STAFF PAPER

21-24 May 2012

IASB Meeting

Project	**Insurance contracts**		
Paper topic	Use of OCI – Interaction with Financial Instruments Classification and Measurement Project (FI C&M)		
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Purpose of paper

1. The purpose of this paper is to show how the staff recommendations in the insurance contracts project interact with the recommendations in the Financial Instruments Classification and Measurement Project (FI C&M project). This additional information was requested by Board members at the April Education session. No decisions are requested in this paper.

Interaction with FI C&M project

2. Agenda paper 6B for this meeting proposes the introduction of a fair value through other comprehensive income (FVOCI) measurement category for some debt investments.[1] [2] Agenda paper 6A proposes that this measurement category

[1] As described in more detail in agenda paper 6B, to be measured at FVOCI the debt investments must have contractual cash flows that are solely principal and interest (P&I) and must be managed within a business model with particular objectives.

[2] Under IFRS 9 *Financial Instruments*, there is already an irrevocable election available at initial recognition to measure non-trading equity investments at FVOCI. For those equity investments, dividends are recognised in profit or loss, but all other changes in fair value are recognised in OCI and those amounts cannot be recycled to profit or loss.

require the same interest income recognition and impairment methodology[3] as financial assets measured at amortised cost. Recycling of the cumulative fair value gain or loss from other comprehensive income (OCI) to profit or loss (profit or loss) would be required on derecognition of assets held in this category.

3. Agenda paper 2I/83I for this meeting proposes that changes in the insurance liability arising from changes in interest rates be presented in OCI.

4. This paper describes how the staff recommendations in these two papers interact:

   (a) Paragraphs 5-6 summarise the proposed mechanics of the FVOCI measurement category for debt investments;

   (b) Paragraphs 7-9 summarise the staff proposals for presenting changes in the insurance liability in OCI; and

   (c) Paragraphs 15-30 and Appendix A illustrate how these two proposals would be applied to a number of scenarios. Those examples are based on simplified assumptions set out in paragraphs 12-14.

Proposed mechanics of the FVOCI measurement category

5. Agenda paper 6A proposes that debt investments that are measured as FVOCI are measured initially and subsequently at fair value on the statement of financial position. Fair value changes are recognised in OCI, except for those amounts that must be recognised in profit or loss as follows:

   (a) Interest income is recognised in profit or loss using the effective interest method that is applied to financial assets measured at amortised cost. Under the effective interest rate method, estimates of future cash flows for fixed rate financial assets are discounted at the original effective interest rate (ie the original rate is "locked-in");

[3] IASB only. The FASB will discuss at a future FASB-only meeting whether one credit impairment model should apply to all financial assets in the same way.

(b) Credit impairment losses/reversals are recognised in profit or loss using the same impairment methodology as for financial assets measured at amortised cost; and

(c) Upon derecognition of the debt investment, the cumulative fair value gain or loss recognised in OCI would be reclassified (recycled) to profit or loss. The FASB's tentative model already requires that these amounts are recycled and the IASB staff have recommended that treatment in agenda paper 6A.

6. This approach results in the same profit or loss profile for assets measured at FVOCI as for assets measured at amortised cost.

Proposed OCI approach for insurance

7. The proposals in the Insurance Contracts project require a current measurement of the insurance liability. Agenda paper 2I/83I proposes the following for insurance liabilities:

(a) Interest expense is recognised in profit or loss by discounting current estimates of future cash flows at the original discount rate at the start of the contract (ie a "locked-in" rate);

(b) Changes in the insurance liability arising from changes in discount rates, other than the unwind of locked-in discount rate presented in profit or loss, are presented in OCI; and

(c) Other changes in the insurance liability[4] are presented in profit or loss (eg changes in mortality or morbidity), unless they are recognised as an adjustment to the residual margin – IASB only.

8. As discussed in agenda paper 2I/83I, the boards have four alternatives on deciding whether to require or permit the use of OCI for insurance contracts. The staff recommends that changes in the insurance liability arising from changes in

[4] Agenda paper 2I/83I also discusses whether changes in the insurance liability arising from changes in interest sensitive assumptions should be recognised in OCI.

interest rates are presented in OCI unless presenting those changes in profit or loss would significantly reduce or eliminate an accounting mismatch.

9. Agenda paper 2M/83M for the joint board meeting discusses when amounts recognised in OCI would be recycled on derecognition.

Illustrations

10. The following section sets out examples that illustrate how the staff recommendations for insurance contracts and debt investments interact:

    (a) Example 1 – illustrates the accounting when all an insurers' debt investments are measured as FVOCI and changes in the discount rate of the insurance liability are presented in OCI. It demonstrates the interaction between the proposals to classify specified debt investments at FVOCI in agenda paper 6B and to present the effects of the discount rate changes in OCI for the insurance liability in agenda paper 2I/83I.

    (b) Example 2 – illustrates the accounting when an insurer holds a mixture of debt investments that are measured as fair value through profit or loss (FVPL) and interest bearing assets that are measured as FVOCI. It demonstrates how the staff recommendations on the unit of account in agenda paper 2I/83I may be applied.

    (c) Example 3 – illustrates the accounting when an insurer holds both equities that are measured as FVPL and debt investments that are measured as FVOCI. It demonstrates the possible volatility arising if an insurer invests in equity investments instead of debt investments.

11. The examples used in this paper are very simplified in order to better illustrate the interaction between the measurement of the financial assets and the insurance liabilities. More realistic examples are included in agenda papers 2J/83J and 2L/83L.

Assumptions

12. The examples use the following simplifying assumptions to highlight the interaction between the treatment of the debt investments and insurance liabilities:

    (a) The reporting period is from 1 January to 31 December.

    (b) The only change in assumptions that will affect the measurement of the insurance liabilities is the change in the discount rates.

    (c) The same base assumptions are used as those in example 1 in agenda paper 2M/83M.

13. For the insurance liabilities, the assumptions are:

    (a) A portfolio of term life insurance contracts with a duration of 5 years is written on 1 January of 20X1. Premiums collected are CU1,650.

    (b) Estimated claims are CU2,000. All claims are paid on 1 Jan of 20X6. At inception, the present value of the expected claims is CU1,604.9.

    (c) The following tables illustrate the cash flows for the insurance liability:

Date	Cash flows
1 Jan 20X1	CU1,650
31 Dec 20X1	-
31 Dec 20X2	-
31 Dec 20X3	-
31 Dec 20X4	-
31 Dec 20X5	-
1 Jan 20X6	-CU2,000

    (d) The margin is CU45.1 and is released in a straight-line pattern over the 5 years and is not accreted.

(e) The risk margin is equal to zero.

(f) The discount rates for the insurance liability, assuming a flat yield curve, are as follows[5]:

Year	Discount rate at the end of year
0	4.50%
1	4.10%
2	3.60%
3	2.50%
4	2.75%
5	3.00%

14. For the financial assets, the assumptions are:

(a) The total amount of the premium, CU1,650, is invested at inception.

(b) The following are the bond return rates, assuming a flat yield curve, for each period.

Year	Bond return rates at the end of the year
0	5.00%
1	4.60%
2	4.10%
3	3.00%
4	3.25%
5	3.50%

[5] The current discount rate of the liability is estimated by deducting 50 basis points from the applicable bond return rate set out in paragraph 14(b).

Example 1: All bonds are measured at FVOCI

15. This example illustrates the accounting when all an insurers' debt investments are measured as FVOCI and changes in the discount rate of the insurance liability are presented in OCI in two scenarios:

    (a) duration matched; and

    (b) duration mismatched.

16. It demonstrates the interaction between the proposals to classify specified debt investments at FVOCI in agenda paper 6B and to present the effects of the discount rate changes in OCI for the insurance liability in agenda paper 2I/83I.

Duration matched

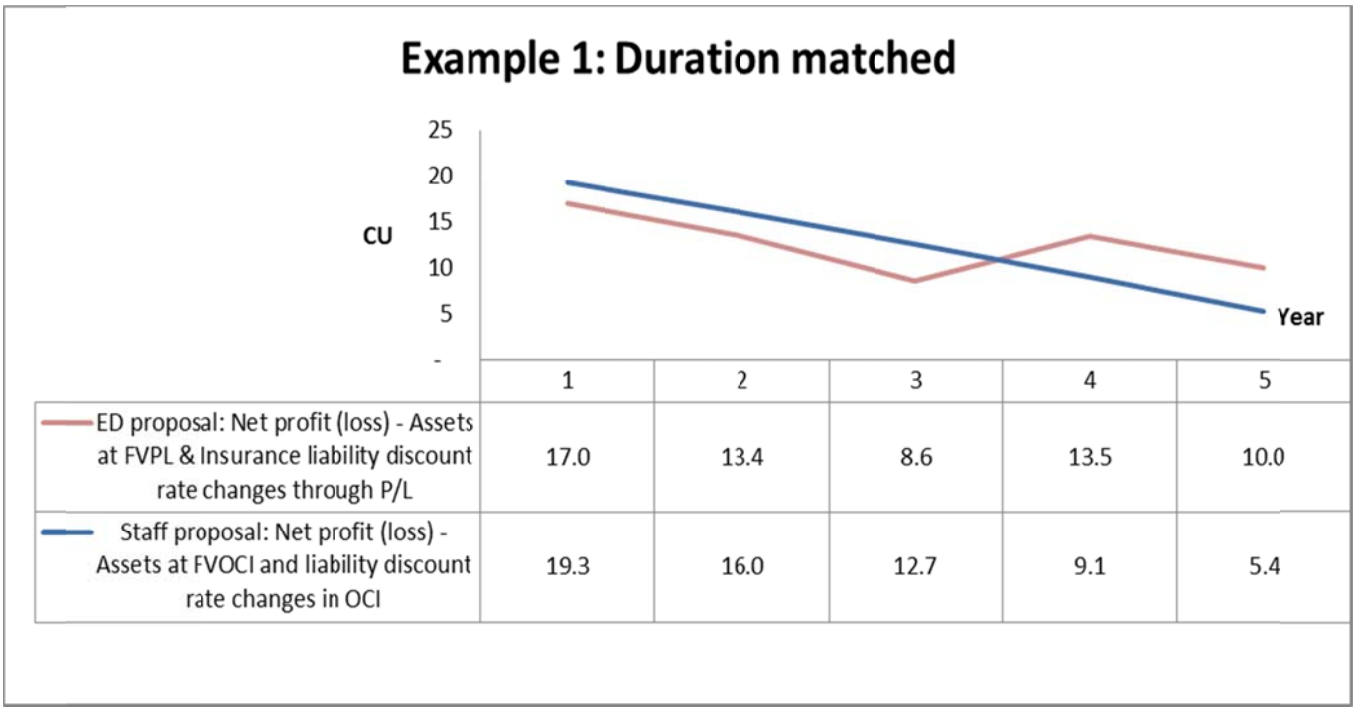
17. At inception, the insurer purchases 5-year bonds that pay a fixed interest at market rate at that time (5%). The annual interest payments are held as cash and are assumed to earn no interest.

18. The following graph compares the net profit (loss) reported if:

    (a) all changes in the insurance liability are presented in profit and loss, including discount rate changes, as proposed in the ED and bonds are measured as FVPL, versus

    (b) for the insurance liability the effect of changes in the discount rate is presented in OCI and the effect of a locked-in discount rate is presented in profit or loss, as proposed in agenda paper 2I/83I. The bonds are accounted for at FVOCI. As a simplifying assumption, the examples do not reflect any impairment requirements that may be applicable to debt investments as a result of tentative decisions made by the Board in its Impairment project.[6]

[6] Impairment of debt investments measured at FVOCI is discussed in IASB AP 6A.



	1	2	3	4	5
ED proposal: Net profit (loss) - Assets at FVPL & Insurance liability discount rate changes through P/L	17.0	13.4	8.6	13.5	10.0
Staff proposal: Net profit (loss) - Assets at FVOCI and liability discount rate changes in OCI	19.3	16.0	12.7	9.1	5.4

19. If the durations of assets and liabilities are matched and assets are measured as FVOCI, then reporting changes in the insurance liability arising from changes in the discount rate in OCI results in profit or loss that is less volatile.

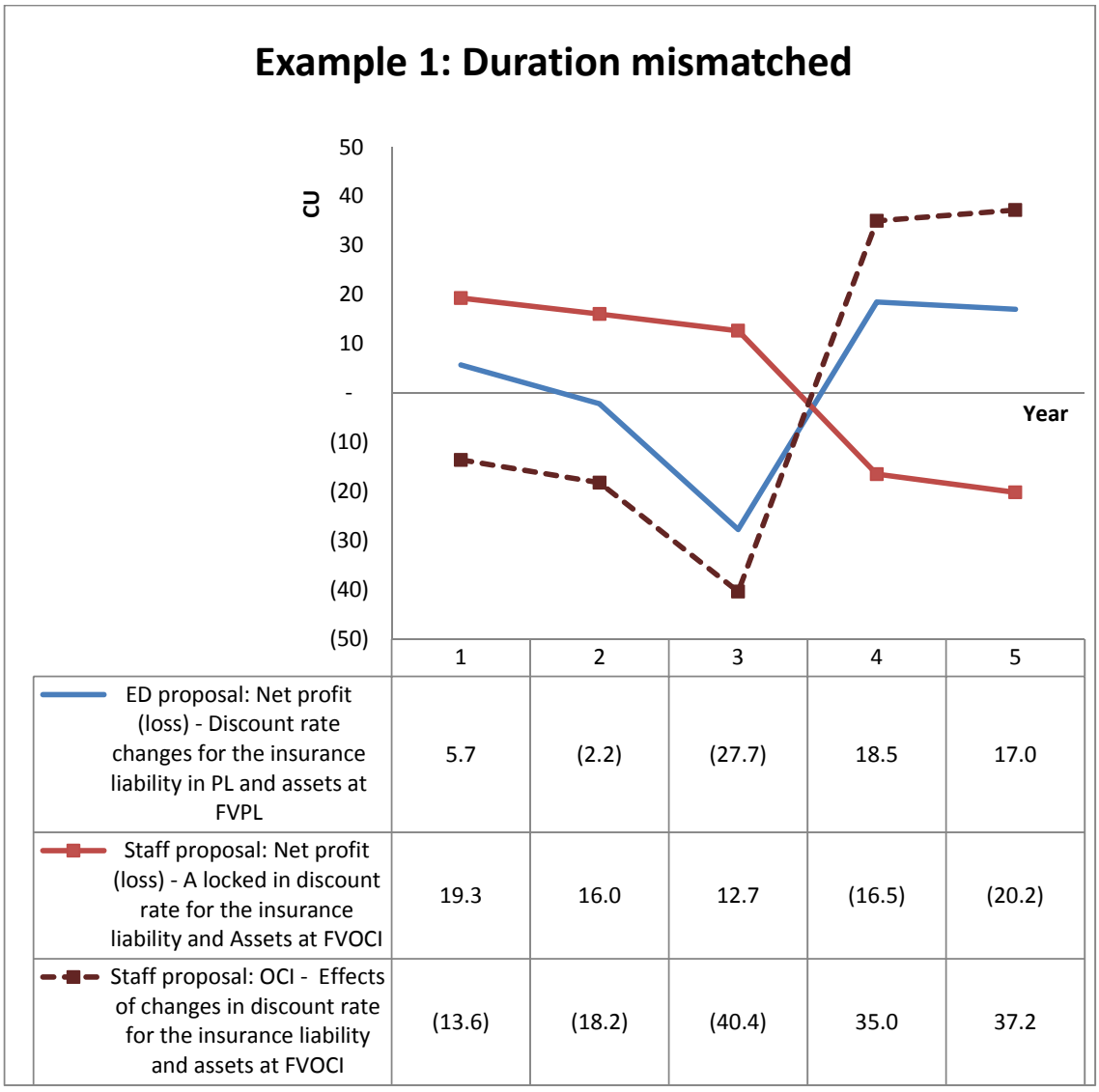
Duration mismatched

20. A more realistic scenario is when there is a duration mismatch between the financial assets and insurance liabilities (eg because there are no bonds with a similar duration to the insurance liabilities). To illustrate this duration mismatch, we have assumed a shorter duration for the debt investments than for the insurance liability. At inception, the insurer purchases 3-year bonds that pay fixed interest at market rate at that time (5%). The annual interest payments are held as cash and are assumed to earn no interest. On maturity, the insurer reinvests the total accumulated interest and principal in 2-year bonds at prevailing market rates (3%).

21. The following graph illustrates what happens when there is a duration mismatch applying:

(a) the ED proposal to present in profit or loss all effects of the discount rate changes in the insurance liability and to measure the assets at FVPL.

(b) the proposals in Agenda papers 2I/83I and 6B. The effects of a locked in discount rate for the insurance liability and the effective interest rate for the bonds are presented in profit or loss. The effect of changes in the discount rate for the insurance liability and the effect of the fair value changes for the bonds are presented in OCI.



	1	2	3	4	5
ED proposal: Net profit (loss) - Discount rate changes for the insurance liability in PL and assets at FVPL	5.7	(2.2)	(27.7)	18.5	17.0
Staff proposal: Net profit (loss) - A locked in discount rate for the insurance liability and Assets at FVOCI	19.3	16.0	12.7	(16.5)	(20.2)
Staff proposal: OCI - Effects of changes in discount rate for the insurance liability and assets at FVOCI	(13.6)	(18.2)	(40.4)	35.0	37.2

22. When the insurance liability and the assets backing the liability are not duration matched, the insurer is exposed to reinvestment risk. This results in a decrease in reported profits from year 4 when the insurer is forced to reinvest in assets that have a lower return.

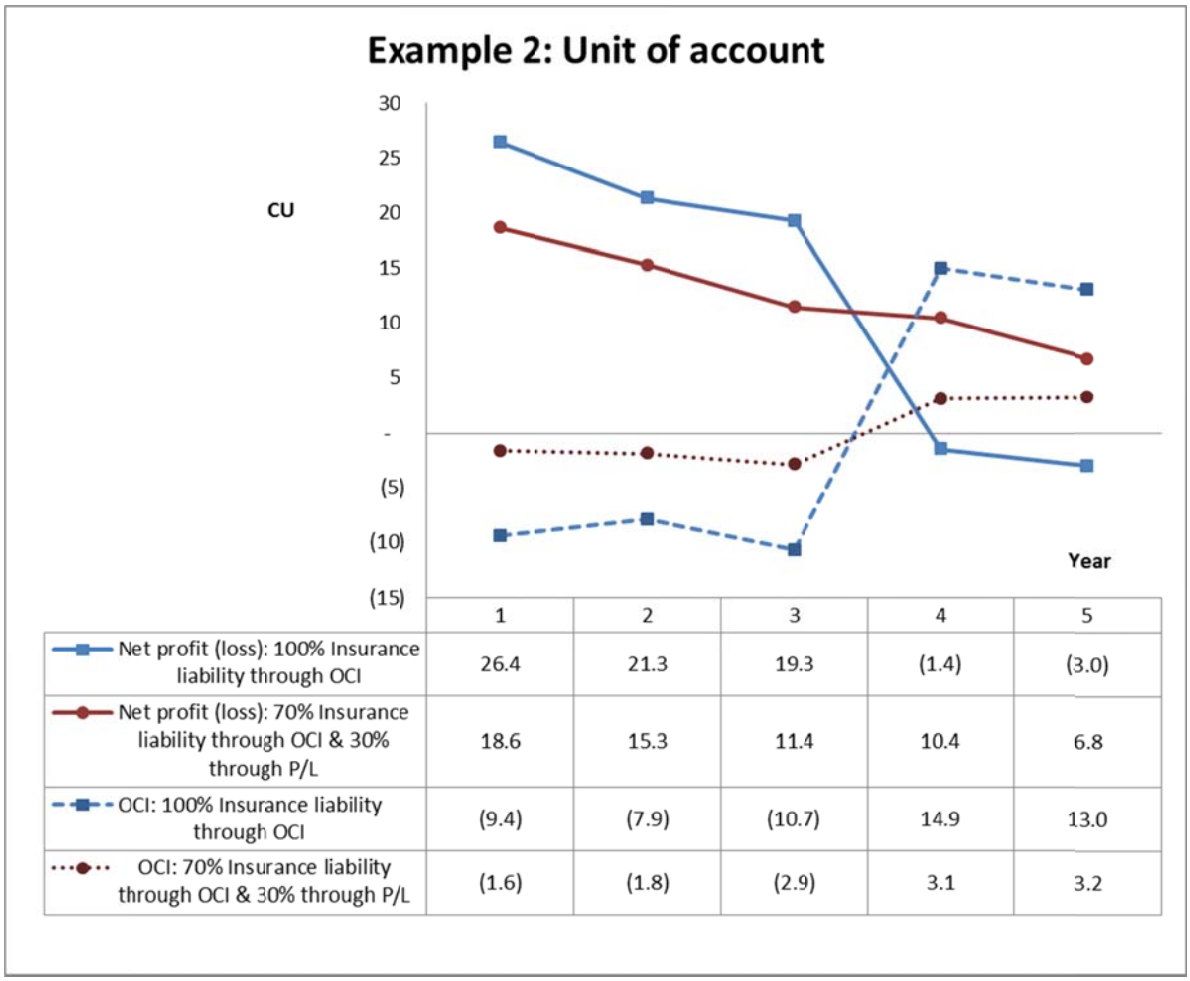
Example 2: Unit of account

23. In Agenda paper 2I/83I paragraph 76, staff recommends that insurers should present changes in the insurance liability arising from the discount rate in OCI unless presenting those changes in profit or loss would eliminate or significantly reduce an accounting mismatch. FASB staff recommends that this determination be applied at the portfolio level, and the IASB staff recommends the individual contract level based upon the overall mix of the portfolio of assets backing the insurance contracts. The following example illustrates how the FASB and IASB unit of account recommendations are applied to a single portfolio of insurance contracts when that portfolio is backed with a mixture of interest-bearing assets that are measured as FVPL and interest bearing assets that are measured as FVOCI.

24. Assume the same facts as Example 1—duration matched except that **a portfolio** of insurance contracts is backed by the following assets: 70% bonds measured as FVOCI and 30% measured as FVPL. The alternatives illustrated in the following graph are:

    (a) the effect of the changes of discount rate for when the entire insurance portfolio is reported in OCI, as recommended by FASB staff; or

    (b) the effect of changes in discount rate for when individual insurance contracts would be allocated to either OCI or profit or loss such that 70% of the effect of the changes of discount rate for the group of contracts is reported in OCI and 30% in profit or loss, as recommended by IASB staff.



	1	2	3	4	5
Net profit (loss): 100% Insurance liability through OCI	26.4	21.3	19.3	(1.4)	(3.0)
Net profit (loss): 70% Insurance liability through OCI & 30% through P/L	18.6	15.3	11.4	10.4	6.8
OCI: 100% Insurance liability through OCI	(9.4)	(7.9)	(10.7)	14.9	13.0
OCI: 70% Insurance liability through OCI & 30% through P/L	(1.6)	(1.8)	(2.9)	3.1	3.2

25. Agenda paper 2I/83I discusses in further details the arguments for and against both the alternatives.[7]

[7] For example, reporting the effect of the discount rate for the entire portfolio in OCI (or profit or loss) is significantly less complex from an operational perspective than allocating to OCI or profit or loss based upon the overall mix of assets backing the portfolio of insurance contracts.

Example 3: Assets held are 90% Bonds and 10% Equities

26. Some board members have asked for a simplified example when the assets backing insurance contracts are a mixture of both equities and debt investments. This example uses the same assumptions as Example 1—duration matched for the debt investments except that the insurer invests 90% of the premiums in 5-year bonds and 10% in equities. This example:

    (a) illustrates that insurers may report a more volatile net profit or loss amount if they invest in equities instead of debt investments; and

    (b) compares the alternatives for the unit of account[8] of presenting the changes in the insurance liability in OCI when the portfolio of insurance contracts is backed in part by equity investments at FVPL.

27. Dividends received on shares are accumulated in a cash account earning zero per cent interest (ie not reinvested). At the end of Year 5, the shares are sold. The shares follow the movement in the stock market index. The following table sets out the movement in the stock market index and the dividends paid out during the period. Equities are measured at FVPL.

Year	The stock market index	Dividends paid out
At inception	492.5	9.9
1	708.6	11.3
2	858.6	11.3
3	531.1	6.0
4	522.0	6.4
5	534.4	7.3

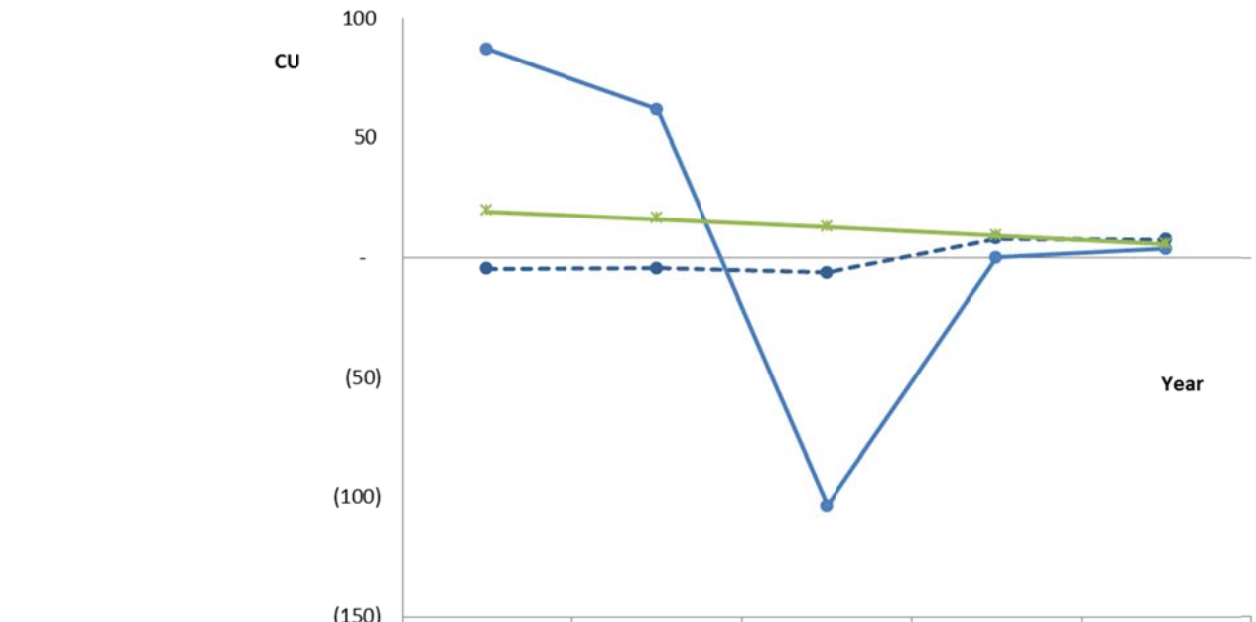
28. Assuming that 100% of the effects of the changes in discount rate are reported in OCI for the insurance liability, the following graph compares the possible effects on profit (loss) on the asset management strategies of the insurer:

[8] In Agenda paper 2I/83I paragraph 76, staff recommends that insurers should present changes in the insurance liability arising from the discount rate in OCI unless presenting those changes in profit or loss would eliminate or significantly reduce an accounting mismatch. FASB staff recommends that this determination be applied at the portfolio level, and the IASB staff recommends the individual contract level based upon the overall mix of the portfolio of assets backing the insurance contracts.

(a) the net profit (loss) and OCI assuming that the insurer invests in 90% bonds measured at FVOCI and 10% equities at FVPL.

(b) the net profit (loss) assuming that the insurer invests in 100% bonds measured at FVOCI.

Example 3: Illustrating the impact of the asset management strategies on performance reporting



	1	2	3	4	5
Net profit (loss): 90% Bonds & 10% Equities	87.2	61.8	(103.3)	(0.0)	3.7
OCI: 90% Bonds & 10% Equities	(4.7)	(4.4)	(6.3)	7.9	7.4
Net profit (loss): 100% bonds	19.3	16.0	12.7	9.1	5.4

29. In this example, equity investments are volatile due to both changes in dividends and the changes in the fair value of the equity investment from period to period. The total cash flows collected over the 5-year period by investing in 10% equities and 90% bonds is CU2049.5 compared to CU2062.5 when the strategy is to invest 100% in bonds for the same duration.

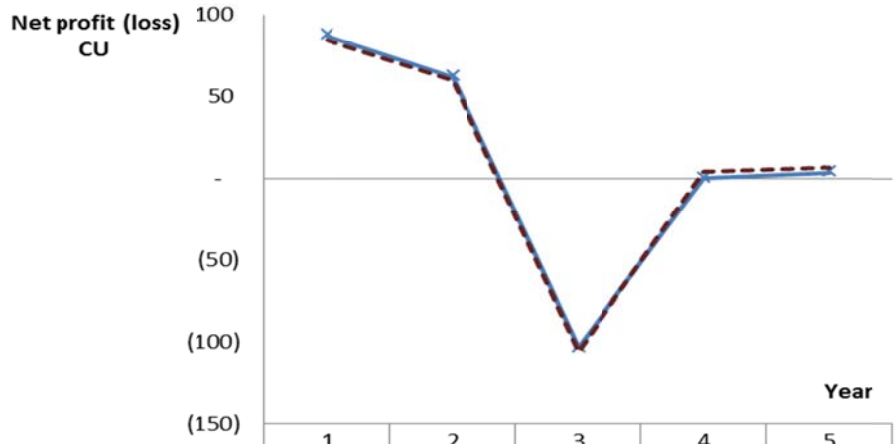
Unit of account

30. The following graph illustrates:

(a) the FASB staff recommendation for the unit of account discussed in paragraph 23. Because the majority of the assets backing the portfolio of insurance contracts are measured at FVOCI, the entire change in that portfolio attributable to changes in discount rates is presented in OCI.

(b) If the IASB's staff approach to unit of account was adopted (and it could be shown that it reduces the accounting mismatch) it may be possible to present some of the changes in the liability in profit or loss. However, as the graph bellow illustrates, using that election may have little effect on reported profit or loss because the fair value changes of the equity investments are more volatile than the effect of the interest rate changes on the insurance liabilities.

Example 3: Illustrating the net profit (loss) under the unit of account alternatives when the assets are 90% Bonds (FVOCI) and 10% Equities (FVPL)



	1	2	3	4	5
Discount rate changes of the insurance liability: 100% in OCI	87.2	61.8	(103.3)	(0.0)	3.7
Discount rate changes of the insurance liability: 90% in OCI and 10% in P/L	84.6	59.8	(105.9)	3.9	7.0

Appendix A: Additional information on the examples discussed in the paper

A1. The following are additional details on the graphs presented in the main body of the paper. Figures in the table may not total because of rounding errors.

Example 1: All bonds are measured at FVOCI—duration matched

A2. The assumptions for the insurance liability are in paragraph 13, and the assumptions for the assets are in paragraphs 14 and 17.

A3. The statement of financial position is as follows:

Year	At inception	1	2	3	4	5
Assets						
Bonds (FVOCI)	1,650.0	1,673.6	1,691.1	1,713.1	1,678.0	-
Cash	-	82.5	165.0	247.5	330.0	2,062.5
Total assets	1,650.0	1,756.1	1,856.1	1,960.6	2,008.0	2,062.5
Insurance liability	1,650.0	1,739.1	1,825.7	1,921.7	1,955.5	2,000.0
Equity	-	17.0	30.4	39.0	52.5	62.5
Total liabilities and equity	1,650.0	1,756.1	1,856.1	1,960.6	2,008.0	2,062.5

A4. The statement of comprehensive income is as follows:

Year	1	2	3	4	5	Total
Profit or loss						
Underwriting margin	0	0	0	0	0	0
Interest revenue (Bonds at FVOCI)	82.5	82.5	82.5	82.5	82.5	412.5
Interest expense	(72.2)	(75.5)	(78.9)	(82.4)	(86.1)	(395.1)
Net Interest income (expense)	10.3	7.0	3.6	0.1	(3.6)	17.4
Release of the margin	9.0	9.0	9.0	9.0	9.0	45.1
Net profit (loss)	19.3	16.0	12.7	9.1	5.4	62.5
Other comprehensive income						
Change in fair value - Bonds	23.6	17.5	22.0	(35.2)	(28.0)	0.0
Effects of discount rate changes – Insurance liabilities	(25.9)	(20.1)	(26.1)	39.6	32.6	-
Net OCI	(2.3)	(2.6)	(4.1)	4.4	4.6	0.0
Total comprehensive income	17.0	13.4	8.6	13.5	10.0	62.5

A5. The amounts reported in OCI for the insurance liability can be explained as follows:

Year	1	2	3	4	5
Effects of changes in discount rate in the period (Row A)	25.9	25.8	40.2	(4.7)	-
Unwind of the liability at the current interest rate (Row B)	72.2	69.8	64.8	47.6	53.5
Unwind of the interest rate at inception (Row C)	72.2	75.5	78.9	82.4	86.1
Unwind reported in OCI (Row D=Rows B - C)	-	(5.6)	(14.1)	(34.8)	(32.6)
Effects of changes in discount rates reported in OCI (Row A + Row D)	25.9	20.1	26.1	(39.6)	(32.6)

A6. The following is the workings for the amount reported in the table above. It should be noted that these workings are not required in their entirety to present changes in the insurance liability in OCI but may be needed if the boards decide to disaggregate amounts presented in OCI:

		Liability discounted using the discount rates in the column on the left					
Year	Discount rate at the end of periods	0	1	2	3	4	5
At inception	4.50%	**1604.9**	1677.1	1752.6	1831.5	1913.9	2000.0
1	4.10%		**1703.0**	1772.9	1845.6	1921.2	2000.0
2	3.60%			**1798.7**	1863.4	1930.5	2000.0
3	2.50%				**1903.6**	1951.2	2000.0
4	2.75%					**1946.5**	2000.0
5	3.00%						**2000.0**

A7. Each period:

(c) the effects of the changes in discount rate in the period is the discounted liability using the current discount rate minus the discounted liability using the discount rate of the previous period. For Year 2, 1798.7-1772.9=25.8.

(d) the unwind of the liability at the current interest rate is the liability at the end of the period minus the liability at the start of the period, both discounted using the discount rate at the start of the period. For Year 2, 1772.9-1703=69.8 [rounding error].

(e) the unwind of the liability at the interest rate at inception is the difference between the liability at the end of the period and the liability at the start of the period, both discounted using the discount rate at inception. For Year 2, 1752.6-1677.1=75.5. This amount is reported as the interest expense in profit or loss.

Example 1: All bonds are measured at FVOCI—duration mismatch

A8. The assumptions for the insurance liability are in paragraph 13, and the assumptions for the assets are in paragraphs 14 and 20.

A9. The following statement of financial position accompanies the graph presented on page 9:

Year	At inception	1	2	3	4	5
Bonds (FVOCI)	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
Insurance liability	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
Total liabilities and equity	1,650.0	1,744.8	1,829.3	1,897.5	1,949.8	2,011.3

A10. The following statement of financial performance accompanies the graph presented on page 9:

Year	1	2	3	4	5	Total
Profit or loss						
Underwriting margin	0	0	0	0	0	0
Interest revenue (Bonds at FVOCI)	82.5	82.5	82.5	56.9	56.9	361.4
Interest expense	(72.2)	(75.5)	(78.9)	(82.4)	(86.1)	(395.1)
Net Interest income (expense)	10.3	7.0	3.6	(25.5)	(29.2)	(33.7)
Release of the margin	9.0	9.0	9.0	9.0	9.0	45.1
Net profit (loss)	19.3	16.0	12.7	(16.5)	(20.2)	11.4
Other comprehensive income						
Change in fair value - bonds	12.3	1.9	(14.3)	(4.6)	4.6	(0)
Effects of discount rate changes-insurance liabilities	(25.9)	(20.1)	(26.1)	39.6	32.6	-
Net OCI	(13.6)	(18.2)	(40.4)	35.0	37.2	(0)
Total comprehensive income	5.7	(2.2)	(27.7)	18.5	17.0	11.4

Example 2: Unit of Account

A11. The assumptions for the insurance liability are in paragraphs 13, and the assumptions for the assets are in paragraphs 14 and 24.

A12. The following is the statement of financial performance assuming that 100% of the changes in the discount rate for the insurance liability are presented in OCI.

Year	**1**	**2**	**3**	**4**	**5**	Total
Profit or loss						
Underwriting margin	0	0	0	0	0	0
Interest revenue (Bonds at FVOCI)	57.8	57.8	57.8	57.8	57.8	288.8
Interest revenue (Bonds at FVPL)	24.8	24.8	24.8	24.8	24.8	123.8
Fair value changes (Bonds at FVPL)	7.1	5.3	6.6	(10.6)	(8.4)	-
Interest expense	(72.2)	(75.5)	(78.9)	(82.4)	(86.1)	(395.1)
	17.4	12.3	10.3	(10.5)	(12.0)	17.4
Release of the margin	9.0	9.0	9.0	9.0	9.0	45.1
Net profit (loss)	26.4	21.3	19.3	(1.4)	(3.0)	62.5
Other comprehensive income						
Change in fair value - Bonds at FVOCI	16.5	12.3	15.4	(24.6)	(19.6)	0.0
Effects of discount rate changes - Insurance liabilities	(25.9)	(20.1)	(26.1)	39.6	32.6	-
Net OCI	(9.4)	(7.9)	(10.7)	14.9	13.0	0.0
Total comprehensive income	17.0	13.4	8.6	13.5	10.0	62.5

A13. The following is the statement of financial performance, supporting the graph on page 11, assuming that 70% of the insurance liability is presented in OCI and 30% in profit or loss, consistently with the presentation of the changes in the assets backing the portfolio of insurance contracts.

Year	1	2	3	4	5	Total
Profit or loss						
Underwriting margin	0	0	0	0	0	0
Interest revenue	57.8	57.8	57.8	57.8	57.8	288.8
Interest revenue (Bonds at FVPL)	24.8	24.8	24.8	24.8	24.8	123.8
Fair value changes (Bonds at FVPL)	7.1	5.3	6.6	(10.6)	(8.4)	-
Net Investment income	89.6	87.8	89.1	71.9	74.1	412.5
Interest expense locked-in (70%)	(50.6)	(52.8)	(55.2)	(57.7)	(60.3)	(276.6)
Interest expense current (30%)	(29.4)	(28.7)	(31.5)	(12.9)	(16.1)	(118.5)
Net Interest expense	(80.0)	(81.5)	(86.7)	(70.5)	(76.3)	(395.1)
	9.6	6.2	2.4	1.4	(2.2)	17.4
Release of the margin	9.0	9.0	9.0	9.0	9.0	45.1
Net profit (loss)	18.6	15.3	11.4	10.4	6.8	62.5
Other comprehensive income						
Change in fair value - Bonds at FVOCI	16.5	12.3	15.4	(24.6)	(19.6)	0.0
Effects of discount rate changes - Insurance liabilities	(18.1)	(14.1)	(18.3)	27.7	22.8	-
Net OCI	(1.6)	(1.8)	(2.9)	3.1	3.2	0.0
Total comprehensive income	17.0	13.4	8.6	13.5	10.0	62.5

A14. The statement of financial position under both approaches is the same; the two approaches differ in where changes in the discount rate are presented. The following is the statement of financial position supporting the graph on page 11:

Year	At inception	1	2	3	4	5
Bonds (FVPL)	495.0	502.1	507.3	513.9	503.4	-
Bonds (FVOCI)	1,155.0	1,171.5	1,183.8	1,199.2	1,174.6	-
Cash	-	82.5	165.0	247.5	330.0	2,062.5
Total assets	1,650.0	1,756.1	1,856.1	1,960.6	2,008.0	2,062.5
Insurance liability	1,650.0	1,739.1	1,825.7	1,921.7	1,955.5	2,000.0
Equity	-	17.0	30.4	39.0	52.5	62.5
Total liabilities and equity	1,650.0	1,756.1	1,856.1	1,960.6	2,008.0	2,062.5

Example 3: Assets held are 90% Bonds and 10% Equities

A15. The assumptions for the insurance liability are in paragraph 13, and the assumptions for the assets are in paragraphs 14 and 27.

A16. The statement of financial position, supporting the graphs on pages 13 and 14, as follows:

Year	At inception	1	2	3	4	5
Equities (FVPL)	165.0	237.4	287.6	177.9	174.9	-
Bonds (FVOCI)	1,485.0	1,506.3	1,522.0	1,541.8	1,510.2	-
Cash	-	78.0	156.1	232.4	308.8	2,049.5
Total assets	1,650.0	1,821.7	1,965.7	1,952.1	1,993.8	2,049.5
Insurance liability	1,650.0	1,739.1	1,825.7	1,921.7	1,955.5	2,000.0
Equity	0	82.6	140.0	30.4	38.3	49.5
Total liabilities and equity	1,650.0	1,821.7	1,965.7	1,952.1	1,993.8	2,049.5

A17. The statement of financial performance supporting the graph on pages 13 and 14, assuming that the entire change due to changes in discount rates of the portfolio are presented in OCI, as follows:

Year	1	2	3	4	5	Total
Profit or loss						
Underwriting margin	0	0	0	0	0	0
Interest revenue (Bonds at FVOCI)	74.3	74.3	74.3	74.3	74.3	371.3
Dividends	3.8	3.8	2.0	2.2	2.5	14.2
Fair value changes - Equities	72.4	50.3	(109.7)	(3.0)	4.1	14.0
Interest expense	(72.2)	(75.5)	(78.9)	(82.4)	(86.1)	(395.1)
Net Investment income (expense)	78.2	52.8	(112.3)	(9.0)	(5.3)	4.4
Release of the margin	9.0	9.0	9.0	9.0	9.0	45.1
Net profit (loss)	87.2	61.8	(103.3)	(0.0)	3.7	49.5
Other comprehensive income						
Change in fair value - Bonds	21.3	15.8	19.8	(31.7)	(25.2)	0.0
Effects of discount rate changes-Insurance liabilities	(25.9)	(20.1)	(26.1)	39.6	32.6	-
Net OCI	(4.7)	(4.4)	(6.3)	7.9	7.4	0.0
Total comprehensive income	82.6	57.5	(109.6)	7.9	11.2	49.5

A18. The statement of financial performance supporting the graph on page 14, assuming that the 90% of the changes due to changes in discount rates of the portfolio are presented in OCI is not provided. The net profit (loss) amounts applying this alternative are available with the graph on page 14.