion