

Statement of Alternative Treatment (SoAT) on the Figures in the Interim Financial Statements

Preface

The Sri Lanka Accounting Standard – LKAS 34 Interim Financial Reporting (LKAS 34) is applicable if an entity is required or elects to publish an interim financial report in accordance with the Sri Lanka Accounting Standards (SLFRSs). As required by LKAS 34.19, “If an entity’s interim financial report is in compliance with this standard, that fact shall be disclosed. An interim financial report shall not be described as complying with SLFRSs unless it complies with all the requirements SLFRSs”.

The Sri Lanka Accounting Standard – SLFRS 17 Insurance Contracts (SLFRS 17) is effective for annual periods beginning on or after 01st January 2026. Accordingly, in reporting the interim results, it has been emphasized in B137: “If an entity prepares interim financial statements applying LKAS 34 Interim Financial Reporting, the entity shall make an accounting policy choice as to whether to change the treatment of accounting estimates made in previous interim financial statements when applying SLFRS 17 in subsequent interim financial statements and in the annual reporting period”.

Transition & Comparative Information Analysis

Comparative information is required for the immediately preceding period. Unless there is a specific exemption provided in an accounting standard, an entity presents comparative information in respect of the preceding period for all amounts reported in the current period's financial statements. The preceding period's related narrative and descriptive information is generally required only if it is relevant to understanding the current period's financial statements and regardless of whether it was provided in the prior period.

An entity that prepares a complete set of interim financial statements includes comparative information in accordance with the specific requirements of LKAS 34 and the general requirements of LKAS 1. If an entity prepares interim financial reports in accordance with LKAS 34 Interim Financial Reporting the entity need not apply the requirements in this Standard to interim periods prior to the date of initial application if it is impracticable (as defined in LKAS 8). Further, an entity that prepares condensed financial statements is not required to apply the requirements of LKAS 1 in respect of quantitative and narrative comparative information.

On initial application of SLFRS 17, comparative information for insurance contracts is restated in accordance with SLFRS 17, whereas comparative information for related financial assets might not be restated in accordance with SLFRS 9 Financial Instruments (SLFRS 9) if the insurer is initially applying SLFRS 9 at the same date as SLFRS 17. In addition, if the entity chooses to restate comparative information for SLFRS 9, then it is prohibited from applying SLFRS 9 to assets derecognized before the date of initial application of SLFRS 9; a similar issue may arise if the entity has applied SLFRS 9 before SLFRS 17 and had financial assets that it expected to reclassify at the date of initial application of SLFRS 17 but they have been derecognized before that date. As a result, these differences in the transition requirements of SLFRS 17 and SLFRS 9 might create accounting mismatches between financial assets and insurance liabilities in the comparative information presented on initial application of SLFRS 17. A transition option - the 'classification overlay' - seeks to reduce those mismatches and relates only to the presentation of comparative information on initial application of SLFRS 17.

An entity is required to present comparative financial information applying SLFRS 17 for the

annual period immediately preceding the date of initial application of SLFRS 17. It may also present adjusted comparative information for any earlier periods and, in this case, the date of transition is the beginning of that adjusted comparative period. If an entity presents unadjusted comparative information for earlier periods, then it is required to clearly identify the information as not having been adjusted, stating that it has been prepared on a different basis, and explain that basis.

Request/ Requirement

The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) has received a request from the Insurance Association of Sri Lanka (IASL) for a relief in the interim financial statements during the first financial year commencing on or after 01st January 2026 to provide additional time horizon for the smooth implementation of SLFRS 17 considering the existing practical difficulties faced by preparers of financial statements.

Recommendation

After a careful deliberation, CA Sri Lanka has granted the option to prepare the interim financial statements of the first two quarters continuing the application of SLFRS 4 Insurance Contracts in preparation of interim financial statements for the year beginning on 1st January 2026 Subject to following conditions:

- i. When preparing the interim financial statements for the first two quarters qualitative and quantitative disclosures on the range of probable impact to the identified line items impacted due to SLFRS 17 & SLFRS 9.
- ii. Third Quarter interim financial statements to include quantitative disclosures on all the line items impacted resulting from the adoption of SLFRS 17 & SLFRS 9 and disclose provisional 3rd Quarter Financials in line with SLFRS 17 & SLFRS 9.
- iii. Preparer's opting to apply the requirements of SLFRS 4 during the interim periods shall not apply the requirements of SLFRS 9 Financial Instruments for such periods.
- iv. Fourth quarter financial statements and annual financial statements shall be prepared in accordance with SLFRS 17 & SLFRS 9 including the comparative figures (for the year 2025) as per the transition options.
- v. Under SLFRS 17 *Insurance Contracts* – companies preparing interim reports under LKAS 34 *Interim Reporting* will need to make an accounting policy choice. This choice – whether to change the treatment of accounting estimates made in previous interim financial statements at each reporting date. i.e. whether to apply a year-to-date (YTD) approach or a period-to-period (PTP) approach – will apply consistently to all groups of insurance contracts issued and reinsurance contracts held.

Group companies presenting consolidated financial statements where SLFRS 17 Accounting policies being applicable shall apply the requirements specified in this SoAT.

We expect this relief will enable companies for smooth transition to the requirements of SLFRS 17.

21st May 2025