

International Financial Reporting Standards

Reporting back on the use of OCI to present the effects of discount rate changes

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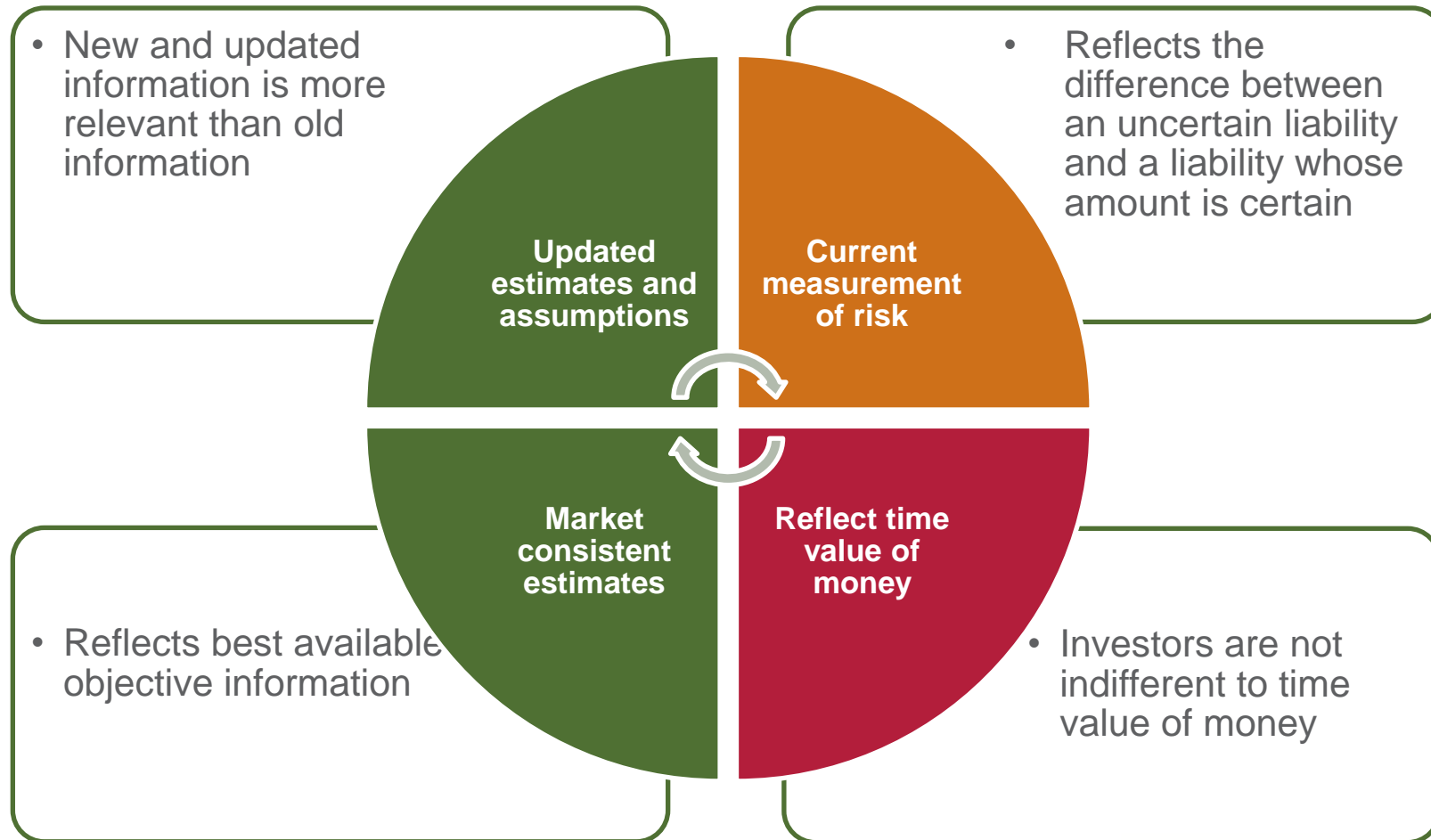
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- This paper reports the IASB's tentative decisions on the use of other comprehensive income (OCI) to present some changes in the insurance contract liability

Changes in Insurance liability arising from changes in discount rates

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Current value information about the liability is useful



Presenting changes in the liability

- Overall objective
 - To present changes in the insurance liability in a way that provides useful information to users
- Information is useful when
 - Underwriting performance (core operating results) is presented clearly and not overshadowed
 - Changes in the insurance liability that reverse over time are presented separately from other changes
 - Accounting mismatches are eliminated or reduced

Comprehensive Income

A current view of performance

Profit or loss

Performance based on a locked in discount rate

OCI

Effect of changes in discount rate

Tentative decisions: Present in profit or loss

- Underwriting result including:
 - Premiums and claims
 - Changes in risk adjustment
 - Release of margin
 - Changes in cash flow assumptions (unless absorbed by residual margin)
- Interest expense at the locked in rate
- On derecognition, any gains and losses are recycled from OCI

Tentative decisions: Present in OCI

- Cumulative OCI:
 - difference between liability discounted at the current rate and the liability discounted at the locked in rate
- Current period OCI:
 - Effect of discount rate change in current period
 - Unwind of amounts previously recognised in OCI
(= interest expense at current rate – interest expense at locked in rate)

How does it achieve our objectives?

Underwriting performance



Presented in profit or loss

Changes that reverse



Presented in OCI

Accounting mismatch

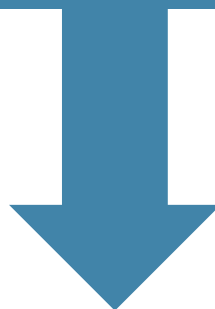


Reduced if assets:
FV-OCI
Amortised cost

Permit or require use of OCI

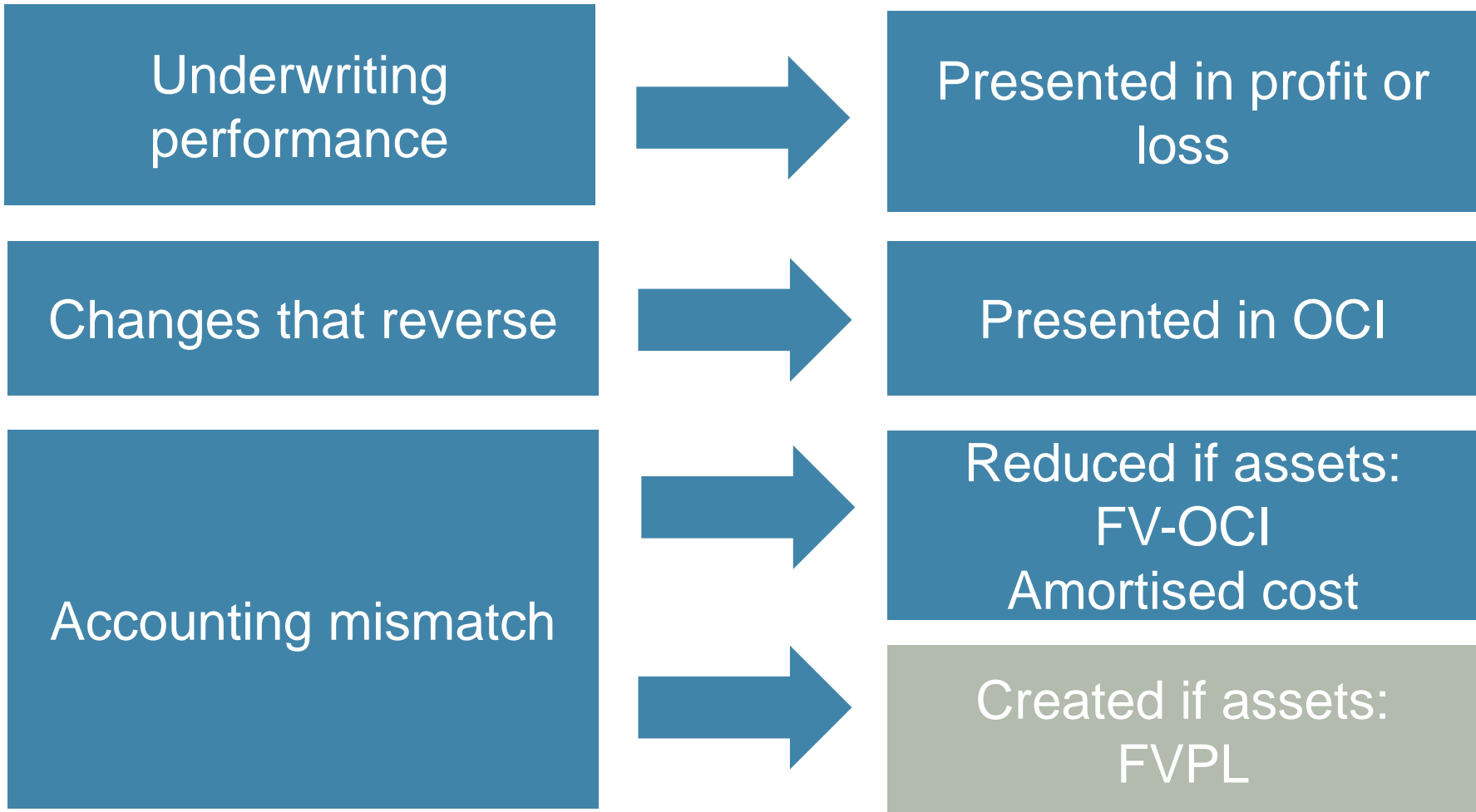
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Require the use of OCI to present changes in the insurance liability arising from changes in the discount rate



Increases comparability
Less complex

Requiring use of OCI – How does it achieve our objectives?



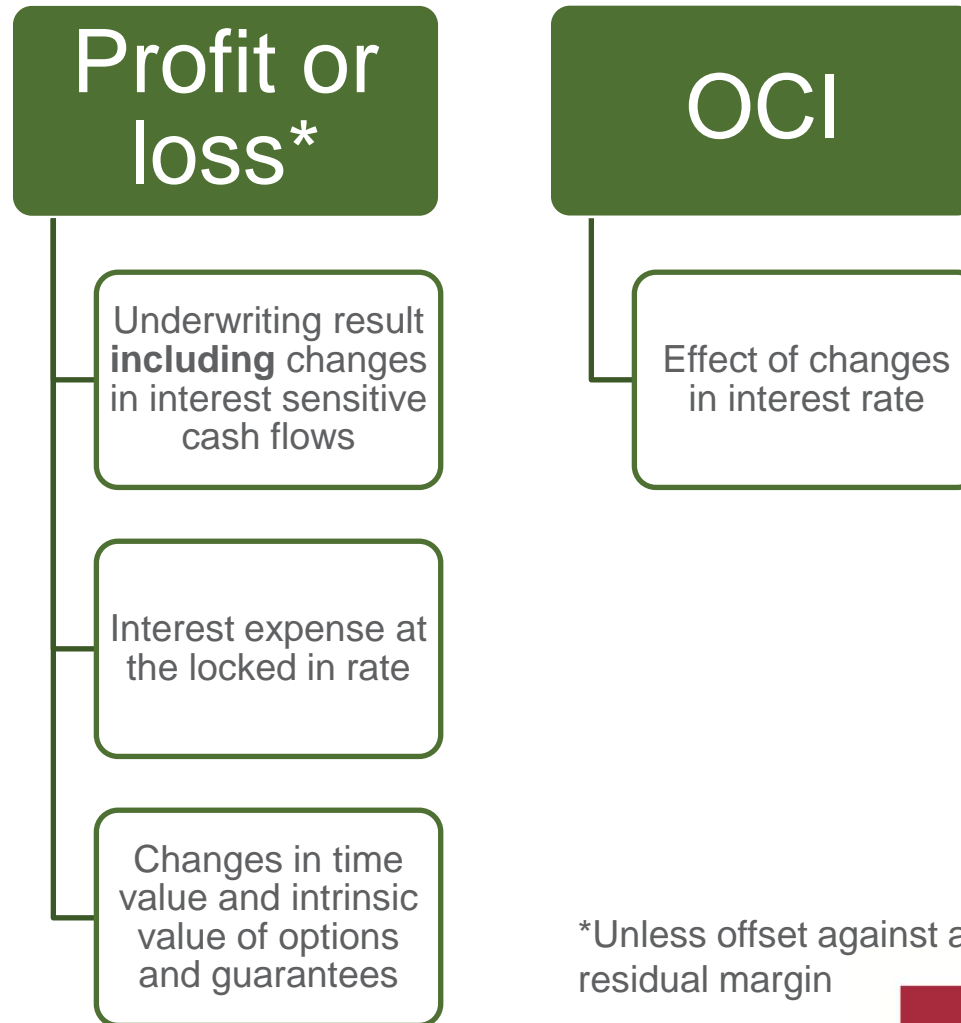
Presenting changes in interest sensitive assumptions

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Presenting changes in interest sensitive assumptions

- Effects of changes in interest rates include:
 - Interest sensitive features (eg interest rate guarantees and options)
 - Interest sensitive cash flow assumptions (eg lapse surrender rates)
- Changes in interest sensitive assumptions should be presented in profit or loss or offset against the residual margin
- Consistent with changes in other cash flows

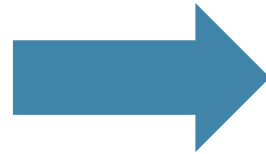
Present changes in interest sensitive assumptions in profit or loss



*Unless offset against an unlocked residual margin

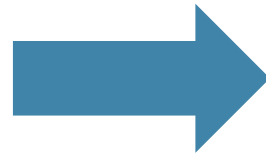
Changes in Interest Sensitive assumptions – How does it achieve our objectives?

Underwriting performance



Presented in profit or loss

Changes that reverse



Split between OCI and profit or loss

Accounting mismatch



Not applicable

Other tentative decisions

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Other tentative decisions

- In summary, the IASB also tentatively decided:
 - To present in profit or loss interest expense at the locked in rate
 - To discount changes in expected cash flows at the locked in rate
 - Not to include a loss recognition test

Next Steps

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Next steps

- At future meetings the Boards will consider how the tentative decision on the use of OCI interacts with their tentative decisions on participating insurance contracts

Questions

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Do you have any comments on the IASB's tentative decisions on the following areas:

- a) The use of OCI to present changes in the insurance liability arising from changes in discount rate
- b) The requirement to use OCI
- c) The treatment of interest sensitive assumptions
- d) The decision not to include a loss recognition test