Exposure Draft

Initial Application of Ind AS 117 and Ind AS 109— Comparative Information

Amendments to Ind AS 117, Insurance Contracts

(Last Date for comments: March 10, 2022)

Issued by

Accounting Standards Board

The Institute of Chartered Accountants of India

Question for respondents

Internationally, IFRS 9, *Financial Instruments*, became effective for annual periods beginning on or after 1 January 2018 and entities are required to apply IFRS 17 for annual reporting periods beginning on or after 1 January 2023. However, IFRS 4, *Insurance Contracts*, provides insurance entities with a temporary exemption from applying IFRS 9 until 1 January 2023. The temporary exemption was provided under IFRS 4 because of additional accounting mismatches and apparent volatility that may arise in profit or loss in the period between the effective dates of IFRS 9 and IFRS 17. Accordingly, many insurance entities have taken advantage of the temporary exemption from IFRS 9 and will first apply IFRS 9 and IFRS 17 for annual reporting periods beginning on or after 1 January 2023. Due to accounting mismatch between financial assets and insurance contract liabilities in the comparative period which can arise on initial application of IFRS 17 and IFRS 9 due to the differences in the transition approaches in IFRS 9 and IFRS 17, amendments to IFRS 17 have been proposed by the IASB.

This Exposure Draft proposes amendments to Ind AS 117 corresponding to amendments to IFRS 17. In India, the temporary exemption from application of Ind AS 109 was not provided earlier. However, this option of classification overlay where Ind AS 109 and Ind AS 117 are applied at the same time has been included in the Exposure Draft.
In this regard, comments are sought on the following specific questions:

(a) Do you think that the transition option (classification overlay-paragraphs C28A-C28E) available to entities that first apply Ind AS 117 and Ind AS 109 at the same time, similar to the one provided in the aforesaid amendments to IFRS 17, could be relevant for Indian entities.

(b) If yes, please explain the situation where this option could be relevant.

Reply:

(a) SIRC of ICAI is of the view that transition option under Ind AS 117 and Ind AS 109 similar to IFRS 9 and IFRS 17 would be relevant to Indian entities as explained in reply to query (b) below.

(b) IFRS 17 Insurance Contracts, providing insurers with an option aimed at improving the usefulness of information to investors on initial application of the new Standard. IFRS 17 and IFRS 9 Financial Instruments have different transition requirements. For some insurers, these differences can cause temporary accounting mismatches between financial assets and insurance contract liabilities in the comparative information they present in their financial statements when applying IFRS 17 and IFRS 9 for the first time. The amendment was to help insurers to avoid these temporary accounting mismatches and, therefore, will improve the usefulness of comparative information for investors. It does this by providing insurers with an option for the presentation of comparative information about financial assets.

The difference in scope between the classification overlay and the temporary

exemption from applying Ind AS 109 may lead to operational complexity (using two general ledgers) and presentation inconsistencies in the consolidated financial statements. Further it may thereby put a question on the usefulness of a mixed approach within one reporting entity. At the same time, to alleviate the burden with respect to restating comparatives, the option proposal may reduce accounting mismatches for those insurance entities who do not intend to restate the comparative information under Ind As 109 and will also reduce accounting mismatches relating to financial assets derecognised in the comparative period for those who do intend to restate comparative information under Ind As 109.

Therefore, it is felt that the transition option is very much relevant to Indian entities.