



Exposure Draft

Proposed Accounting Guideline
Accounting Standards
for Private Enterprises

Accounting for Life Insurance Contracts with Cash Surrender Value

November 2023

This Exposure Draft closes for comments on January 31, 2024.

The Accounting Standards Board (AcSB) welcomes feedback from any interested party on any or all the questions posed in this Exposure Draft.

You can provide feedback to the AcSB on the proposals in a variety of ways:

- Participate in the [Connect.FRASCanada.ca](https://connect.frascanada.ca) surveys as they become available throughout the comment period.
- Write a response letter and upload it via our online form. Response letters can be addressed to:

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Note: Response letters will be posted online when this Exposure Draft closes for comment. Confidentiality can be requested when uploading letters via the online form.

This Exposure Draft reflects proposals made by the AcSB.

Comments are requested from those who agree with the Exposure Draft as well as from those who do not.

Helpful tips when participating in a consultation:

- Comments are most helpful if they relate to a specific paragraph or group of paragraphs found in the Exposure Draft.
- If a potential issue in the proposals is identified, it is encouraged to clearly explain the issue and include a suggested alternative supported by specific reasoning.
- It is important to note that the AcSB does not expect respondents to reply to every single question posed – only those that interested parties feel they can or should respond to.

HIGHLIGHTS

The AcSB proposes, subject to comments received following exposure, to issue a new ACCOUNTING GUIDELINE (AcG) 21, Accounting for Life Insurance Contracts with Cash Surrender Value, in Part II of the CPA Canada Handbook – Accounting. This new Guideline would also apply to not-for-profit organizations (NFPOs) using the standards in Part III of the Handbook, as relevant.

The proposed Guideline would address the accounting for life insurance contracts that contain a cash surrender component, from the policy owner's point of view. The proposed Guideline would provide guidance on recognition and measurement of cash surrender value of a life insurance policy and the presentation of policy premiums and changes in cash surrender value, if any. The proposed Guideline would also provide guidance on disclosures.

Background

In February 2022, the AcSB heard through consultations with its [Private Enterprise Advisory Committee](#) and [Not-for-Profit Advisory Committee](#) (together, the Advisory Committees) that accounting for life insurance contracts with cash surrender value is a high-priority topic. In March 2022, based on feedback that preparers experience application challenges, the Board decided to add accounting for insurance contracts with cash surrender value to its work plan as a future research project.

During subsequent conversations with the Advisory Committees, the AcSB heard that there is diversity in practice relating to the recognition, measurement, presentation and disclosure of life insurance contracts with cash surrender value. Current practice includes:

- (a) expensing policy premiums as paid and not recognizing cash surrender value as an asset;
- (b) recognizing cash surrender value as an asset at the cash surrender amount;
- (c) recognizing an asset at an amount other than the cash surrender amount in the contract;
- (d) recognizing the net of insurance policy payments and change in cash surrender value as an expense; and
- (e) recognizing the full policy payments as an expense and the change in cash surrender value as other income.

Based on this feedback, the AcSB decided to undertake a project to provide guidance on accounting for life insurance contracts with cash surrender value.

Main features of the Exposure Draft

The proposed Guideline:

- requires recognition of cash surrender value as an asset measured at the cash surrender amount, which is the amount that would be immediately realized by the policy holder if the policy were terminated prior to the death of the insured;
- requires presentation of policy premiums and changes in cash surrender value on a net basis, where a net debit is reported as expense and a net credit is reported as income; and
- establishes disclosure requirements, including disclosure of cash surrender value in aggregate for all life insurance policies with cash surrender value and the amounts of acquisitions and terminations of life insurance policies during the period.

Timing of adoption and transitional provisions

- The proposals would apply for annual periods beginning on or after January 1, 2025, with early application permitted.
- The Guidance would be applied retrospectively, but only to life insurance policies in place at the beginning of the earliest period presented.

Consequential amendments

The Exposure Draft proposes to amend CONTRIBUTIONS — REVENUE RECOGNITION, [paragraphs 4410.19-.20](#),¹ to require recognition of contributions at the cash surrender amount when a life insurance policy is contributed to an NFPO.

The Exposure Draft proposes to amend BUSINESS COMBINATIONS, Section 1582, to provide an exception to fair value measurement for cash surrender value acquired in a business combination.

The Exposure Draft proposes to amend COMBINATIONS BY NOT-FOR-PROFIT ORGANIZATIONS, Section 4449, to provide an exemption to fair value measurement for cash surrender value acquired in a combination between not-for-profit organizations accounted for as an acquisition.

Plans for finalizing the proposals

The AcSB will deliberate the proposals in light of comments received. Part of the deliberation process includes consultation with the Advisory Committees. The [Private Enterprise Advisory Committee](#) assists the Board in maintaining and improving accounting standards for private enterprises. The [Not-for-Profit Advisory Committee](#) provides input on circumstances unique to NFPOs when applying the potential Guideline. The Board will also consult with other interested and affected parties through its Working Groups.

The AcSB will provide updates about its deliberations in its decision summaries and on the [Insurance Contracts with Cash Surrender Value](#) project page.

Once the deliberation process is complete and the due process procedures for finalizing a Guideline are carried out, the AcSB plans to issue AcG-21 in the third quarter of 2024 if no significant changes are required to the proposals.²

Comments requested

While the AcSB welcomes comments on all aspects of the proposal in this Exposure Draft, it particularly welcomes comments on the questions listed below:

1. The AcSB proposes recognition of life insurance contracts with cash surrender value as an asset at the cash surrender amount, which is the amount that would be immediately realized by the owner and beneficiary upon termination of the policy prior to death of the insured.
 - (a) Do you agree with the proposal to recognize cash surrender value as an asset? If not, why not and what alternatives should the Board consider?
 - (b) Do you agree with the proposal to measure cash surrender value at the cash surrender amount at the balance sheet date? If not, why not and what alternatives should the Board consider?
2. The AcSB proposes recognition of cash surrender value as an asset only when the policy owner is also the beneficiary of the death benefit. Do you agree with this proposal? If not, why not and what alternatives should the Board consider?

¹ Material that links to the CPA Canada Handbook is available to subscribers only. However, all information needed to respond is provided in this Exposure Draft.

² Refer to the Due Process Specifically Related to Domestic Standards in the [AcSB's Standard-Setting Due Process Manual](#).

3. The AcSB proposes presentation of policy premiums and the change in cash surrender value on a net basis, with a net debit reported as an expense and a net credit reported as income. Do you agree with this proposal? If not, why not and what alternatives should the Board consider?
4. The AcSB proposes disclosure of the carrying amount of cash surrender value in aggregate for all life insurance policies with a cash surrender value. Also, the Board proposes disclosure of the amounts of acquisitions and terminations of life insurance policies with cash surrender value during the period. Do you agree with the proposal to require disclosure of:
 - (a) the carrying amount of cash surrender value in aggregate for all life insurance policies with a cash surrender value? If not, why not and what alternatives should the Board consider?
 - (b) the amounts of acquisitions and terminations of life insurance policies with cash surrender value during the period? If not, why not and what alternatives should the Board consider?
5. The AcSB proposes recognition of contributions of life insurance policies at the cash surrender amount on the date that the donor transfers ownership of the life insurance policy to the NFPO.
 - (a) Do you agree with this proposal? If not, why not and what alternatives should be Board consider?
 - (b) Are you aware of other planned giving, tax planning or other arrangements that the Board should consider including in the scope of the Guideline?
6. The AcSB proposes to provide exceptions to the fair value measurement requirements in BUSINESS COMBINATIONS, [Section 1582](#), and COMBINATIONS BY NOT-FOR-PROFIT ORGANIZATIONS, Section 4449, to require measurement of cash surrender value acquired in a combination at the cash surrender amount. Do you agree with this proposal? If not, why not and what alternative should the Board consider?
7. The AcSB proposes that the Guideline should be effective for fiscal years beginning on or after January 1, 2025. The Board also proposes that the Guideline be applied retrospectively to life insurance policies in place at the beginning of the earliest period presented.
 - (a) Do you agree that the proposed Guideline should apply for annual periods beginning on or after January 1, 2025, with earlier application permitted? If not, why not?
 - (b) Do you agree that the proposed Guideline should be applied retrospectively to life insurance policies in place at the beginning of the earliest period presented? If not, why not?

The deadline for providing your comment letter to the AcSB is January 31, 2024. Comment on this document by uploading your response letter via this [online form](#).

PROPOSAL

ACCOUNTING GUIDELINE

AcG-21

accounting for life insurance contracts with cash surrender value

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PURPOSE AND SCOPE

1. This Guideline establishes the accounting treatment for cash surrender value of a life insurance policy. This includes recognition and measurement of cash surrender value, presentation of policy premiums and change in cash surrender value, and related disclosures. This Guideline applies to an enterprise that is the owner and beneficiary of a life insurance policy with cash surrender value.
2. This Guideline only applies to life insurance policies with cash surrender value issued by a regulated insurance provider. This Guideline does not apply to insurance contracts where the reporting entity is the insurance provider.

DEFINITIONS

3. **Cash surrender value** is the amount that would be realized by the owner of a life insurance policy upon termination of the policy prior to death of the insured.
4. A **life insurance policy** is a contract between a regulated insurance provider and a policy owner where the insurance provider will pay a benefit upon death of an insured party.
5. The **owner** of a life insurance policy is the person or entity that has authority to terminate the policy and determine the beneficiary of the death benefit.

RECOGNITION

6. An enterprise shall recognize as an asset the cash surrender value of a life insurance policy when the enterprise becomes the owner and beneficiary of the underlying insurance contract.

MEASUREMENT

7. An enterprise shall initially and subsequently measure cash surrender value at the amount that would be immediately realized upon termination of the policy prior to the death of the insured as provided by the issuer of the policy.

PRESENTATION

8. An enterprise presents the difference between the aggregate policy premiums and the aggregate change in cash surrender value for the period on a net basis. A net credit is presented as income. A net debit is presented as an expense.

DISCLOSURE

9. An enterprise shall disclose:
 - (a) If not separately presented on the face of the balance sheet, the carrying amount of cash surrender value in aggregate for all insurance policies with cash surrender value and the caption in the balance sheet that includes cash surrender value;
 - (b) amounts of acquisitions and terminations of insurance policies with cash surrender value during the period; and
 - (c) if not separately presented on the face of the income statement, the caption in the income statement that includes change in cash surrender value.

EFFECTIVE DATE AND TRANSITION

10. This Guideline applies to annual financial statements relating to fiscal years beginning on or after January 1, 2025. Earlier application is permitted.
11. An enterprise shall apply this Guideline retrospectively, in accordance with ACCOUNTING CHANGES, Section 1506, but only to insurance policies that exist and have a cash surrender value on or after the beginning of the earliest period presented in the financial statements in which the enterprise first applies the Guideline.

CONSEQUENTIAL AMENDMENTS TO PARTS II AND III OF THE CPA CANADA HANDBOOK – ACCOUNTING

The following consequential amendments to Parts II and III of the Handbook have been identified. Additional text is denoted by underlining and deleted text by strikethrough.

BUSINESS COMBINATIONS, Section 1582

MEASUREMENT PRINCIPLE

- .21 Paragraphs 1582.A34-.A38 provide guidance on measuring the fair value of particular identifiable assets and a non-controlling interest in an acquiree. Paragraphs 1582.26-.33~~A~~ specify the types of identifiable assets and liabilities that include items for which this Section provides limited exceptions to the measurement principle.

EXCEPTIONS TO THE RECOGNITION OR MEASUREMENT PRINCIPLES

- .22 This Section provides limited exceptions to its recognition and measurement principles. Paragraphs 1582.23-.33~~A~~ specify both the particular items for which exceptions are provided and the nature of those exceptions. The acquirer shall account for those items by applying the requirements in paragraphs 1582.23-.33~~A~~, which will result in some items being:
 - (a) recognized either by applying recognition conditions in addition to those in paragraphs 1582.12-.13 or by applying the requirements of other Sections, with results that differ from applying the recognition principle and conditions; and
 - (b) measured at an amount other than their acquisition-date fair values.

Exceptions to the measurement principle

...

Cash surrender value of a life insurance policy

- .33A The acquirer shall measure cash surrender value of a life insurance policy of the acquiree at the amount that would be immediately realized upon termination of the policy prior to the death of the insured as provided by the issuer of the policy in accordance with ACCOUNTING GUIDELINE AcG-21, Accounting for Life Insurance Contracts with Cash Surrender Value.

CONTRIBUTIONS – REVENUE RECOGNITION, Section 4410**MEASUREMENT**

- .19 *Contributions should be measured at fair value at the date of contribution if fair value can be reasonably estimated, except for the cash surrender value of a life insurance policy.*
- .20 A contribution of assets other than cash or the cash surrender value of a life insurance policy would be measured at fair value. Fair value would be estimated using market or appraisal values. For contributed materials and services that are normally purchased, fair value would be determined in relation to the purchase of similar materials and services. An organization that receives a contribution of a life insurance policy with cash surrender value should measure the contribution at the cash surrender value on the date the organization becomes the owner and beneficiary of the insurance policy (see ACCOUNTING GUIDELINE AcG-21, Accounting for Life Insurance Contracts with Cash Surrender Value).³

COMBINATIONS BY NOT-FOR-PROFIT ORGANIZATIONS, Section 4449**ACCOUNTING FOR AN ACQUISITION**

recognizing and measuring the identifiable assets acquired and the liabilities assumed in the acquiree

...

Measurement principle

- .33 *The acquirer shall measure the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values.*
- .34 Paragraphs 4449.39-.45A specify the types of identifiable assets and liabilities that include items for which this Section provides limited exceptions to the measurement principle.

³ The proposed consequential amendment to [Section 4410](#) is subject to change depending on the ongoing [project](#) and Exposure Draft, [“Contributions – Revenue Recognition and Related Matters,”](#) issued in March 2023.

Exceptions to the recognition or measurement principles

- .35 *This Section provides limited exceptions to its recognition and measurement principles. Paragraphs 4449.36-.45A specify both the particular items for which exceptions are provided and the nature of those exceptions. The acquirer shall account for those items by applying the requirements in paragraphs 4449.39-.45A, which will result in some items being:*
- (a) recognized either by applying recognition conditions in addition to those in paragraphs 4449.28-.30 or by applying the requirements of other Sections, with results that differ from applying the recognition principle and conditions; and*
 - (b) measured at an amount other than their acquisition-date fair values.*

...

Exceptions to the Measurement Principle

...

Cash surrender value of a life insurance policy

- .45A *The acquirer shall measure cash surrender value of a life insurance policy of the acquiree at the amount that would be immediately realized upon termination of the policy prior to the death of the insured as provided by the issuer of the policy in accordance with ACCOUNTING GUIDELINE AcG-21, Accounting for Life Insurance Contracts with Cash Surrender Value.*

BASIS FOR CONCLUSIONS

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Introduction

- 1 This document summarizes considerations that were deemed significant by the AcSB in reaching its conclusion to develop AcG-21, Accounting for Life Insurance Contracts with Cash Surrender Value in Part II of the Handbook. This document sets out the reasons the Board undertook to develop the Guideline, the process of research and deliberation, the key decisions made and the principal reasons for adopting the positions taken and rejecting others.
- 2 In developing these proposals, the AcSB sought the advice of its [Private Enterprise Advisory Committee](#) and [Not-for-Profit Advisory Committee](#). The Advisory Committees include financial statement users, auditors and preparers, with a range of backgrounds and experience from across Canada. Advisory Committee members include representatives from organizations of differing sizes and in a variety of industries. The Board also sought the advice of its [Small Practitioners Working Group](#). Working Group members are experts who reflect the broad diversity of practitioners and small firms in Canada.

Background

- 3 During 2017 and 2018, the AcSB heard through consultations with its Advisory Committees that there is diversity in practice related to accounting for life insurance contracts with cash surrender value. Some enterprises do not recognize an asset for cash surrender value because FINANCIAL INSTRUMENTS, [Section 3856](#), specifically scopes out insurance contracts, including the cash surrender value of a life insurance policy. Other enterprises recognize an asset for cash surrender value based on the conclusion that it is an economic resource controlled by the entity and therefore meets the definition of an asset in FINANCIAL STATEMENT CONCEPTS, [paragraphs 1000.24-27](#).
- 4 In February 2022, in light of feedback from its Advisory Committees, the AcSB approved the [Insurance Contracts with Cash Surrender Value](#) project.
- 5 The AcSB considered if existing guidance could be applied to account for life insurance contracts with cash surrender value. Currently, neither Part II of the Handbook, Accounting Standards for Private Enterprises (ASPE) nor Part III of the Handbook, Accounting Standards for NFPOs specifically address accounting for cash surrender value of a life insurance contract. [Paragraph 3856.03\(d\)](#) excludes insurance contracts, including the cash surrender value of a life insurance policy.
- 6 The AcSB also considered other standard setters' work. Under IFRS® Accounting Standards, no prescriptive guidance is available for such contracts. Under U.S. generally accepted accounting principles, the amount that could be realized under the insurance contract is reported as an asset and the change in cash surrender value reported as an adjustment to premiums paid or recognized as income.
- 7 The AcSB sought feedback from its Advisory Committees to better understand current practice and challenges related to accounting for the cash surrender value in life insurance contracts.
- 8 Based on this feedback, the following issues with accounting for life insurance contracts with cash surrender value were raised:
 - (a) *Cash surrender value meets the definition of an asset:* Current guidance in [Section 3856](#) scopes out life insurance contracts with cash surrender value. However, some preparers conclude that cash surrender value meets the definition of an asset since the owner of the policy controls when the cash surrender value is realized. This results in diversity in practice as to recognition of cash surrender value as an asset.

- (b) *Measurement of cash surrender value asset:* Cash surrender value is often measured at the cash surrender amount, which is the amount that would be received upon termination of the policy prior to the death of the insured. This measurement is inconsistent with current guidance in [Section 3856](#) that requires initial measurement of financial instruments acquired in an arm's length transaction at fair value.
 - (c) *Presentation of insurance premiums and change in cash surrender value:* When an enterprise purchases a life insurance policy with cash surrender value, the insurance company allocates part of the premium payment to cost of insurance and the remainder to cash surrender value. The enterprise then earns investment income on the amounts allocated to cash surrender value. The policy holder cannot always identify the cost of the insurance portion of the premium. This results in diversity in practice for the recognition of insurance expense and change in cash surrender value in the income statement.
- 9 After considering the advice of its Advisory Committees, the AcSB explored potential solutions to address the concerns raised. Based on the information gathered, the Board decided that the project's objectives are to:
- (a) address the diversity in practice related to recognition and measurement of cash surrender value as an asset;
 - (b) address issues related to presentation of policy premiums and change in cash surrender value; and
 - (c) develop disclosure requirements that provide decision-useful information to users.

Applicability to NFPOs

- 10 NFPOs apply ASPE to the extent that Part II standards address topics not addressed in Part III of the Handbook.
- 11 In finalizing the Guideline and considering the feedback received, the AcSB will continue to consult its [Not-for-Profit Advisory Committee](#) on any unique considerations for NFPOs applying this Guideline. In particular, the Board will ensure guidance is provided for contributed life insurance contracts with cash surrender value.

Effects analysis

- 12 The proposed Guideline is not expected to change current practice for most enterprises that already recognize life insurance contracts with cash surrender value. The AcSB heard from its Advisory Committees that most entities that recognize cash surrender value as an asset measure the asset at the cash surrender amount. These proposals will result in a reallocation in the income statement for enterprises that currently report policy payments and change in cash surrender value at gross amounts. However, these proposals will not result in a change to net income or retained earnings for most enterprises.
- 13 The AcSB acknowledges that these proposals will result in changes for enterprises that currently do not recognize cash surrender value as an asset or that measure cash surrender value at an amount other than the cash surrender amount, such as fair value or amortized cost. These enterprises may experience challenges restating comparative information in accordance with the proposed Guideline. However, the Board has heard that information about cash surrender value can be obtained from the entity's insurance company. This information can be obtained with minimal effort and is easily verifiable, resulting in minimal additional effort to preparers and minimal additional assurance cost. Also, the proposed disclosure requirements are limited to information that is easily obtainable at minimal cost. As a result, the Board thinks the implementation of these proposals will not be unduly onerous to preparers.

- 14 The AcSB thinks that providing guidance on accounting for life insurance contracts with cash surrender value will reduce diversity in practice and support consistency of financial reporting. Also, the AcSB thinks users will benefit from better transparency and consistency in the financial statements. Further, the proposals may also reduce preparer and practitioner costs for some entities as they will eliminate the need to search for guidance from other jurisdictions or rely on non-authoritative guidance from sources other than the Board.

Purpose and scope

- 15 The AcSB sought to clarify the accounting for cash surrender value. The Board also sought to clarify the presentation of income or expense from insurance contracts with cash surrender value. The Board considered whether guidance on accounting for cash surrender value could be provided within an existing Handbook Section, such as Section 3856, or whether the guidance should be provided in a separate Section or Accounting Guideline.
- 16 The AcSB heard from its Advisory Committees that adding guidance on accounting for cash surrender value to [Section 3856](#) would add complexity to an already complex Section. Additionally, the Board heard there would be challenges applying the disclosure requirements related to risks and uncertainties to the cash surrender value asset.
- 17 The Advisory Committees suggested providing guidance in either a separate Handbook Section or Accounting Guideline so preparers could clearly identify the guidance applicable to life insurance contracts with cash surrender value compared to the guidance applicable to other financial instruments.
- 18 Although cash surrender value may meet the definition of a financial instrument, the AcSB was concerned that amending [Section 3856](#) would create application challenges as the recognition and measurement of cash surrender value would be inconsistent with the existing recognition and measurement guidance for financial instruments. As a result, the Board chose to propose guidance separate from Section 3856.
- 19 The AcSB considered whether to include the guidance in a separate Handbook Section in Part II of the Handbook, or by issuing an Accounting Guideline. As described in GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, [paragraph 1100.14](#), “Accounting Guidelines set out how existing Sections shall be applied in specific cases or the Board’s conclusions on other particular issues of concern with respect to financial reporting.”
- 20 The AcSB proposes to issue a new Guideline because it thinks having the guidance in one location would be simpler for stakeholders. Considering [paragraph 1100.14](#), the Board thinks the guidance fits the description of an Accounting Guideline because it provides the Board’s conclusions on specific financial reporting concerns.
- 21 The AcSB developed AcG-21 to address the issues identified with accounting for life insurance contracts with cash surrender value, as noted in paragraph 8 of the Basis for Conclusions. Specifically, the Guideline addresses recognition and measurement of cash surrender value as an asset, presentation of life insurance policy premiums and change in cash surrender value, and disclosures that will provide decision-useful information to users. The Board thinks that addressing these issues in a Guideline limited to life insurance contracts that include cash surrender value, from the policy owner’s perspective, will limit the risk of unintended consequences on other parts of Part II and Part III.
- 22 The AcSB considered if the scope of the Guideline should include non-life insurance contracts that may include cash surrender value. The Board has heard that there is diversity in practice for accounting for cash surrender value in a life insurance contract due to the scope exclusion in [paragraph 3856.03\(d\)](#). The Board has not heard that there are challenges or diversity in practice

related to accounting for non-life insurance contracts. Also, the Board thinks that expanding the scope to include non-life insurance products could result in preparers applying the Guideline to amounts that are not cash surrender value, such as potentially refundable premiums or the prepaid portion of insurance expense. However, restricting the scope of the Guideline to life insurance contracts would not prevent an enterprise from recognizing an amount resulting from a non-life insurance contract if the amount meets the definition of an asset. The Board has chosen to limit the scope of the Guideline to cash surrender value of a life insurance policy to avoid introducing confusion about accounting for other types of insurance products.

Recognition

Cash surrender value asset

- 23 Based on the research performed, the AcSB noted that some enterprises do not recognize cash surrender value as an asset based on the scope exclusion in paragraph 3856.3(d), which excludes insurance contracts, including the cash surrender value of a life insurance policy. Other preparers recognize cash surrender value as an asset based on the conclusion that it meets the definition of an asset in [paragraphs 1000.24-27](#).
- 24 The AcSB concluded that cash surrender value in a life insurance policy meets the definition of an asset because:
 - (a) the cash surrender value provides a future cash flow that the enterprise can access at any time;
 - (b) the enterprise can control access to the cash surrender value in that only the enterprise can access the cash flow; and
 - (c) the transaction giving rise to the right to the benefit occurred when the enterprise purchased the policy or received an existing policy (as a transfer from the owner or as a contribution).
- 25 The AcSB heard that cash surrender value is an asset that lenders will collateralize for lending purposes. The Board proposes that cash surrender value should be initially recognized as an asset at the cash surrender amount on the date that the enterprise becomes the owner and beneficiary of the insurance policy.
- 26 The AcSB considered whether the owner of the policy would also need to be the beneficiary of the death benefit for cash surrender value to meet the definition of an asset. The Board has heard that some life insurance policies pay the cash surrender value to the policy owner and the death benefit to the beneficiary on death of the insured. Other life insurance policies pay only the death benefit on death of the insured and any cash surrender value reverts to the life insurance company. In these types of policies, if the policy owner is not also the beneficiary, the cash surrender value asset is contingent on the owner terminating the policy before the death of the insured. The Board determined that cash surrender value would not meet the definition of an asset when the access to cash surrender value is contingent on termination of the policy before the death of the insured.
- 27 The AcSB considered if it would be possible to limit the Guideline's scope to only life insurance policies where the entity will receive the cash surrender value upon death of the insured. The Board determined that this would require preparers to analyze each insurance contract to determine whether cash surrender value is paid or forfeited on death. The Board thinks this analysis may be unnecessarily complex and difficult to perform for many organizations. The Board also thinks this requirement would be challenging for assurance providers to analyze.
- 28 The AcSB determined that requiring the policy owner to also be the beneficiary will ensure that cash surrender value is only recognized as an asset when the owner is guaranteed to receive the cash surrender value, including on the death of the insured. This limitation will also reduce complexity to preparers by eliminating the need to analyze insurance policies to determine the disposition of cash surrender value on death of the insured.

Measurement

- 29 The AcSB considered the following alternative bases under which cash surrender value could be measured:
- (a) cost (either the total premiums paid or the premiums component specific to the cash surrender amount);
 - (b) fair value; or
 - (c) cash surrender amount.

Cost

- 30 The AcSB considered if the initial cost of the asset could be the total insurance premiums paid. Alternatively, the cost could be the amounts contributed by the policy owner less the portion specific to the cost of insurance. Based on consultation with the Advisory Committees, the Board heard that the enterprise may not have the information readily available to determine the contributed amounts for the insurance versus the cash surrender value. As a result, the Board determined that using cost as the measurement basis for the asset would be unfeasible.

Fair value

- 31 The AcSB considered if cash surrender value could be measured at fair value. The Board noted that determining fair value of cash surrender value could require a complex analysis of underlying assumptions about future cash flows and discount rates. The Board thinks that measuring fair value of cash surrender value would not provide sufficient additional decision-useful information to justify the cost and complexity of determining fair value. The Board thinks fair value would not be relevant to users of financial statements, particularly lenders that do not rely on the fair value of the contract in their lending decisions as lending is generally based on a percentage of the cash surrender amount.

Cash surrender amount

- 32 The AcSB considered whether cash surrender value could be measured at the cash surrender amount specified in the insurance contract or provided by the insurance provider. Cash surrender amount represents the amount that the policy holder would receive if the policy were terminated prior to the death of the insured. The Board noted that this amount is readily available from the insurance provider and the amount can be verified with minimal effort or cost. Also, the Board noted that this amount may provide the most decision-useful information as lending decisions are generally based on a percentage of the cash surrender amount. The AcSB concluded that cash surrender value should be measured at the cash surrender amount.

Presentation

Change in cash surrender value and insurance premiums

- 33 The AcSB sought advice from its Advisory Committees on current practice for reporting policy premiums and change in cash surrender value. The Board heard that there is diversity in practice. Current presentation methods include:
- (a) presenting change in cash surrender value as income and policy premiums as insurance expense at gross amounts;
 - (b) presenting the net of insurance policy premiums and change in cash surrender value as insurance expense. When change in cash surrender value exceeds policy premiums, the enterprise would report a net credit in insurance expense; and
 - (c) presenting the net of insurance policy premiums and change in cash surrender value as other income when the net amount is a credit and as an expense when the net amount is a debit.

- 34 The AcSB heard that presenting policy premiums and change in cash surrender value at gross amounts overstates insurance expense. A portion of the policy payment may be allocated to cash surrender value by the insurance provider; therefore, the policy payment is not entirely an expense. Similarly, change in cash surrender value would be overstated as the change in cash surrender value consists of investment income earned and contributions from policy premiums.
- 35 The AcSB heard that presenting a net amount in insurance expense is reasonable in the early years of the insurance contract when premiums exceed the change in cash surrender value. However, in later years of the contract, the change in cash surrender value often exceeds the premiums paid resulting in a net credit. The Board thinks that presenting a credit to insurance expense in periods when change in cash surrender value exceeds policy premiums would be confusing to users.
- 36 Consistent with this feedback, the AcSB proposes to require recognition of policy premiums and change in cash surrender value on a modified net basis. Under this method, the net of policy premiums and change in cash surrender value is reported as income when the amount is a net credit and as an expense when the amount is a net debit. The Board thinks this method avoids the confusion created by presenting a credit to insurance expense. Also, the Board thinks this method eliminates the concern that recognizing change in cash surrender value and policy premiums at gross amounts may overstate income and expense.

Classification of cash surrender value asset

- 37 The AcSB considered whether preparers would benefit from guidance on classification of cash surrender value as either a current or long-term asset. Classification will depend on whether the policy owner intends to maintain or terminate the policy. The Board thinks preparers will apply judgment and consider the circumstances and intention for each policy when determining the appropriate classification of a cash surrender value asset. The Board has heard that guidance in CURRENT ASSETS AND CURRENT LIABILITIES, [Section 1510](#), can be applied to cash surrender value when determining classification in the balance sheet. As a result, the Board thinks it is not necessary to provide guidance on classification of the asset.

Disclosure

- 38 The AcSB sought the advice of its Advisory Committees on what disclosures would provide decision-useful information. The Board heard that life insurance contracts with cash surrender value are often not visible in the financial statements. The Advisory Committees told the Board that extensive disclosures would be onerous to preparers and would not provide additional decision-useful information as users will often request specific details of insurance policies when relevant to their decisions. The Board also heard that disclosing the captions in the financial statements that include cash surrender value and change in cash surrender value are useful for trending and comparison purposes and to evaluate the performance of the cash surrender value asset.
- 39 The AcSB considered this feedback and determined that disclosing the existence of life insurance policies with cash surrender value would prompt users to request additional details when relevant to their decision making. The Board proposes to require disclosure of the carrying amount of cash surrender value, in aggregate, for all insurance policies with cash surrender value.
- 40 The AcSB heard that cash surrender value is often combined with investments or other assets and policy premiums and changes in cash surrender value are often combined with other income or insurance expense. The Board considered whether requiring separate presentation on the face of the income statement for the net of policy premiums and change in cash surrender value would provide decision-useful information. The Board heard that disclosing these amounts would be useful for trending analysis. However, the Board determined that as other similar amounts (e.g., insurance expense) are not required to be presented separately on the face of the financial statements, it would not be appropriate to require separate presentation of these amounts. To ensure that users can identify the location of these amounts in the financial statements, the Board proposes to require disclosing the captions in the financial statements, if not presented separately.

- 41 The AcSB has also heard that disclosing the amounts of transactions affecting cash surrender value would provide useful information for trending and comparison purposes. The change in cash surrender value may include:
- (a) the portion of policy premiums allocated to cash surrender value by the insurance provider;
 - (b) investment gains and losses on cash surrender value; and
 - (c) acquisitions of new insurance policies and terminations of existing policies.

To provide information on the transactions that contribute to the change in cash surrender value, the Board proposes to require disclosure of the amounts of acquisitions and terminations of life insurance policies with cash surrender value during the period. This proposed disclosure will help users understand the enterprise's transactions and how they contributed to the change in the cash surrender value balance.

- 42 The AcSB considered whether disclosing the measurement basis of cash surrender value would provide useful information for readers to understand the financial statements. The proposals require cash surrender value to be measured at the cash surrender amount and do not provide options or alternative measurement bases. The Board has not proposed to require disclosing the measurement basis since all cash surrender value assets will be measured in the same way.

Contributed insurance contracts

- 43 The AcSB heard that NFPOs often receive donations of life insurance policies with cash surrender value as part of planned giving initiatives. The Board also heard from its [Not-for-Profit Advisory Committee](#) that it is unclear whether an NFPO should recognize a contribution upon receipt of a life insurance policy with cash surrender value. Some NFPOs recognize a contribution upon receipt while others recognize a contribution only upon receipt of the death benefit.
- 44 The AcSB first considered if an NFPO should recognize a contribution upon receipt of a life insurance policy with cash surrender value. Given that the cash surrender value is an asset the entity controls, the Board concluded that the asset should be recognized on the date the donor transfers ownership of the policy to the NFPO. To remove ambiguity and ensure guidance is consistently applied, the Board proposes recognition of a contribution at the cash surrender amount on the date ownership of the policy is transferred to the organization. Development of this guidance will be coordinated with the current [Contributions – Revenue Recognition and Related Matters](#) project.

Business combinations and combinations between NFPOs

- 45 The AcSB considered whether consequential amendments would be required for BUSINESS COMBINATIONS, [Section 1582](#), or RELATED PARTY TRANSACTIONS, [paragraph 3840.44\(b\)](#), to provide guidance on measurement of cash surrender value in a business combination. The Board also considered if consequential amendments would be required for COMBINATIONS BY NOT-FOR-PROFIT ORGANIZATIONS, Section 4449, to provide guidance on measurement of cash surrender value in a combination between NFPOs.
- 46 [Paragraph 3840.44\(b\)](#) requires measurement of acquired assets at their carrying amount in the balance sheet of the transferred business. Carrying amount of cash surrender value acquired in a combination accounted for in accordance with [paragraph 3840.44\(b\)](#) will be the amount recognized in the balance sheet of the transferred business. The Board thinks that the requirement in the proposed Guideline to measure cash surrender value at the cash surrender amount will not create problems for preparers applying [paragraph 3840.44\(b\)](#) as the carrying amount at the date of the combination will be easily obtainable. As a result, the Board has not proposed an amendment to [paragraph 3840.44\(b\)](#).

- 47 [Section 1582](#) requires measurement of identifiable assets at their acquisition-date fair values. The AcSB thinks that fair value can be determined as part of the business valuation process. However, the Board identified that measurement at fair value on acquisition may cause challenges when cash surrender value is subsequently measured at the cash surrender amount. As a result, the Board proposed to amend Section 1582 to provide an exception to the requirement to measure acquired assets at fair value for cash surrender value of a life insurance policy acquired in a business combination.
- 48 [Paragraph 4449.11](#) requires the reporting entity in a merger between NFPOs to measure assets in its combined financial statements at the amounts reported in the balance sheets of the combining entities as of the combination date. The AcSB thinks that the requirement in the proposed Guideline to measure cash surrender value at the cash surrender amount will not create problems for preparers applying paragraph 4449.11 as the cash surrender amount at the date of the combination will be easily obtainable. As a result, the Board has not proposed an amendment to Section 4449 for measurement of cash surrender value in a combination by NFPOs accounted for as a merger.
- 49 [Paragraph 4449.33](#) requires the acquirer to measure identifiable assets acquired in an acquisition between NFPOs at their acquisition-date fair values. For reasons consistent with the discussion on Section 1582 above, the AcSB proposed to amend Section 4449 to provide an exception to the requirement to measure acquired assets at fair value for cash surrender value of a life insurance policy acquired in a combination between NFPOs accounted for as an acquisition.

Effective date and transition

- 50 The AcSB plans to issue proposed AcG-21 into Part II of the Handbook on September 1, 2024, if no significant changes are required to the proposed Guideline following feedback from interested and affected parties on the Exposure Draft.
- 51 Determining an effective date for the proposed Guideline is an important step in the AcSB's due process. The Board recognizes the Guideline's importance given the prevalence of insurance contracts that include cash surrender value.
- 52 Considering the transitional provisions discussed below, the AcSB proposes AcG-21 be effective for fiscal years beginning on or after January 1, 2025. Based on the feedback heard that the proposals would result in limited change in practice, the Board thinks the adoption period is appropriate. The Board also proposes permitting earlier application, which includes financial statements not yet authorized for issue.
- 53 The AcSB proposes that the Guideline be applied retrospectively to insurance policies that exist and have a cash surrender value on or after the beginning of the earliest period presented in the financial statements in which the enterprise first applies the Guideline. The Board thought that applying the proposed Guideline would result in improvements to financial reporting and that retrospective application would be useful since it would provide comparable information for the prior period.

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