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 has been working as Head of Internal Audit & Compliance in RAK Ceramics (Bangladesh) Limited.

IFRS Update

The International Accounting Standard Board(IASB) met on 22nd October to discuss on several topics as per their agenda. In this discussion, the board received a summary of the feedback from outreach on the Exposure Draft Amendments to IFRS 17.

Proposed amendments to IFRS 17—making it easier for insurers to explain their results

As part of the amendments package, the Board is proposing to defer the start date of IFRS 17 to 1 January 2022, giving insurers an extra year to get ready. Deferring the start date by one year reflects a careful balance between:

- the urgent need for investors to have better information about the financial performance of insurers; and
- giving insurers certainty about their IFRS 17 project timelines, in the light of the Board's decision to consider amending the Standard.

The followings are in the consideration:

1. Commissions paid on short-term insurance contracts with expected renewals:

Often an insurer pays an agent commissions for selling insurance contracts on its behalf. An insurer that sells short-term insurance contracts, for example, annual motor insurance, may pay a commission higher than the annual premium the insurer will receive from the customer. The insurer expects to recover the cost and make profits through some customers renewing the contract at the end of the year, and perhaps renewing many more times after that.

IFRS 17 as issued in 2017			
	Year 1 (initial contract)	Year 2 (expected renewal)	Year 3 (expected renewal)
Premium	100	100	100
Claim	-	-	-
Commission	(150)	-	-
Profit/(loss)	(50)	100	100

1.1 Proposed amendment to IFRS 17

Applying IFRS 17, as issued in 2017, some commissions on new insurance contracts are allocated in full to the measurement of those contracts, and not to expected renewals, resulting in a loss being recognized in some cases. The proposed amendment would allow insurers to allocate a portion of the commissions to expected renewals. This amendment would make it easier for some insurers to explain to investors why they pay commissions higher than premiums on new insurance contracts.

IFRS 17 with proposed amendment			
	Year 1 (initial contract)	Year 2 (expected renewal)	Year 3 (expected renewal)
Premium	100	100	100
Claim	-	-	-
Commission	(50)	(50)	(50)
Profit/(loss)	50	50	50
Asset for acquisition costs	100	50	-

Asset for acquisition costs roll forward:

Asset	
Year 1 opening balance	-
Amounts paid in the period	150
Amounts included in measurement of insurance contracts	(50)
Year 1 closing balance	100

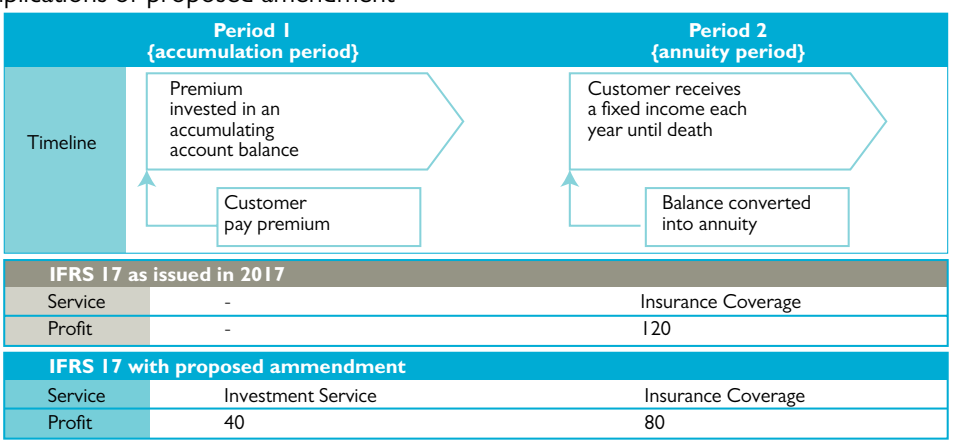
Practical implications:

- Fewer insurance contracts would be loss making.
- Assets for acquisition costs, such as commissions, would last longer and would be subject to an impairment test.
- New disclosures about assets for acquisition costs would be required

2. Profit recognition on long-term insurance contracts with investment returns:

Some insurers offer customers insurance coverage and investment service, bundled in a single contract. For example, some deferred annuities provide investment returns during the accumulation period, followed by insurance coverage during the annuity period.

Example - implications of proposed amendment



2.1 Proposed amendment to IFRS 17:

Applying IFRS 17, as issued in 2017, profit is recognized over the insurance coverage period, reflecting the pattern of insurance coverage. Other services, such as investment service, are not considered when determining the pattern and period over which profit is recognized. For insurance contracts that are substantially investment-related service contracts, however, profit is recognized reflecting the pattern of both insurance coverage and investment service.

The proposed amendment would require insurers to recognize profit reflecting the pattern of both insurance coverage and investment service for more contracts, including for some deferred annuities, if specified criteria are met indicating that an investment service exists.

Practical implications:

- The timing of profit recognition would change for some long-term insurance contracts.
- New disclosures about how profit is recognized would be required.

The Board will further discuss in November 2019 meeting. The Board's objective remains to issue any amendments to IFRS 17 in mid-2020.

Accounting Policies and Accounting Estimates (Amendments to IAS 8):

The IASB met on 23 October 2019 to discuss the feedback on its Exposure Draft Accounting Policies and Accounting Estimates (Proposed amendments to IAS 8)

Definition of accounting estimates:

The Board tentatively decided to revise the definition of accounting estimates to specify that: accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty; such monetary amounts are outputs of measurement techniques used in applying accounting policies; and an entity uses judgements and/or assumptions in developing an accounting estimate.

The Board also tentatively decided to:

a. clarify that:

   i. the effects of a change in an input and/or in a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors; and

   ii. a change in accounting estimate that results from new information or new developments is not the correction of an error; and

b. specify that estimation techniques and valuation techniques are examples of measurement techniques an entity uses to develop accounting estimates.

Other aspects:

The Board tentatively decided:

a. not to amend the definition of accounting policies (ie to retain the existing definition of accounting policies in IAS 8);

b. to clarify that if a change is a change in accounting estimate, it cannot also be a change in accounting policy;

c. not to add discussion, that was included in paragraph 32B of the Exposure Draft, on whether selecting an inventory cost formula constitutes selecting an accounting policy;

d. to confirm the deletion of Example 3 from the Guidance on implementing IAS 8; and

e. add to the Guidance on implementing IAS 8 examples that illustrate how an entity would apply the definition of accounting estimates—this material would accompany, but not be part of, IAS 8.

The Board tentatively decided to finalize the amendments with the modifications set out above; and not to re-expose them. The Board will discuss the transition requirements and effective date of the amendments at a future meeting.

Sources of the Information:

- Website of IASB
- Article written by Nick Anderson, published in IASB website.