IFRS

STAFF PAPER

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IASB® meeting

Project	**Insurance Contracts**		
Paper topic	The treatment of accounting estimates in interim financial statements		
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Purpose and structure of the paper

1. This paper discusses the treatment of accounting estimates in interim financial statements.
2. This paper provides:
   (a) an overview of the requirements in IFRS 17 *Insurance Contracts*;
   (b) a summary of the International Accounting Standards Board's (Board) rationale for setting those requirements, including an overview of the Board's previous discussions;
   (c) an overview of the concerns and implementation challenges expressed since IFRS 17 was issued; and
   (d) the staff analysis, recommendation and a question for Board members.

Staff recommendation

3. The staff recommend that the Board should not amend the requirements in IFRS 17 for the treatment of accounting estimates in interim financial statements.

IFRS 17 requirements

4. Notwithstanding the requirement in IAS 34 *Interim Financial Reporting* that the frequency of reporting shall not affect the measurement of the annual results, IFRS 17 requires entities not to change the treatment of accounting estimates made in previous interim financial statements when applying IFRS 17 in subsequent interim financial statements or in the annual financial statements.

Board's rationale

5. Requiring the contractual service margin to be adjusted for changes in estimates of the fulfilment cash flows, but not for experience adjustments, has the consequence that the accounting depends on the timing of a reporting date. Applying the requirements of IAS 34 would have required the recalculation of amounts previously reported in interim financial statements for the annual financial statements, as demonstrated in the following example.

6. Consider an entity that prepares annual financial statements and also prepares quarterly interim financial statements applying IAS 34. At the beginning of the year, the entity includes in the measurement of the liability for remaining coverage an amount of CU10 expected to be incurred in the third quarter. In the second quarter, the entity changes its expectation and now expects an amount of CU15 to be incurred in the third quarter. In the third quarter, an amount of CU15 is actually incurred. Applying the requirements in IAS 34:

    (a) in the quarterly interim financial statements, the difference of CU5 would be treated as a change in estimate of fulfilment cash flows that adjusts the contractual service margin in the second quarter. In the third quarter, the amount incurred is as expected and so there would be no amendment to the contractual service margin or experience adjustment recognised in profit or loss.

    (b) in the annual financial statements, the difference of CU5 would be treated as an experience adjustment recognised in profit or loss.

7. The Board received feedback that applying existing accounting practices, some entities determine experience adjustments and changes in estimates annually. However, stakeholders noted that to continue to determine those amounts annually applying the requirements in IFRS 17 would result in a significant practical burden when an entity reports more frequently than annually, because of the need to recalculate the carrying amount of the contractual service margin and the amounts recognised in profit or loss. Stakeholders also said that this would greatly reduce the informational value of the interim financial statements, because they would become less indicative of the annual results.

8. The Board therefore decided that IFRS 17 should specifically prohibit entities from changing the treatment of accounting estimates made in previous interim financial statements when applying IFRS 17 in subsequent interim financial statements or in the annual financial statements.

Concerns and implementation challenges expressed since IFRS 17 was issued

9. Some stakeholders think that the requirement in paragraph B137 of IFRS 17 relating to interim financial reports as defined in IAS 34 should be extended to other types of interim reports that are not defined elsewhere in IFRS Standards. For example, monthly management reports or internal reports provided by subsidiaries to a parent.

10. Those stakeholders observe that applying the requirements in IFRS 17 raises practical difficulties because entities may need to maintain a separate set of reports for each type of interim report that does not meet the requirement in paragraph B137 of IFRS 17. For example, consider a subsidiary that does not prepare interim financial reports as defined by IAS 34, but does provide interim financial information to its parent to be included in the interim financial reports, as defined by IAS 34, for the consolidated group. For the purpose of preparing the individual financial statements of the subsidiary, paragraph B137 of IFRS 17 does not apply. For the purpose of preparing financial information to be included in the consolidated financial statements of the group, paragraph B137 of IFRS 17 does apply.

11. Other stakeholders think that the requirement in paragraph B137 of IFRS 17 should not be extended to other types of interim reports but should be amended so that its application is permitted but not required. Those stakeholders think that allowing for this option would facilitate increased comparability between entities with different interim reporting frequencies because an entity could decide whether to apply the option considering its reporting frequency compared to the reporting frequency of its competitors.

Staff analysis and recommendation

12. The staff think that amending the requirement in IFRS 17 applicable to interim financial reports as defined in IAS 34 to extend them to any type of reporting that is not defined elsewhere in IFRS Standards would result in different entities developing different definitions of an interim report. This in turn would:

    (a) add complexity for both preparers and users of financial statements; and

    (b) reduce comparability among entities.

13. The staff think that amending the requirement in IFRS 17 applicable to interim financial reports as defined by IAS 34 so that its application is permitted but not required would result in different entities treating accounting estimates made in previous interim financial statements differently. This in turn would:

    (a) add complexity for both preparers and users of financial statements.

    (b) reduce comparability among entities. The staff observe that if applying the requirement in IFRS 17 was an option, an entity might decide whether or not to use the option considering:

        (i) its reporting frequency compared to the reporting frequency of all or some of its competitors;

        (ii) which option is less burdensome from a practical perspective; or

        (iii) it might consider a combination of both of these factors.

    Different entities would have different priorities in this regard.

14. The staff therefore recommend that the Board should not amend the requirements in IFRS 17 relating to the treatment of accounting estimates in interim financial statements.

Question for Board members
Do you agree that the Board should not amend the requirements in IFRS 17 relating to the treatment of accounting estimates in interim financial statements?