STAFF PAPER

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IASB® meeting

Project	**Amendments to IFRS 17 *Insurance Contracts***
Paper topic	Insurance acquisition cash flows for renewals outside the contract boundary

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Purpose

1. This paper discusses the requirements in IFRS 17 *Insurance Contracts* for insurance acquisition cash flows for contract renewals outside the contract boundary.

Summary of staff recommendations

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.

(e) 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.

Structure of the paper

3. This paper provides:

   (a) an introduction (paragraphs 4–6 of this paper);

   (b) an overview of the requirements in IFRS 17 and a summary of the Board's rationale for setting those requirements, including an overview of the Board's previous discussions (paragraphs 7–24 of this paper);

   (c) an overview of the concerns and implementation challenges expressed since IFRS 17 was issued (paragraphs 25–31 of this paper);

   (d) the staff analysis (paragraphs 32–42 of this paper); and

   (e) staff recommendations and question for Board members (paragraphs 43–44 of this paper).

Introduction

4. Entities pay agent commissions as part of their insurance acquisition cash flows for new contracts that the entities expect policyholders to renew in the future. In some cases, the commissions are higher than the premium that an entity charges for the new contract it relates to, but the entity is nevertheless willing to pay the commission because it expects the contract to be renewed in the future, sometimes more than once.

5. In some cases, part of the commission is refundable from the agent if the future renewals do not occur as expected. In other circumstances, the commission is non-refundable. A discussion at the Transition Resource Group for IFRS 17 (TRG) on non-refundable commissions identified that some stakeholders are concerned about the effect of the application of the IFRS 17 requirement to attribute such non-

refundable commissions only to the new contract. [1] That concern is the subject of this paper.

6. Appendix A to this paper includes an extract from the summary of the TRG meeting held on 6 February 2018.

IFRS 17 requirements and Board's rationale

Definition of insurance acquisition cash flows

7. Appendix A of IFRS 17 defines insurance acquisition cash flows as:

> 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.

8. Insurance acquisition cash flows arising from the costs of selling, underwriting and starting a group of insurance contracts include cash flows that are not directly attributable to individual insurance contracts or groups of insurance contracts as long as the cash flows are directly attributable to the portfolio of insurance contracts to which the group of insurance contracts belongs. Accordingly, insurance acquisition cash flows directly attributable to the portfolio of insurance contracts comprise:

   (a) insurance acquisition cash flows directly attributable to individual insurance contracts or groups of insurance contracts within the portfolio (if any); and

   (b) insurance acquisition cash flows not necessarily directly attributable to individual insurance contracts or groups of insurance contracts within the portfolio but that are directly attributable to the portfolio (if any).

9. Insurance acquisition cash flows, as defined in IFRS 17, may include amounts paid, and amounts expected to be paid in the future, for the acquisition of contracts, including:

[1] See Agenda Paper 4 for the TRG meeting held on 6 February 2018.

(a) external and internal costs (agent commissions and internal sales bonuses);

(b) incremental, direct and indirect costs (sales bonuses, salary of sales team and overhead costs of the sales department); and

(c) any acquisition costs related to issuing a portfolio of insurance contracts, including costs not directly related to the successful acquisitions of contracts.

10. Insurance acquisition cash flows include both acquisition cash flows paid at the inception of a contract and recurring commissions that are expected to be paid to intermediaries if a particular policyholder continues to pay the premium within the boundary of the insurance contract. Cash flow expectations reflect the extent to which amounts are refundable.

11. The approach for identifying insurance acquisition cash flows in IFRS 17 results from the Board's views, as explained in paragraphs BC182–BC183 of the Basis for Conclusions on IFRS 17, that:

(a) entities should not recognise different contractual service margins and expenses depending on the way they structure their acquisition activities (internal costs vs. outsourcing or costs that vary based on whether the acquisition of the contracts is successful), if such differences do not reflect economic differences between insurance contracts issued by the entities. This would not be the case if an entity included only insurance acquisition cash flows that are incremental at a contract level.

(b) entities typically price insurance contracts to recover not only incremental costs, but also other direct costs and a proportion of indirect costs incurred in originating insurance contracts. Given that entities measure and manage these costs for a portfolio of contracts, rather than for the individual contract, including insurance acquisition cash flows that are incremental at the portfolio level in the fulfilment cash flows of the insurance contracts would be consistent with identification of other cash flows that are included in the measurement of the contracts.

12. The concepts in paragraphs 24 and 33 of IFRS 17 are relevant[2] in deciding which insurance acquisition cash flows should be included in the measurement of a group, therefore:

    (a) insurance acquisition cash flows that are directly attributable to individual contracts (or a group) should be included only in the measurement of the group to which the individual contracts belong (or of that group) and not to other groups within the same portfolio.

    (b) insurance acquisition cash flows directly attributable to the portfolio, but not necessarily directly attributable to individual contracts (or a group), will need to be allocated in an appropriate manner to the groups within the portfolio. An entity shall use reasonable and supportable information to do so.

Measurement approach

13. Insurance acquisition cash flows are accounted for by including them in the cash flows expected to fulfil contracts in a group. This means that the contractual service margin of a group of insurance contracts is determined in a way that reflects the profit of the group of contracts after considering all the related cash flows, including the amount of insurance acquisition cash flows allocated to the group of contracts. The contractual service margin is recognised over the period as services are provided. There is no separate recognition of an insurance acquisition cash flows asset once the group of insurance contracts has been recognised.

14. To illustrate the measurement approach in IFRS 17, assume a group of insurance contracts is initially recognised with the following assumptions:

    (a) estimates of future premiums of CU900;

    (b) estimates of future claims of CU600;

    (c) insurance acquisition cash flows of CU90;

    (d) risk adjustment for non-financial risk of CU15; and

[2] See Appendix A to this paper for a summary of the TRG meeting held on 6 February 2018 with respect to Agenda Paper 4.

(e) the effect of discounting is immaterial.

The contractual service margin determined on initial recognition is CU195 (CU900 – CU600 – CU90 – CU15) and it will be recognised over the coverage period as services are provided. Assuming that the premiums and the insurance acquisition cash flows are paid on the initial recognition of the group, the insurance contract liability would be CU810 (fulfilment cash flows of CU615 and a contractual service margin of CU195).

15. Paragraph BC176 of the Basis for Conclusions on IFRS 17 explains the Board's view that an entity should not depict insurance acquisition cash flows as a separately recognised asset because 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 group of contracts. Including insurance acquisition cash flows for a group of contracts in the fulfilment cash flows of that group also results in the measurement of the insurance contract being a faithful representation of the obligation to pay for insured losses because the liability does not include the part of the premium intended to compensate for the cost of originating the contracts.

Consequences when there is a lack of recoverability

16. When insurance acquisition cash flows are included in the measurement of the group of contracts, the measurement model in IFRS 17 captures any lack of recoverability of insurance acquisition cash flows for a group of insurance contracts:[3]

(a) at initial recognition of a group of contracts—by including insurance acquisition cash flows in determining the contractual service margin. If the contractual service margin is less then zero, any cash outflows that are not recoverable are recognised immediately as an expense in profit or loss.

(b) over time—by remeasuring the fulfilment cash flows of the group. The measurement model captures any lack of recoverability automatically by

[3] See paragraphs 22–24 of this paper regarding insurance acquisition cash flows related to groups of insurance contracts yet to be recognised.

remeasuring the fulfilment cash flows and adjusting the contractual service margin. Any adjustment to the contractual service margin for unfavourable changes in the fulfilment cash flows would reduce the contractual service margin below zero and therefore be recognised as an expense in profit or loss.

Thus, it is not necessary to assess the recoverability of insurance acquisition cash flows by testing them separately for impairment.

The effect of insurance acquisition cash flows on revenue and expenses

17. The Basis for Conclusions on IFRS 17 explains the Board's view that insurance revenue should not be recognised when insurance acquisition cash flows are paid, often at the beginning of the coverage period, because at that time the entity has not satisfied any of the obligations to the policyholder under the contract.

18. Instead, IFRS 17 requires that insurance revenue is recognised as an entity provides coverage and other services arising from a group of insurance contracts. The total consideration for a group of insurance contracts includes amounts related to the provision of service as well as amounts related to insurance acquisition cash flows. The amount that relates to the insurance acquisition cash flows is allocated to each reporting period in a systematic way on the basis of passage of time. The same amount is recognised as insurance service expenses. Considering the example included in paragraph 14 of this paper, an amount of CU90 is related to insurance acquisition cash flows and will be recognised as revenue and insurance service expenses as coverage is provided.

19. The recognition of revenue and insurance service expenses at the same amount has a nil effect on the profit recognised in the period. However, the effect of insurance acquisition cash flows on profit is captured in the measurement and allocation of the contractual service margin. Considering the example in paragraph 14 of this paper, the effect of the insurance acquisition cash flows of CU90 is captured in the measurement of the contractual service margin of CU195, which is then recognised in profit or loss as coverage is provided.

Interaction with contract boundary

20. All cash flows within the boundary of a group of contracts are included in the fulfilment cash flows used to measure the group of contracts. The contract boundary limits the fulfilment cash flows to include only cash flows that arise from existing substantive rights and obligations, including those rights and obligations that arise from future contract renewals within the boundary of the contract. Thus, as described in paragraph 19 of this paper, the effect of insurance acquisition cash flows on profit is captured in the measurement and allocation of the contractual service margin over the coverage period including that of all future contract renewals within the contract boundary of the group of contracts.

21. However, depending on specific facts and circumstances and the related assessment of substantive rights and obligations, some contract renewals may be within the contract boundary of a newly issued contract and other contract renewals may not.

Insurance acquisition cash flows related to groups of insurance contracts yet to be recognised

22. A group of contracts is recognised at the earliest of the beginning of the coverage period of the group, when the first payment from a policyholder becomes due or when the group becomes onerous. The costs of originating insurance contracts are often incurred before the coverage period begins, and therefore may occur before the related group of contracts is recognised.

23. Paragraph 27 of IFRS 17 (reflecting amendments the Board has tentatively decided to propose as part of the annual improvement process[4]) requires an entity to recognise an asset or liability for any insurance acquisition cash flows relating to a group of insurance contracts issued or expected to be issued that the entity pays or receives before the group is recognised.[5] An entity is required to 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.

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[4] See Agenda Paper 2A of the June 2018 Board meeting.

[5] Unless the entity chooses to recognise them as expenses or income applying paragraph 59(a) of IFRS 17.

24. Paragraph BC145 of the Basis for Conclusions on IFRS 17 explains that the Board observed that although an asset or liability is recognised from the date that the insurance acquisition cash flows are incurred, entities do not need to update assumptions until the date the group of contracts qualifies for initial recognition and they are required to determine the contractual service margin at that later date. No impairment requirements were developed with respect to this asset considering the period of time it exists was intended to be short.

Concerns and implementation challenges expressed since IFRS 17 was issued

25. Some stakeholders are concerned about the effect of the application of the requirements of IFRS 17 in the following circumstances:

    (a) the entity pays agent commissions to sell renewable insurance contracts and those commissions meet the definition of insurance acquisition cash flows;

    (b) the commissions paid to the agent are not refundable; and

    (c) cash flows related to renewals arising from the newly issued insurance contracts are outside the boundaries of the newly issued contracts.

26. A submission to the TRG provided a specific fact pattern of the circumstances described in paragraph 25 of this paper, as follows:

    (a) a commission of CU200 is paid to an agent for each initially written insurance contract. The commission, once paid, is non–refundable.

    (b) the contract states that it has an unlimited coverage period. However, it is assumed that the boundary of the initially written contract applying IFRS 17 is one year.

    (c) the commission is greater than the premiums in the initially written contract's boundary.

    (d) the entity expects a substantial number of renewals over a number of years. Applying IFRS 17, those renewals are outside the initially written contract's boundary (for example, because the entity can reprice the contracts when they are renewed).

(e) if a group comprises only the contracts initially written in the annual period, an onerous loss will be recognised immediately in profit or loss. The cash outflows, including the commission of CU200, are greater than the cash inflows (the premium charged). Even if the commission were the only cash outflow, an onerous loss would be recognised because the commission is greater than the premium charged.

(f) for the renewed contracts the cash inflows, ie the premiums charged, are significantly greater than the cash outflows. It is likely that, if the commission were allocated partly to the contracts that are expected on renewal, the group to which the renewed contracts belong would not be loss making.

27. Applying the requirements of IFRS 17 to the circumstances described in paragraph 25 of this paper, these non-refundable commissions are directly attributable to the newly issued contracts and included in the measurement of the groups of the newly issued contracts. They are not attributable to future contract renewals, and therefore no asset is recognised.

28. Some stakeholders noted that the amount of the non-refundable commission could be higher than the entire premium of the newly issued contracts (as illustrated in paragraph 26 of this paper). Therefore, they noted that applying the requirements of IFRS 17 could mean that the groups of the newly issued contracts might be identified as onerous, even if the entity expects, based on its experience, to recover those cash flows when the contracts are renewed.

29. These stakeholders expressed concerns that this accounting treatment does not reflect what they regard as the economic substance of these transactions—that the entity has incurred substantial acquisition costs to obtain a contract, in the expectation that the contract will be renewed and that the acquisition costs will be recovered over the life of the contract and its renewals. That expectation exists even if the entity has no substantive right to compel the policyholder to renew the contract or a substantive obligation to provide the policyholder with services.

30. Some stakeholders stated that the requirements in IFRS 17 would result in inconsistent outcomes compared with other contracts within the scope of IFRS 15

Revenue from Contracts with Customers, for which the allocation of the acquisition costs considers expected future renewals of contracts.

31. Therefore, some stakeholders propose that IFRS 17 should be amended:

    (a) so that cash flows related to future renewals that do not arise from substantive rights and obligations that exist during the reporting period are included in the measurement of the group of newly issued contracts—this approach would extend the cash flows that are within the contract boundary; or

    (b) to align the treatment of insurance acquisition cash flows that relate to anticipated renewals with the requirements of IFRS 15. This could be achieved by:

        (i) allocating part of the insurance acquisition cash flows directly attributable to the group of newly issued contracts to future groups of contracts including the renewals of the newly issued contracts;

        (ii) recognising this part of the insurance acquisition cash flow as an asset (similar to insurance acquisition cash flows that are directly attributable to future contracts) and including that part in the measurement of the renewed contracts when they are recognised; and

        (iii) developing requirements for the impairment of the insurance acquisition cash flows asset (consistent with IAS 36 *Impairment of Assets* or IFRS 15*)*.

Staff analysis

32. The requirements of IFRS 17 result in the recognition of a loss in the circumstances described in paragraph 25 of this paper. This reflects that:

    (a) the agent commission paid by the entity does not have any guarantee of recoverability from the agent. In contrast to situations where the commission is refundable in the event that renewals do not occur,[6] the entity has an economic exposure.

(b) although the entity expects it will recover the non-refundable commission from expected contract renewals, the cash flows related to these contract renewals do not arise from existing substantive rights and obligations of the entity (they are outside the contract boundary).

(c) recognising a loss in these circumstances would be similar to recognising a loss in circumstances that the entity sells newly issued contracts at a significant discount in anticipation of future contract renewals. The accounting outcome is similar, reflecting similar economic circumstances, regardless of whether the cause for a loss is a significant discount provided to the policyholder or a significant commission paid to the agent. Both might result in onerous groups of contracts.

33. The staff however observe that:

(a) the outcome of applying the requirements of IFRS 17 in the circumstances discussed in paragraph 25 of this paper may not be viewed as reflecting the economic substance of these transactions. Entities may incur substantial acquisition costs to obtain a contract, in the expectation that the contract will be renewed and that the acquisition costs will be recovered over the life of the contract and its renewals.

(b) the outcome of applying the requirements in IFRS 17 may differ from that which may be achieved in arguably similar circumstances applying IFRS 15.

34. IFRS 15 requires an entity to recognise an asset for the incremental costs of obtaining a contract with the customer, if the entity expects to recover those costs. IFRS 15 defines the incremental costs as those that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained (for example, as sales commission). Costs that are incurred regardless of whether the contract was obtained are recognised as an expense when incurred (ie they are not considered to be incremental costs).

[6] In this case, the commission is directly attributable to newly issued contracts and to their anticipated renewals.

35. The asset recognised applying IFRS 15 relating to the incremental costs of obtaining a contract may relate to goods or services to be transferred under an anticipated contract that the entity can specifically identify, such as renewal of an existing contract. That asset is amortised on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. An impairment loss is recognised in profit or loss to the extent that the carrying amount of an asset for the incremental costs exceeds the remaining amount of consideration that the entity expects to receive in exchange for the goods or services to which the asset relates less the costs that relate directly to providing those goods or services.[7]

36. If, applying IFRS 15 to the circumstances in paragraph 25 of this paper, the entity recognised an asset for the non-refundable commission, the commission would not cause the contract to be onerous. The non-refundable commission would be amortised over a period including anticipated renewal periods of the contract, provided that it can be recoverable from the consideration less costs related to the contract, including its anticipated renewals.

37. Considering the two Standards more broadly, the staff note that the requirements of IFRS 15 for incremental costs of obtaining a contract that relate to an anticipated contract renewal are not directly comparable to the requirements in IFRS 17, for the following reasons:

    (a) the scope and definition of acquisition costs under the two Standards differ—IFRS 17 includes a wider range of costs compared to IFRS 15;

    (b) the unit of account under the two Standards differs—IFRS 17 specifies the group of contracts as the unit of account, while IFRS 15 specifies the accounting for an individual contract with a customer;[8]

    (c) the measurement approach required in IFRS 17 differs from IFRS 15. IFRS 15 treats acquisition costs as a representation of the cost of a

[7] Paragraphs 102–104 of IFRS 15 provide additional requirements with respect to the impairment test.

[8] Paragraph 4 of IFRS 15 states that an entity may apply the Standard to the portfolio of contracts with similar characteristics as a practical expedient if it reasonably expects the effects on the financial statements would not differ materially from applying the Standard to the individual contracts within that portfolio.

recognisable asset which is amortised over a period including anticipated renewal periods of the contract—IFRS 17 includes insurance acquisition cash flows in the measurement of the group of contracts (except before initial recognition of a group of contracts) and recognises these as an expense over the coverage period that includes renewals within the boundaries of the insurance contracts.

(d) applying IFRS 15, contract costs are subject to impairment testing whereas, under IFRS 17, lack of recoverability is captured through the remeasurement of the fulfilment cash flows, which automatically results in the recognition of an expense when a group of insurance contracts is onerous.

38. While the two Standards cannot be directly compared, the outcome of the accounting for the non-refundable commission described in paragraph 25 of this paper applying IFRS 17 and IFRS 15 could be different. Given the concerns raised about the information provided (as set out in paragraph 29 of this paper), the staff think that the Board could consider amending the requirements of IFRS 17 in a way that would align the requirements of IFRS 17 more closely with those of IFRS 15.

39. In evaluating the possible amendments, the staff considered the criteria set by the Board at its October 2018 meeting. Accordingly, the staff considered, but rejected the following possible amendments because they would add complexity and create internal inconsistencies within IFRS 17, thus reducing the usefulness of information to users of financial statements:

(a) aligning the treatment of *all* insurance acquisition cash flows as defined in IFRS 17 with *all* the requirements of IFRS 15 related to incremental costs to obtain a contract; and

(b) changing the contract boundary requirements to allow for cash flows that relate to future contract renewals that are outside the contract boundary to be inside the contract boundary.

40. The staff think that it is possible to amend IFRS 17 to require an entity to:

(a) allocate to any anticipated contract renewals part of the insurance acquisition cash flows that are directly attributable to newly issued contracts. This would result in the entity recognising that part of the insurance acquisition cash flows as an asset applying paragraph 27 of IFRS 17 until the renewed contracts are recognised.

(b) assess the recoverability of that asset, based on the fulfilment cash flows of the related contracts, each period before the related contracts are recognised. Consistent with the unit of account in IFRS 17, the staff recommend this assessment is performed *on a group of insurance contracts basis*—ie an entity will assess whether the fulfilment cash flows of the related group of contracts, comprising of anticipated contract renewals, is sufficient to recover the asset.

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

(d) recognise in profit or loss the reversal of some or all of such loss previously recognised when the impairment conditions no longer exist or have improved.

41. The staff think that the Board should not develop specific requirements on how to allocate part of the insurance acquisition cash flows to anticipated contract renewals because:

(a) it is unnecessary to add guidance to the concepts in paragraphs 24 and 33 of IFRS 17 which, as explained in paragraph 12 of this paper, provide guidance on cash flows allocation; and

(b) the benefits of developing additional specific requirements for insurance acquisition cash flows will not outweigh the costs related to the added complexity for preparers and users of financial statements.

42. The staff note that the amendment discussed in paragraph 40 of this paper would result in an entity recognising an asset for a wider range of costs compared to the costs that would have been recognised as an asset applying IFRS 15, which limit the asset to costs that are *incremental to a contract*. However, the staff do not recommend to seek consistency with IFRS 15 in this respect by limiting the insurance acquisition cash flows to costs incremental to a contract because:

    (a) the amendment discussed in paragraph 40 of this paper is consistent with the general approach to identifying insurance acquisition cash flows in IFRS 17 and the Board's views about what costs should be included in insurance acquisition cash flows as explained in paragraph 11 of this paper;

    (b) the staff think that modifying the definition of insurance acquisition cash flows will add complexity for both preparers and users of financial statements and may unduly disrupt implementation; and

    (c) the impairment assessment recommended by staff is expected to address concerns related to the recoverability of such assets.

Staff recommendations and a question for Board members

43. In the light of the concerns expressed by stakeholders relating to the treatment of insurance acquisition cash flows, the staff think that amending IFRS 17 as discussed in paragraph 40 of this paper:

    (a) could provide useful information for users of financial statements, without unacceptably reducing understandability of financial statements.

    (b) might not unduly disrupt implementation processes that are already under way given it is based on the existing requirements of IFRS 17. The definition of insurance acquisition cash flows, the contract boundary requirements and the unit of account of IFRS 17 will not be affected by the amendment discussed in paragraph 40 of this paper.

44. Therefore, the staff recommend that the Board propose an amendment to IFRS 17, as discussed in paragraph 40 of this paper.

Question for Board members
Do you agree the 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 according to 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. (e) 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.

Appendix A—Extract: summary of the TRG meeting held on 6 February 2018 with respect to Agenda Paper 4

Insurance acquisition cash flows paid on an initially written contract (Agenda Paper 4)

A1. Agenda Paper 4 addresses a submission received about how to account for insurance acquisition cash flows unconditionally paid when a contract is initially written (ie it is not refundable), the entity expects renewals outside of the contract boundary to occur and has written new business with that expectation. The submission provides a specific fact pattern for the question raised and this is considered in the accounting analysis.

A2. TRG members discussed the analysis in Agenda Paper 4 and observed that:

(a) insurance acquisition cash flows included in the measurement of a group are those 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.

(b) insurance acquisition cash flows directly attributable to the portfolio, but not necessarily directly attributable to individual contracts (or a group), will need to be allocated in an appropriate manner to the groups within the portfolio. An entity shall use reasonable and supportable information to do so.

(c) acquisition cash flows that are directly attributable to individual contracts (or a group) should be included only in the measurement of the group to which the individual contracts belong (or of that group) and not to other groups within the same portfolio.

(d) the requirements of IFRS 17, for example paragraph 27, require acquisition costs paid or received that are directly attributable to future contracts to be recognised as an asset or liability before the group to which those future contracts belong is recognised. Those acquisition costs include those that were paid or received before those contracts are issued. The TRG members also noted that the reference to ‘a group of issued insurance contracts’ in paragraph 27 of IFRS 17 is not intended to exclude insurance acquisition ash flows relating to contracts that have not yet been issued. It is intended to distinguish a group of insurance contracts issued from a group of reinsurance contracts held.

(e) in the specific fact pattern, the specified commission is paid unconditionally on the initially written contract (ie it is not refundable). Therefore, applying IFRS 17 requirements, 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.

(f) in the specified fact pattern provided in Agenda Paper 4, the initial contracts cannot be in the same group as contracts that are renewed during the same annual period applying the level of aggregation requirements. In this fact pattern the initial contracts are onerous contracts at initial recognition because, considering (e) above and allocating the acquisition cash flows to the initial group, the acquisition cash outflows are greater than the cash inflows included in the contract boundary. The renewed contracts belong to a different group because those contracts are not onerous at initial recognition.

A3. Some TRG members observed that in existing practice an entity would not consider the specified insurance acquisition cash flows in the determination of whether the initially written insurance contracts are onerous. Consequently, the requirements in IFRS 17 represent a change to existing practice which entities need to be aware for their implementation strategy.