

AASB & NZASB staff paper

July 2015

Project	Insurance contracts
Topic	Disclosure of discount rate impacts and accretion of interest on the Contractual Service Margin (CSM) – non-participating insurance contracts

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Objective

1. In relation to non-participating insurance contracts, this paper outlines concerns and recommended solutions for the IASB to consider in finalising its requirements on:
 - (a) the disclosure of the impact of discount rate changes;
 - (b) the discount rate for accreting interest on the CSM; and
 - (c) the discount rate for unlocking the CSM (in relation to changes in the present value of expected cash flows due to changes in expected timing and expected amounts to be paid).
2. Unless otherwise specified, paragraph references in this paper are to paragraphs in ED/2013/7¹.

AASB and NZASB concerns and recommended solution

3. Australian and New Zealand stakeholders, including users of financial statements, consulted by the AASB and NZASB staff are concerned that the tentatively decided disclosure of the impact of differences between contract inception-date discount rates and current discount rates in OCI under the profit or loss accounting policy choice would not be meaningful. There are essentially two bases for this concern:
 - (a) the amount itself does not relate to an event of the period, and therefore has no relevance in a current value model; and

¹ IASB Exposure Draft ED/2013/7 *Insurance Contracts*

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- (b) in the context of all but the most simple of insurance businesses, the amount reported in any given period would be the net result of multiple gains and losses across many periods.
4. A further concern of Australian and New Zealand stakeholders is that the tentatively decided use of contract inception-date discount rates to accrete interest on the CSM and for unlocking the CSM (in relation to changes in the present value of expected cash flows due to changes in expected timing and expected amounts to be paid) in what is otherwise a current value measurement model would not result in useful information.
5. The AASB and NZASB staff acknowledge that the separate presentation or disclosure of the impact of differences between contract inception-date discount rates and current discount rates, and use of contract inception-date discount rates to accrete interest on the CSM and for unlocking the CSM, might address some accounting mismatches for those entities applying the OCI accounting policy choice. However, we consider that the costs of providing that information would not be justified by any benefits when entities apply the profit or loss accounting policy choice.
6. The AASB and NZASB staff recommend that the profit or loss accounting policy choice should be extended to become a ‘purer’ current value measurement model for insurance liabilities, which involves:
- (a) the IASB’s tentatively decided profit or loss accounting policy choice; plus
 - (b) applying current discount rates for accreting interest on the CSM and for measuring future cash flows that impact on the CSM; and
 - (c) disclosure of the impact of changes in discount rates between the beginning and end of the current reporting period.
7. That is, the current value measurement model envisaged by the AASB and NZASB staff would involve remeasuring insurance liabilities using entirely current inputs at the reporting date and showing the entirety of the change in the liability in profit or loss.

Background

8. ED/2013/7 included the following proposals:

An entity shall determine the fulfilment cash flows by adjusting the estimates of future cash flows for the time value of money, using discount rates that reflect the characteristics of those cash flows. Such rates shall:

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- (a) be consistent with observable current market prices for instruments with cash flows whose characteristics are consistent with those of the insurance contract, in terms of, for example, timing, currency and liquidity; and
- (b) exclude the effect of any factors that influence the observable market prices but that are not relevant to the cash flows of the insurance contract.

... interest [is] accreted on the carrying amount of the contractual service margin during the reporting period to reflect the time value of money (the interest accreted is calculated using the discount rates specified in paragraph 25 that applied when the contract was initially recognised) [paragraph 30(a)]

An entity shall recognise in profit or loss ..., interest expense on insurance contract liabilities determined using the discount rates specified in paragraph 25 that applied at the date that the contract was initially recognised. For cash flows that are expected to vary directly with returns on underlying items, the entity shall update those discount rates when it expects any changes in those returns to affect the amount of those cash flows. [paragraph 60(h)]

... , an entity shall recognise and present in other comprehensive income the difference between:

- (a) the carrying amount of the insurance contract measured using the discount rates specified in paragraph 25 that applied at the reporting date; and
- (b) the carrying amount of the insurance contract measured using the discount rates specified in paragraph 60(h). [paragraph 64]

9. ED/2013/7 proposed that interest be accreted on the CSM at the inception-date discount rate, which was decided after having specifically sought comment on the matter in ED/2010/8².
10. ED/2013/7 also proposed that the CSM should be subsequently adjusted for a difference between current and previous estimates of the present value of future cash flows related to future coverage and other future services [paragraphs 30(c) and 30(d)]. Furthermore, ED/2013/7 proposed that the inception date discount rate be used in determining the difference between current and previous estimates of the present value of future cash flows related to future coverage and other future services. [ED/2010/8 proposed the CSM should not be adjusted after contract inception to reflect the effects of changes in the estimates of the fulfilment cash flows.]

2 IASB Exposure Draft ED/2010/8 *Insurance Contracts*

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11. ED/2010/8 proposed that all income and expense from insurance contracts be presented in profit or loss [paragraph 76]. The basis for the different ED/2013/7 proposals on presenting the impacts of discount rate changes in OCI was a concern expressed by respondents to ED/2010/8 that:
 - (a) gains and losses from underwriting and investing activities would be obscured by volatile gains and losses arising from changes in the current discount rate that is applied to the cash flows in insurance contracts; and
 - (b) the requirement to use current value measurement for insurance contract liabilities would force entities to exercise the fair value option for financial assets in order to avoid the accounting mismatches that would arise between assets measured at amortised cost and insurance contract liabilities [paragraphs BC117 and BC118].
12. The IASB took the view in ED/2013/7 that entities should segregate the effects of changes in the discount rate that are expected to unwind over time from other gains and losses, so that users of financial statements could better assess the underwriting and investing performance of an entity that issues insurance contracts. The IASB believes that such segregation could be achieved by approximating an amortised cost view of the time value of money to be recognised in profit or loss [paragraph BC119].

AASB and NZASB views on ED/2013/7

13. The AASB and NZASB submissions on ED/2013/7 expressed strong support for the proposed current value approach to measuring insurance liabilities, but noted concerns about the proposed:
 - (a) use of historical discount rates to segregate the result between profit or loss and other comprehensive income (OCI), which could give rise to a gain or loss being recognised in OCI even when the discount rates applicable at the beginning and end of the current period had not changed; and
 - (b) the relevance of accreting interest on the CSM and determining the adjustment to CSM to reflect the effects of changes in the estimates of the fulfilment cash flows using historical discount rates in what is otherwise a current value measurement model.

14. The AASB and NZASB were also concerned about the difficulties associated with tracking changes in discount rates of contracts from historical rates to achieve the proposed outcomes identified in paragraph 13 above. The AASB and NZASB noted that these difficulties compounded their concerns about the potential for confusing information to be provided to users. This is based on a view that there would be a lack of consistency in the ways in which different entities would identify portfolios of contracts relating to particular inception-date discount rates. The AASB and NZASB took the view that the IASB would need to provide another layer of guidance on determining portfolios by inception-date discount rate, which may not be effective in achieving consistency among different entities. This is because a requirement to identify portfolios of contracts with the same or similar inception-date discount rates introduces a level of complexity that seems likely to lead to inconsistent decisions being made about the scope of those portfolios. Many entities are likely to resort to considering discount rate changes each reporting period, which will be impacted by the timing of their year-ends. Others might seek to monitor each time discount rates change in each month or each quarter as the basis for portfolios of contracts with the same or similar inception-date discount rates.
15. The AASB and NZASB staff also consider that the proposed accretion of interest on the CSM at inception-date discount rates is inconsistent with the proposed remeasurement of the CSM for changes in estimates of future cash flows relating to future coverage.³ When the CSM established at contract inception is subsequently remeasured with current inputs, this would highlight the lack of useful information that would be provided by accreting interest on the CSM at an inception-date discount rate. [We note the mixed nature of the remeasurement, including the IASB's tentative decision to apply inception-date discount rates in relation to the changes in estimates of future cash flows relating to future coverage.]

³ The remeasurement of the CSM for changes in estimates of future cash flows relating to future coverage was proposed in paragraphs 30(c) and 30(d) of ED/2013/7, and supported in the AASB and NZASB submissions on ED/2013/7. This remeasurement was also confirmed in a March 2014 IASB tentative decision.

IASB tentative decisions on redeliberating ED/2013/7 proposals

16. At its meeting on 22 July 2014, the IASB tentatively decided⁴ that, for contracts without participating features, an entity should use the locked-in rate at the inception of the contract for accreting interest on the CSM and for calculating the change in present value of expected cash flows that offsets that margin. This effectively confirms the relevant ED/2013/7 proposals.
17. At its meeting on 18 March 2014, the IASB tentatively decided⁵ there should be an accounting policy choice, applied on a portfolio basis, to present the difference between the carrying amount of insurance liabilities measured using the discount rates that applied at the reporting date and the carrying amount of insurance liabilities measured using inception-date discount rates in profit or loss or in other comprehensive income.
18. Based on IASB deliberations on agenda paper 2E for the March 2014 IASB meeting, the AASB and NZASB staff understand the basis for the tentative decision on providing an accounting policy choice for presenting the impacts of changes in discount rates is that this would enable entities to reduce accounting policy mismatches that would otherwise arise. The IASB noted the potential inherent costs, including a lower ‘quality’ of information, that can arise from accounting policy mismatches, and that many respondents to ED/2013/7 had highlighted the benefits of not having those mismatches.
19. Accordingly, entities that measure the assets that back a particular portfolio of insurance contract liabilities at fair value through profit or loss would be expected to choose to present the impacts of changes in discount rates on those insurance contract liabilities in profit or loss.
20. Based on the IASB’s deliberations on agenda paper 2F for the March 2014 IASB meeting, the AASB and NZASB staff understand that, in tentatively deciding to provide the accounting policy choice, the IASB was concerned about a potential for a lack of comparability. That concern led the IASB to tentatively decide to require entities to

4 Tentative decision outlined in: <http://www.ifrs.org/Current-Projects/IASB-Projects/Insurance-Contracts/Documents/2015/Effect-of-redeliberations-on-ED-January-2015.pdf>

5 Tentative decision outlined in: <http://www.ifrs.org/Current-Projects/IASB-Projects/Insurance-Contracts/Documents/2015/Effect-of-redeliberations-on-ED-January-2015.pdf>

make disclosures that would enable users of financial statements to compare the outcomes for entities that, respectively, present the effect of changes in discount rates in profit or loss or in OCI, as well as other components of the total ‘interest expense’ relating to insurance liabilities. The IASB’s tentative decision in March 2014 is to require an analysis of total interest expense into:

- (a) the amount of interest accretion determined using current discount rates;
- (b) the effect on the measurement of the insurance contract of changes in discount rates in the period; and
- (c) the difference between the present value of changes in expected cash flows that adjust the CSM in a reporting period when measured using inception-date discount rates, and the present value of changes in expected cash flows that adjust the CSM when measured at current rates.

21. At its meeting on 22 July 2014, the IASB tentatively decided⁶ that inception-date discount rates should be used for determining the present value of changes in future expected cash flows relating to future services, which adjust the CSM. The IASB view is based on a notion that this would help to separate the underwriting and investment results. The view is that, if current rates were applied, an element of the impact of a discount rate change (which could be treated as relating to the investment result) would be reported in the underwriting result through the release of CSM. The IASB also noted that using a current rate would complicate the outcomes for entities applying the OCI approach to presenting the impact of changes in discount rates.

View of the tentative decisions from Australia and New Zealand

22. The AASB and NZASB strongly support having the accounting policy choice, which has similarities to a suggestion made in the Boards’ ED/2013/7 submissions. However, on the basis of feedback from wide-ranging outreach among users and preparers of financial statements in our jurisdictions, a view has emerged that the profit or loss accounting policy choice should be extended to become a ‘purer’ current value measurement model.

⁶ Based on discussions at the July 2014 IASB meeting in considering agenda paper 2B

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23. The current value measurement model envisaged by the AASB and NZASB staff would involve:
- (a) the IASB's tentatively decided profit or loss accounting policy choice; plus
 - (b) applying current discount rates for measuring insurance liabilities, including accreting interest on the CSM and for measuring the effects of changes in the estimates of the fulfilment cash flows relating to future services in adjusting the CSM; and
 - (c) disclosure of the impact on insurance liabilities of changes in discount rates between the beginning and end of the current reporting period.
24. That is, the current value measurement model envisaged by the AASB and NZASB staff would involve remeasuring insurance liabilities using entirely current inputs at the reporting date and showing the entirety of the change in the liability in profit or loss.
25. In the context of this model, the IASB's tentative decision to require an analysis of total interest expense would be modified. The impact on insurance liabilities of changes in discount rates to be disclosed would be based on the difference between the actual period-end liability and the amount that the liability would have been had it been calculated using the period-beginning discount rate.
26. An underlying concern of Australian and New Zealand stakeholders, including users of financial statements, consulted by the AASB and NZASB staff is that the amounts that would need to be disclosed by entities under the profit or loss accounting policy choice would not be meaningful. There are essentially two bases for this concern:
- (a) the amount itself does not relate to an event of the period, and therefore has no relevance in a current value model; and
 - (b) in the context of all but the most simple of insurance businesses, the amount reported in any given period would be the net result of multiple gains and losses across many periods.
27. Appendix A to this paper shows an example where a movement arises in a period due to the contract inception-date discount rate being different from the current discount rate when the discount rate has been stable over a number of years. In the example, discount rate effects are presented in OCI⁷ in years 3, 4 and 5 when no change occurs in discount

⁷ For convenience, the amounts are presented in the example OCI, although they would be expected to appear as note disclosures under the profit or loss accounting policy choice.

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rates in those years. The example is based on the facts assumed for an example used in agenda paper 14B for the May 2012 IASB meeting and an August 2013 IASB webcast on insurance contracts.

28. A number of the users we spoke with had worked in a range of jurisdictions and some of these noted that they understood the potential appeal of the OCI model using inception-date discount rates in the context of a business model that involved managing assets on a fair value through OCI basis. However, they regarded the presentation of a gain or loss that relates to the impact of unwinding previous gains or losses to be an unwelcome complexity when assets are managed on a fair value through profit or loss basis.
29. The AASB and NZASB staff note the theory behind benchmarking back to inception-date discount rates appears to be that highlighting the impact of a change in discount rate since contract inception can reveal a movement in the insurance contract liability that might be able to be compared with the gain or loss on the asset that was acquired with the premium received in connection with the contract. The argument would be that the two movements might not match up because of duration mismatch between the insurance liability and the asset backing the liability because yields vary with duration (that is, there is a sloping yield curve), and this would be revealed in the various movements presented in OCI.
30. Most insurers have portfolios covering risks over successive periods, often over many jurisdictions with different interest-rate environments, and backed by a wide range of asset types. The feedback we received from both Australian users and preparers is that the net impact of the difference between the carrying amounts of insurance liabilities measured using the discount rates that applied, respectively, at the reporting date and inception-date would be a conglomeration of gains and losses with no information value. If this net impact component of the interest rate analysis is regarded as having no information value, then the other components would also be of doubtful value.
31. Australian users we consulted are, nevertheless, generally keen to know the overall impact of changes in current discount rates during each period (without referring back to inception-date discount rates). They consider that, in a current value environment, this information would be best suited to helping identify the relative persistence of the various components that make up the change in liabilities (probably in conjunction with other components). Demand for that information has led some Australian insurers to disclose the impact of movements in credit spreads in investor reports and presentations,

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usually by major line of business and as an adjustment to the reported ‘statutory’ profit or as part of an alternative performance measure.^{8, 9}

32. Appendix B to this paper shows an example where a movement arises in a period due to a change in the current discount rate during the period. The example is based on the facts assumed in an example used in agenda paper 14B for the May 2012 IASB meeting and an August 2013 IASB webcast on insurance contracts.
33. A key theme among the Australian users we consulted was a desire to see current (fair) values in the statement of financial position and the disclosure of information that provides them with a basis for determining measures of ongoing performance. That is, measures adjusted for factors such as the impact on insurance liabilities of discount rate changes for the period.
34. A number of Australian and New Zealand preparers also considered that the IASB’s tentatively decided interest expense analysis would require the application of the general approach. The ED/2013/7 criteria for applying the premium allocation approach (PAA)¹⁰ might only capture circumstances in which discounting is not material; however, there could be circumstances in which the requirement to disclose the analysis would be the cause of an entity having to apply the general approach. AASB and NZASB staff understand that the IASB will reconsider the disclosures that should apply when the PAA is applied in light of the PAA being a simplified approach.

8 This could be viewed as part of a broader debate about providing sufficient information about the components of insurance liability movements to enable analysts to determine useful ‘alternative performance measures’.

9 For example, please refer to the AMP Limited 2014 investor report at:
<http://shareholdercentre.amp.com.au/phoenix.zhtml?c=142072&p=irol-reports>
[see, for example, pages 3 and 23]

and the Insurance Australia Group results presentation at:
http://www.iag.com.au/sites/default/files/Documents/Results%20%26%20reports/1H15%20Results%20presentation_0.pdf
[see, for example, slide 7]

and the QBE 2014 results presentation at:
http://qbe2014.qreports.com.au/xresources/downloads/QBE_FY14_Results_presentation.pdf
[see, for example, slide 11]

Although this paper and the IASB project papers tend to refer to ‘discount rates’, as noted in parts of ED/2013/7 (e.g. paragraph 85), insurers are generally applying yield curves to discount cash flows expected to occur over successive periods; and the impact of the changes they disclose are the result of changes in yield curves.

10 The criteria are: it is a reasonable approximation of the general approach measure; and the contract coverage period is one year or less at initial recognition (paragraph 35).

35. The AASB and NZASB staff note that, in ED/2013/7, the IASB likened the CSM at initial recognition to an allocation of part of the transaction price in a contract with a customer (under Exposure Draft *Revenue from Contracts with Customers*), which would be adjusted to reflect the time value of money if the contract has a significant financing component. [paragraph BCA71] The IASB reasoned that, because the CSM is measured at contract inception, the interest rate used to accrete interest on the margin should be locked-in at contract inception and not adjusted subsequently. Furthermore, the IASB viewed the accretion of interest as representing the fact that the entity would have charged a different amount at contract inception if it had expected to recognise the profit represented by the CSM at a different time [paragraph BCA72].
36. In the context of IFRS 15 *Revenue from Contracts with Customers*, the AASB and NZASB staff acknowledge that, when adjusting the promised amount of consideration for a significant financing component, the entity is required to use the discount rate that would be reflected in a separate financing transaction between the entity and its customer at contract inception [IFRS 15, paragraph 64]. However, the AASB and NZASB staff consider that this is not relevant in a current value measurement environment and, if interest is to be accreted to the CSM, it should be accreted using a current discount rate. We consider that the better analogy among IFRS is to the liability measurement under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, which requires provisions and changes in provisions to be measured using entirely current inputs.
37. The AASB and NZASB staff note that the IASB plans to review the implications of modifications to the general measurement model to cater for participating business,¹¹ and that, in relation to accounting for participating insurance contracts using the variable fee model, the IASB is contemplating accreting interest on the CSM at current discount rates.¹²

11 <http://www.ifrs.org/Current-Projects/IASB-Projects/Insurance-Contracts/Documents/2015/Insurance-Contracts-without-Participation-Features-March-2015.pdf>

12 For example, please refer to agenda paper 2D for the May 2015 IASB meeting (paragraphs 26 to 31)

AASB and NZASB staff recommendation

38. Overall, the AASB and NZASB staff consider that the potential benefits from requiring the use of inception-date discount rates when an entity applies the profit or loss accounting policy choice are, at best, limited. We think they would not justify the potential costs to both preparers in creating and managing systems to track inception-date discount rates or to users in trying to understand the various impacts in the context of a current value model. The AASB and NZASB staff can understand, however, that the costs might be justified for an entity applying the OCI presentation model that is trying to avoid accounting mismatches that would otherwise arise.
39. The AASB and NZASB staff recommend that the profit or loss accounting policy choice should be extended to become a ‘purer’ current value measurement model for insurance liabilities, which involves:
- (a) the IASB’s tentatively decided profit or loss accounting policy choice; plus
 - (b) applying current discount rates for accreting interest on the CSM and for measuring future cash flows that impact on the CSM; and
 - (c) disclosure of the impact of changes in discount rates between the beginning and end of the current reporting period.
40. In relation to the OCI accounting policy choice, the AASB and NZASB staff are not suggesting that current discount rates be applied in accreting the CSM or in remeasuring the CSM for changes in estimates of future cash flows relating to future coverage.
41. That is, there would be the accounting policy choice between two approaches – one being a comprehensive current value approach and the other (OCI) approach incorporating aspects of historical cost.

Appendix A – Example of discount rate impacts presented in OCI

UNDERLYING ASSUMPTIONS as per IASB agenda paper 14B May 2012 & August 2013 webcast

Term	5							
	0	1	2	3	4	5		
Year	1-Jan-01	1-Jan-02	1-Jan-03	1-Jan-04	1-Jan-05	1-Jan-06		
Premium	-1650							
Claims						2000		
Opening Inception Assumptions								
Discount rates	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%		
Fulfilment cash flow	1,604.90	1,677.12	1,752.59	1,831.46	1,913.88	2,000.00	<PV of CF (claim only in this example)	
CSM	45.10	37.70	29.55	20.59	10.76		<No interest exp. on CSM in this example	
Insurance liability	1,650.00	1,714.82	1,782.14	1,852.05	1,924.63	2,000.00		
Interest on fulfilment CF	72.22	75.47	78.87	82.42	86.12		<Interest expense on fulfilment CF @ Inception discount rate	
Interest on CSM	2.03	1.70	1.33	0.93	0.48		<Interest expense on CSM @ inception discount rate, not used in this example	
CSM release	9.43	9.85	10.29	10.76	11.24		<Includes interest expense on CSM, not used in this example	
	Inception	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	
Assets	Inception	1650	1732.50	1815.00	1897.50	1992.38	2091.99	<Inception Reinvestment Assumption
	Reinvested @ end year 3 assumptions				4.00%	4.00%	4.00%	
	Reinvested @ end year 3 assumptions				1897.50	1973.40	2049.30	

INCEPTION EXPECTED OUTCOMES

Balance Sheet	Years	0	1	2	3	4	5
Assets							
Bonds		1,650.0	1,650.0	1,650.0	1,897.5	1,897.5	
Cash			82.5	165.0		94.9	2,087.3
Total assets		1,650.0	1,732.5	1,815.0	1,897.5	1,992.4	2,087.3
Liabilities							
Fulfilment cash flows (CF)		1,604.9	1,677.1	1,752.6	1,831.5	1,913.9	2,000.0
CSM		45.1	36.1	27.1	18.0	9.0	
Total liabilities		1,650.0	1,713.2	1,779.7	1,849.5	1,922.9	2,000.0
Equity			19.3	35.3	48.0	69.5	87.3

Comprehensive Income	Years	1	2	3	4	5	Totals
Interest income		82.5	82.	82.5	94.9	94.9	437.3
Interest expense fulfilment CF @4.5%		-72.2	-75.5	-78.9	-82.4	-86.1	-395.1
		10.3	7.0	3.6	12.5	8.8	42.2
CSM release		9.0	9.0	9.0	9.0	9.0	45.1
Net Profit or Loss		19.3	16.0	12.7	21.5	17.8	87.2
Other Comprehensive Income							
Fair value changes assets							
Discount rate effects Fulfilment CF							
Total OCI							
Total comprehensive income		19.3	16.0	12.7	21.5	17.8	87.2

ACTUAL OUTCOMES**Actual outcomes / assumptions**

Discount rates	4.50%	4.50%	3.50%	3.50%	3.50%	3.50%
Return on assets	5.00%	5.00%	4.00%	4.00%	4.00%	4.00%

Balance Sheet	Years	0	1	2	3	4	5	
Assets								
Bonds		1,650.0	1,650.0	1,665.9	1,897.5	1,897.5		
Cash		-	82.5	165.0		75.9	2,049.3	
Total assets		1,650.0	1,732.5	1,830.9	1,897.5	1,973.4	2,049.3	
Liabilities								
Fulfilment cash flows (CF)		1,604.9	1,677	1,803.9	1,867.0	1,932.4	2,000.0	
CSM		45.1	36.1	27.1	18.0	9.0		
Total liabilities		1,650.0	1,713.2	1,830.9	1,885.1	1,941.4	2,000.0	
Equity		-	19.3	-0.1	12.4	32.0	49.3	
Current rates change only at the end Year 2, no change in years 1, 3,4 & 5								
Comprehensive Income	Years		1	2	3	4	5	Totals
Interest income			82.5	82.5	82.5	75.9	75.9	399.3
Interest expense fulfilment CF @4.5%			-72.2	-75.5	-78.9	-82.4	-86.1	-395.1
			10.3	7.0	3.6	-6.5	-10.2	4.2
CSM release			9.0	9.0	9.0	9.0	9.0	45.1
Net Profit or Loss			19.3	16.0	12.7	2.5	-1.2	49.3
Other Comprehensive Income								
Fair value changes assets (Note 1)				15.9	-15.9			
Discount rate effects fulfilment CF (Note 2)				-51.3	15.7	17.1	18.5	
Total OCI				-35.4	-0.1	17.1	18.5	
Total comprehensive income			19.3	-19.4	12.5	19.6	17.3	49.3

Notes

1 Change In fair value of assets	Years	1	2	3	4	5
Opening rate		5.00%	5.00%	4.00%	4.00%	4.00%
Closing rate		5.00%	4.00%	4.00%	4.00%	4.00%
Fair value @ Opening rate		-1,650.0	-1,650.0	-1,913.4	-1,897.5	-2,049.3
Fair value @ Closing rate		1,650.0	1,665.9	1,897.5	1,897.5	2,049.3
Fair Value Change in Assets		-	15.9	-15.9	-	-

2 Discount rate effects on fulfilment CF	Years	1	2	3	4	5
Opening current discount rate		4.50%	4.50%	3.50%	3.50%	3.50%
Closing current discount rate		4.50%	3.50%	3.50%	3.50%	3.50%
Fulfilment CF @ Opening current discount rate		1,677.1	1,752.6	1,867.0	1,932.4	2000
Fulfilment CF @ Closing current discount rate		1,677.1	1,803.9	1,867.0	1,932.4	2000
Fulfilment CF current discount rate change			-51.3			
Interest expense on fulfilment CF @ opening current discount rate		-72.2	-75.5	-63.1	-65.3	-67.6
Less interest expense on fulfilment CF @ inception discount rate		72.2	75.5	78.9	82.4	86.1
Interest expense difference on fulfilment CF				15.7	17.1	18.5
Total discount rate effects on fulfilment CF in OCI		-51.3	15.7	17.1	18.5	

Appendix B – Example of presenting impacts of current to current discount rate changes

UNDERLYING ASSUMPTIONS as per IASB agenda paper 14B May 2012 & August 2013 webcast

Term		5						
		0	1	2	3	4	5	
Year		1-Jan-01	1-Jan-02	1-Jan-03	1-Jan-04	1-Jan-05	1-Jan-06	
Premium		-1650						
Claims							2000	
Opening Inception Assumptions								
Discount rates		4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	
Fulfilment cash flow (CF)		1,604.90	1,677.12	1,752.59	1,831.46	1,913.88	2,000.00	<PV of CF (claim only in this example)
CSM		45.10	37.70	29.55	20.59	10.76	-	<No interest exp. on CSM in this example
Insurance liability		1,650.00	1,714.82	1,782.14	1,852.05	1,924.63	2,000.00	
Interest on fulfilment CF		72.22	75.47	78.87	82.42	86.12		<Interest expense on fulfilment CF @ Inception discount rate
Interest on CSM		2.03	1.70	1.33	0.93	0.48		<Interest expense on CSM @ inception discount rate, not used in this example
CSM release		9.43	9.85	10.29	10.76	11.24		<Includes Interest expense on CSM, not used in this example
	Inception	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	
Assets	Inception	1650	1732.50	1815.00	1897.50	1992.38	2091.99	<Inception Reinvestment Assumption
	Reinvested @ end year 3 assumptions				3.00%	3.00%	3.00%	
	Reinvested @ end year 3 assumptions				1897.50	1949.83	2011.35	

INCEPTION EXPECTED OUTCOMES

Balance Sheet	Years	0	1	2	3	4	5
Assets							
Bonds		1,650.0	1,650.0	1,650.0	1,897.5	1,897.5	
Cash			82.5	165.0		94.9	2,087.3
Total Assets		1,650.0	1,732.5	1,815.0	1,897.5	1,992.4	2,087.3
Liabilities							
Fulfilment CF		1,604.9	1,677.1	1,752.6	1,831.5	1,913.9	2,000.0
CSM		45.1	36.1	27.1	18.0	9.0	
Total Liabilities		1,650.0	1,713.2	1,779.7	1,849.5	1,922.9	2,000.0
Equity							
			19.3	35.3	48.0	69.5	87.3

Comprehensive Income	Years	1	2	3	4	5	Totals
Interest income		82.5	82.5	82.5	94.9	94.9	437.3
Interest expense fulfilment CF @4.5%		-72.2	-75.5	-78.9	-82.4	-86.1	-395.1
		10.3	7.0	3.6	12.5	8.8	42.2
CSM release		9.0	9.0	9.0	9.0	9.0	45.1
Net Profit or Loss		19.3	16.0	12.7	21.5	17.8	87.2
Other Comprehensive Income							
Fair value changes assets							
Disc rate effects fulfilment CF							
Total OCI							
Total comprehensive income		19.3	16.0	12.7	21.5	17.8	87.2

ACTUAL OUTCOMES**Actual outcomes / assumptions**

Discount rates	4.50%	4.10%	3.60%	2.50%	2.75%	3.00%
Return on assets	5.00%	4.60%	4.10%	3.00%	3.25%	3.50%

Balance Sheet	Years	0	1	2	3	4	5
Assets							
Bonds		1,650.0	1,662.3	1,664.3	1,897.5	1,892.9	
Cash			82.5	165.0		56.9	2,011.4
Total Assets		1,650.0	1,744.8	1,829.3	1,897.5	1,949.8	2,011.4
Liabilities							
Fulfilment cash flows (CF)		1,604.9	1,703.0	1,798.7	1,903.6	1,946.5	2,000.0
CSM		45.1	36.1	27.1	18.0	9.0	
Total liabilities		1,650.0	1,739.1	1,825.7	1,921.7	1,955.5	2,000.0
Equity							
			5.7	3.5	24.2	-5.7	11.3
Comprehensive Income Statement presenting interest expense on a current rate to current rate basis							
Comprehensive Income	Years	1	2	3	4	5	Totals
Interest income		82.5	82.5	82.5	56.9	56.9	361.4
Interest expense fulfilment CF @ opening current rate		-72.2	-69.8	-64.8	-47.6	-53.5	-307.9
Net interest margin		10.3	12.7	17.7	9.3	3.4	53.4
Fair value changes assets (Note 1)		12.3	1.9	-14.3	-4.6	4.6	
Change in current discount rate on fulfilment CF (Note 2)		-25.9	-25.8	-40.2	4.7	-	-87.2
Net impact of change in current rates on assets & fulfilment CF		-13.6	-23.9	-54.5	0.2	4.6	-87.2
CSM release		9.0	9.0	9.0	9.0	9.0	45.1
Total comprehensive income		5.7	-2.2	-27.7	18.5	17.0	11.3

Notes

1	Change In Fair Value of assets	Years	1	2	3	4	5
	Opening Earning Rate		5.00%	4.60%	4.10%	3.00%	3.25%
	Closing Earning Rate		4.60%	4.10%	3.00%	3.25%	3.50%
	Fair Value @ Opening Earning Rate		-1,650.0	-1,662.3	-1,911.8	-1,897.5	-2,011.4
	Fair Value @ Closing Earning Rate		1,662.3	1,664.3	1,897.5	1,892.9	2,011.4
	Fair Value Change in Assets		12.3	1.9	-14.3	-4.6	
2	Disc rate effects on Fulfilment CF	Years	1	2	3	4	5
	Opening Current Discount Rate		4.50%	4.10%	3.60%	2.50%	2.75%
	Closing Current Discount Rate		4.10%	3.60%	2.50%	2.75%	3.00%
	Fulfilment CF @ Opening Current Discount Rate		1,677.1	1,772.9	1,863.4	1,951.2	2000
	Fulfilment CF @ Closing Current Discount Rate		1,703.0	1,798.7	1,903.6	1,946.5	2000
	Fulfilment CF Current Discount Rate Change		-25.9	-25.8	-40.2	4.7	
	Interest Expense on Fulfilment CF @ Opening Current Discount Rate		-72.2	-69.8	-64.8	-47.6	-53.5
	Less Interest Expense on Fulfilment CF @ Inception Discount Rate		72.2	75.5	78.9	82.4	86.1
	Interest Expense Difference on Fulfilment CF			5.6	14.1	34.8	32.6
	Total Disc rate effects on Fulfilment CF in OCI		25.9	20.1	26.1	39.6	32.6