



The Journal is running a series of updates on IFRS, IAS, IFRIC and SIC. In this issue, Mr. Mohammad Samsul Arefin ACMA (UK), CGMA, FCMA has taken the responsibility to update the reflection on some latest pronouncements by IASB in their website. Mr. Arefin is a fellow member of the Institute of Cost and Management Accountants of Bangladesh (ICMAB). He is also a Chartered Global Management Accountant (CGMA) qualified from CIMA, UK.

Mr. Arefin has been working as Head of Internal Audit & Compliance in RAK Ceramics (Bangladesh) Limited. Before joining RAK, he also worked in BASF (Bangladesh) Limited and Novartis (Bangladesh) Limited in the field of Finance, Supply Chain Management and Procurement. He also successfully worked in several international projects in Malaysia & India undertaken by his employing organization.

IFRS Update

Amendments to IFRS 17 Insurance Contracts

The International Accounting Standards Board met on 9 April 2019 to consider possible amendments to IFRS 17 Insurance Contracts. The Board addressed the possible amendments in the following order:

- overview of the amendments to IFRS 17
- due process steps, including permission for balloting
- sweep issues
- Annual Improvements

Details about IFRS 17:

IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2021 with earlier application permitted as long as IFRS 9 and IFRS 15 are also applied.

Insurance contracts combine features of both a financial instrument and a service contract. In addition, many insurance contracts generate cash flows with substantial variability over a long period. To provide useful information about these features, IFRS 17:

- combines current measurement of the future cash flows with the recognition of profit over the period that services are provided under the contract;

- presents insurance service results (including presentation of insurance revenue) separately from insurance finance income or expenses; and
- requires an entity to make an accounting policy choice of whether to recognize all insurance finance income or expenses in profit or loss or to recognize some of that income or expenses in other comprehensive income.

The key principles in IFRS 17 are that an entity:

- identifies as insurance contracts those contracts under which the entity accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder;
- separates specified embedded derivatives, distinct investment components and distinct performance obligations from the insurance contracts;
- divides the contracts into groups that it will recognize and measure;
- recognizes and measures groups of insurance contracts at:

- i. a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset)
- ii. an amount representing the unearned profit in the group of contracts (the contractual service margin);
- recognizes the profit from a group of insurance contracts over the period the entity provides insurance cover, and as the entity is released from risk. If a group of contracts is or becomes loss-making, an entity recognizes the loss immediately;
- presents separately insurance revenue (that excludes the receipt of any investment component), insurance service expenses (that excludes the repayment of any investment components) and insurance finance income or expenses; and
- discloses information to enable users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity.

Draft of proposed amendment:

As discussed in the meeting it is expected that the exposure draft of proposed amendments to IFRS 17 will be published at the end of June 2019.

Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

The International Accounting Standards Board met on 10 April 2019 to discuss the staff's analysis of feedback on the Exposure Draft Accounting Policies and Accounting Estimates (Proposed amendments to IAS 8); and to discuss the staff's preliminary views on the project's direction.

Summary of the proposed amendments:

The proposed amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors aim to help entities distinguish accounting policies from accounting estimates. More specifically, the proposed amendments would clarify:

- (a) how accounting policies and accounting estimates relate to each other, by:
 - explaining that an entity uses accounting estimates in applying accounting policies; and
 - making the definition of accounting policies clearer and more concise.
- (b) that selecting an estimation technique, or valuation technique, used when an item in the financial statements cannot be measured with precision, constitutes making an accounting estimate; and
- (c) that, in applying IAS 2 Inventories, selecting the first-in, first-out (FIFO) cost formula or the weighted average cost formula for interchangeable inventories constitutes selecting an accounting policy.

Background:

At the Board's March 2018 meeting, a paper was presented summarizing the feedback on the Exposure Draft.

Several respondents said the proposed amendments would help clarify the distinction between accounting policies and accounting estimates. However, several respondents also:

- (a) raised concerns on particular aspects of the proposed amendments;
- (b) suggested providing additional clarity in particular areas; and
- (c) suggested adding illustrative examples.

Some respondents also asked whether finalizing the proposed amendments would lead to benefits that outweigh the cost.

At the Board's July 2018 meeting, an update was provided and discussed next steps for the project.

Definitions of Accounting Policies:

Accounting policies are the specific principles, measurement bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

Definitions of Accounting Estimates:

As a result of the uncertainties inherent in business activities, many items in financial statements cannot be measured with precision but can only be estimated. Thus, an entity may need to use accounting estimates in applying its accounting policies for some items. Estimation involves judgements. Accounting estimates are based on the latest available, reliable information. For example, estimates may be required of:

- (a) bad debts;
- (b) inventory obsolescence;
- (c) the fair value of financial assets or financial liabilities;
- (d) the useful lives of, or expected pattern of consumption of the future economic benefits embodied in, depreciable assets; and
- (e) warranty obligations

Next step:

The Board was not asked to make any decisions but will continue to discuss the project at future meetings

Summary of changes in IFRS

The following table quickly summarizes all the changes that are recently adopted and will become applicable in the near future.

The changes in the table are **arranged by the standards**, not by the date.

Standard	Issued	Effective date	Subject of change
IFRS 1	8 Dec 2016	1 Jan 2018	Redundant paragraphs deleted
IFRS 2	20 Jun 2016	1 Jan 2018	Amended by classification and measurement
IFRS 3	12 Dec 2017	1 Jan 2019	Clarification
IFRS 3	22 Oct 2018	1 Jan 2020	New definition of "Business"
IFRS 4	12 Sep 2016	1 Jan 2018	Provisions to ease different effective dates of IFRS 9 and IFRS 17
IFRS 9	24 Jul 2014	1 Jan 2018	Complete IFRS 9 applies, including ECL model
IFRS 9	12 Sep 2016	1 Jan 2018	Provisions to ease different effective dates of IFRS 9 and IFRS 17
IFRS 9	12 Oct 2017	1 Jan 2019	Classification of Prepayment Features with Negative Compensation
IFRS 11	12 Dec 2017	1 Jan 2019	Clarification
IFRS 15	11 Sep 2015	1 Jan 2018	Complete IFRS 15 is effective
IFRS 15	12 Apr 2016	1 Jan 2018	Clarifications
IFRS 16	13 Jan 2016	1 Jan 2019	Complete IFRS 16 is effective
IFRS 17	18 May 2017	1 Jan 2021	Complete IFRS 17 is effective
IAS 1	31 Oct 2018	1 Jan 2020	New definition of "Material"
IAS 8	31 Oct 2018	1 Jan 2020	New definition of "Material"
IAS 12	12 Dec 2017	1 Jan 2019	Clarification
IAS 19	7 Feb 2018	1 Jan 2019	Amended by "Plan Amendment, Curtailment or Settlement"
IAS 23	12 Dec 2017	1 Jan 2019	Clarification related to specific borrowings after the related asset is ready
IAS 28	8 Dec 2016	1 Jan 2018	Clarification
IAS 40	8 Dec 2016	1 Jul 2018	Amended by transfers of investment property