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Illustrative examples

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This paper has been prepared by the staff of the IFRS Foundation to illustrate the proposals for contracts with participation features discussed in March 2015 Agenda Paper 2B *Adaptations for insurance contracts that provide policyholders with investment returns: Proposed accounting for CSM and OCI*. This paper does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

Introduction

1. The IASB's March 2015 Agenda Paper 2A *Adaptations for insurance contracts that provide policyholders with investment returns: Background and scope* (Agenda Paper 2A) describes an approach that views the insurance contract liability for contracts with participation features as creating an obligation for the entity to pay to the policyholder an amount equal to the underlying items less a variable fee for service (hereafter referred to as the 'variable fee approach'). The Agenda Paper 2B *Adaptations for insurance contracts that provide policyholders with investment returns: proposed accounting for CSM and OCI* (Agenda Paper 2B) sets out a proposal for accounting for the CSM and OCI based on that view.

2. This paper contrasts the mechanics and effects of the variable fee approach with the proposals in the model for contracts with no participation features the IASB has been developing. The model for contracts with no participation features reflects the proposals in the 2013 Exposure Draft *Insurance Contracts* and the subsequent tentative decisions that the Board has made (hereafter referred to as 'the general model'). The general model views the entity's share of returns of the underlying items as the entity's economic interest in the underlying items.

Contractual service margin

3. The mechanics and effects of the variable fee approach for determining the contractual service margin are illustrated by applying that approach to an example contract with participation features in a series of five simple scenarios. In scenarios 1 to 4 the underlying items are variable rate debt instruments measured at fair value though profit or loss (FVPL). In scenario 5 the underlying items are fixed rate debt instruments. Other significant features of the scenarios are as follows:

   (a) scenario 1: no changes in assumptions, no guarantees and the entity holds the underlying items (paragraphs 9-21);

   (b) scenario 2: changes in market discount rates, no guarantees and the entity does **not** hold the underlying items (paragraphs 22-27);

   (c) scenario 3: changes in market discount rates, no guarantees and the entity holds the underlying items (paragraphs 28-38);

   (d) scenario 4: changes in market discount rates, there is a financial guarantee and the entity holds the underlying items (paragraphs 39-50); and

   (e) scenario 5: changes in market discount rates, no guarantees, and the entity holds the underlying items. The underlying items in scenario 5 are fixed rate debt instruments (compared to variable debt instruments in Scenarios 1-4) (paragraphs 51-77).

4. Because the purpose of this paper is to show how the contractual service margin (CSM) is accounted for after initial recognition, this paper illustrates:

   (a) the amounts that are adjusted against the margin or recognised in profit or loss for the general model (with the present value of changes and the accretion of interest on the CSM determined using a discount rate at inception); and

   (b) the amounts adjusted against the margin under the variable fee approach.

5. Normally there would be an amount of CSM allocated to profit or loss in each period. However, for simplicity, in these examples there is no allocation until the end of the coverage period.

Interest expense in the statement of comprehensive income

6. The final example illustrates the current period book yield approach for determining the interest expense in profit or loss that is described in Agenda Paper 2B. This is an extension of scenario 5 (summarised above in paragraph 3(e)). We illustrate the mechanics for determining interest expense in profit or loss when the bonds held are accounted for at:

   (a) FVPL;

   (b) fair value through other comprehensive income (FVOCI); and

   (c) amortised cost (AC).

Base case assumptions for all scenarios

7. The basic assumptions for the example contract are as follows:

   (a) The contract:

      (i) promises the policyholder a return equivalent to an investment in debt instruments;

      (ii) the contract will end after six years.

      (iii) the amount payable to policyholders on maturity is determined by the fair value of equivalent investments at the end of the sixth year after deducting 5% of those fair values.

      (iv) at contract inception, a single premium of CU1,000 is paid and the fair value of equivalent investments is CU1,000.

   (b) Investment income of any assets held by the entity is recognised in the statement of profit and loss in accordance with IFRS 9 *Financial Instruments* (IFRS 9). The underlying items are measured at FVPL.

   (c) There is no insurance risk. The risk adjustment is immaterial.

(d) In scenarios 1-4 the market discount rate at inception for the assets is 8% pa (7% pa in scenario 5). The yield curves are flat.

8. The assumptions in this paper are different from the examples used in Agenda paper 2A.[1]

Scenario 1—no changes in assumptions, no guarantees and the entity holds the underlying items

At inception

9. At inception,

(a) the fair value of the underlying items:

(i) is CU1,000.0.

(ii) at the end of Year 6, is expected to be CU1,586.9 (CU1,000.0 x 1.08^6 = CU1,586.9).

(b) at the end of Year 6, the entity expects to pay policyholders CU1,507.5 (95% of CU1,586.9) and retain CU79.3 (5% of CU1,586.9).

(c) the entity invests the premium received in the investments on which the promise to the policyholder is based (ie, in scenario 1 the entity invests the premium received in variable rate debt instruments that determine the policyholder cash flows).

Scenario1: general model—at inception

10. The present value of future cash outflows at inception is CU950 (CU1,507.5/1.08^6). The CSM at inception is an amount equal to the initial

[1] The differences between the assumptions in example in Agenda Paper 2A and the examples in this paper are:

(a) differences in the underlying items, Agenda Paper 2A uses equity instruments and this paper uses debt instruments; and

(b) differences in what is shared with the policyholder, Agenda Paper 2A shares the *returns* of the underlying items and this paper uses a share of the *fair value* of the underlying items.

premium (CU1,000) less the present value of future cash outflows (CU950), ie CU50. The total liability is CU1,000.

11. At inception, the journal entries are:

Dr Cash	1,000.0	
Cr Insurance liability (fulfilment cash flows)		950.0
Cr Insurance liability (CSM)		50.0

[The receipt of the premium]

Dr Variable rate investments	1,000.0	
Cr Cash		1,000.0

[The purchase of the variable rate investments]

Scenario 1: variable fee approach—inception

12. At inception there is no difference between the variable fee approach and the general model.

Subsequent measurement

Scenario 1: general model—subsequent measurement

13. Subsequent to initial recognition, there are no changes in expectations. Applying the general model, the statement of profit or loss records the following:

    (a) for the investments held, the investment income determined in accordance with the appropriate IFRSs (ie, IFRS 9);

    (b) for the insurance liability;

        (i) interest expense;

        (ii) the accretion of the CSM; and

        (iii) an allocation of the CSM to profit or loss.

14. The journal entries in Year 1 are as follows:

    (a)

Dr Variable rate investments	80.0	
Cr Investment income		80.0

[Increase in the fair value of investments (CU1,000 x 8% = CU80.0)]

(b)	Dr Interest expense	76.0	
	Cr Insurance liability (fulfilment cash flows)		76.0
	[Unwind of discount rates for the insurance liability (opening fulfilment cash flows of CU950 x 8% = CU76.0)]		
(c)	Dr Interest expense	4.0	
	Cr Insurance liability (CSM)		4.0
	[Accreting interest on the CSM (opening CSM of CU50 x 8% = CU4.0)]		

15. The CSM is accreted each year at the rate applicable (8% pa) at the inception of the contract. The CSM at inception and each subsequent period end is as follows:

CSM	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**
Opening balance	50.0	54.0	58.3	63.0	68.0	73.5
Accretion (8% x opening balance)	4.0	4.3	4.7	5.0	5.4	5.9
Allocation to P&L						(79.3)
Closing balance	54.0	58.3	63.0	68.0	73.5	0.0

16. The statement of profit or loss for scenario 1 under the general model is as follows (see Appendix A for the balance sheets):

CU[2]	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**
Revenue						79.3
Net underwriting result						79.3
Investment income	80.0	86.4	93.3	100.8	108.8	117.5
Interest expense	(76.0)	(82.1)	(88.6)	(95.7)	(103.4)	(111.7)
Accretion of CSM	(4.0)	(4.3)	(4.7)	(5.0)	(5.4))	(5.9)
Net investment income	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	0.0	0.0	0.0	0.0	0.0	79.3

[2] There are rounding difference in the tables in this paper

Scenario 1: variable fee approach—subsequent measurement

17. Applying the variable fee approach, the accounting entries in Year 1 of the coverage period are as follows:

(a)	Dr Variable rate investments	80.0	
	Cr Investment income		80.0
	[Increase in the fair value of investments (CU1,000 x 8% = CU80.0)]		
(b)	Dr Interest expense	80.0	
	Cr Insurance liability (fulfilment cash flows 'FCF')		80.0
	[To record the increase in fulfilment cash flows representing the increase in the obligation to pay an amount equal to the value of the underlying items (see paragraph 19(c) Row A)]		
	Dr Insurance liability (FCF)	4.0	
	Cr Insurance liability (CSM)		4.0
	[Change in the estimated additional fee the policyholder will pay (see paragraph 19(c) Row D)]		

18. Under the variable fee approach the CSM in each period can be derived by a series of steps[3], as follows:

    (a) Determine the change in the fair value of the investments promised in the contract ('underlying items') (in this example, the entity holds assets that are the same as the underlying items).

    (b) Record the change in fulfilment cash flows representing the change in the obligation to pay an amount equal to the value of the underlying items.

    (c) Determine the change in the estimated fee the policyholder will pay.

    (d) Credit (or debit) the CSM in with the change in the estimated fee, subject to the CSM not becoming negative.

19. The results of the steps listed above in this example are as follows:

    (a) Determine the return on the underlying items.

[3] There may other mechanics that could be used to apply the view that the insurance contract liability for contracts with participation features as an entity's obligation to pay to the policyholder an amount equal to the underlying items less a fee for service.

Policyholder fund	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Opening balance	1,000.0	1,080.0	1,166.4	1,259.7	1,360.5	1,469.3
Change in the fair value of the underlying items	80.0	86.4	93.3	100.8	108.8	117.5
Closing balance	1,080.0	1,166.4	1,259.7	1,360.5	1,469.3	1,586.8

(b) Record the change in fulfilment cash flows representing the change in the obligation to pay an amount equal to the value of the underlying items.

(c) Determine the change in the estimated fee the policyholder will pay as below.

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
A) Change in the fair value of the underlying items	80.0	86.4	93.3	100.8	108.8	117.5
B) Fulfilment cash flows b/f	950.0	1,026.0	1,108.1	1,196.7	1, 292.5	1,395.9
C) Fulfilment cash flows c/f	(1,026.0)[4]	(1,108.1)	(1,196.7)	(1,292.5)	(1,395.9)	(1,507.5)
D) Variable fee for service (A+B-C)	4.0	4.3	4.7	5.0	5.4	5.9

(d) Adjust the CSM for changes in the fee and allocate the CSM to profit or loss for each period

CSM	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Opening balance	50.0	54.0	58.3	63.0	68.0	73.5
Variable fee for service	4.0	4.3	4.7	5.0	5.4	5.9
Allocation to P&L						(79.3)
Closing balance	54.0	58.3	63.0	68.0	73.5	0.0

20. The statement of profit or loss for scenario 1 under the variable fee approach is as follows (see Appendix A for the balance sheets):

[4] CU1,507.5/1.08^5 = 1,026.0

CU	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Revenue						79.3
Net underwriting result						79.3
Investment income	80.0	86.4	93.3	100.8	108.8	117.5
Interest expense	(80.0)	(86.4)	(93.3)	(100.8)	(108.8)	(117.5)
Net investment income	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	0.0	0.0	0.0	0.0	0.0	79.3

Comparison of the general model and the variable fee approach

21. When there are no subsequent changes in financial market estimates that affect the asset dependent cash-flows, there is no difference in the amounts recognised in the profit or loss and the balance sheet for the insurance liability (see Appendix A for the balance sheets).

Scenario 2—changes in market discount rates, no guarantees and the entity does not hold the underlying items

22. In scenario 1, paragraphs 9-21, the entity holds the underlying items on its balance sheet. In scenario 2, the same assumptions apply as scenario 1 at inception. except that that the entity chooses to invest in assets that are not the variable interest debt instruments that are the basis for the promise in the contract, ie, the assets held are not the same as the underlying items. At inception, the market discount rates are the same for both the variable investment returns promised in the contract and the different asset class bought (ie 8%).

At inception

23. At inception the assumptions are the same as the assumptions in scenario 1, in paragraph 9. Consequently, at inception the liability is the same as scenario 1. That is the present value of future cash outflows is CU950 (the present value of the expected payment to the policyholder, ie CU1,507.5/1.08^6) and the CSM is CU50. The insurance liability is CU1,000.0 (CU950+CU50).

Subsequent measurement

24. After inception:

    (a) There is no change in market discount rates of the investments promised in the contract;

    (b) but there is change in the market discount rates for the assets the entity holds, which are different to the underlying items, as follows:

Discount rates	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**
Inception						
Investments promised in the contract (underlying items)	8%	8%	8%	8%	8%	8%
Investments held by the entity	8%	8%	8%	8%	8%	8%
Subsequent						
Investments promised in the contract (underlying items)	8%	8%	8%	8%	8%	8%
Investments held by the entity	8%	8%	3%	3%	12%	12%

25. Under both the general model and the variable fee approaches, the liability measurement is derived from the underlying items. Consequently, the changes in value of the assets held do not affect the measurement of the liability. However, because there is a difference between the assets held in scenarios 1 and 2, the investment income recognised in profit or loss and amounts recognised on the balance sheet will be different.

26. The statement of profit or loss for scenario 2 under the general model and variable fee approach is as follows (see Appendix A for the balance sheets):

CU	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Total
Revenue						79.3	79.3
Net underwriting result	0.0	0.0	0.0	0.0	0.0	79.3	79.3
Investment income	80.0	86.4	35.0	36.0	148.5	166.3	552.3
Interest expense	(80.0)	(86.4)	(93.3)	(100.8)	(108.8)	(117.5)	(586.9)
Net investment income	0.0	0.0	(58.3)	(64.7)	39.7	48.8	(34.6)
Net profit	0.0	0.0	(58.3)	(64.7)	39.7	128.1	44.7

27. The net investment income in paragraph 26 above reflects that the entity is holding assets that are different from the underlying items promised in the contract.

Scenario 3—changes in market discount rates, no guarantees and the entity holds the underlying items

28. In scenario 3:

    (a) at inception, the assumptions are the same as scenario 1.

    (b) the difference between scenario 1 and 3 is that in scenario 3 there is a subsequent change in market discount rates. At the end of Year 2, the market discount rate for the underlying assets falls from 8% pa to 6% pa. In Years 3 to 6, the assets perform in line with the revised expectations.

At inception

Scenario 3: general model and variable fee approach—inception

29. At inception the assumptions are the same as the assumptions in scenario 1, in paragraph 9. Consequently, at inception the liability is the same as scenario 1 (see paragraphs 10-11). That is the present value of future cash outflows is CU950 (the present value of the expected payment to the policyholder, ie CU1,507.5/1.08^6) and the CSM is CU50. The insurance liability is CU1,000.0 (Cu950+CU50).

Subsequent measurement

30. At the end of Year 2, there is a change in the market expectations. The fair value of assets held by the entity and the investment income (change in fair value) in each year are as follows:

Period end	**Inception**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**
Fair value of assets	1,000.0	1,080.0	1,166.4	1,236.4	1,310.6	1,389.2	1,472.6
Investment income in year		80.0	86.4	70.0	74.2	78.6	83.4

31. The maturity value of assets at the end of Year 6 is CU1,472.6 (compared with CU1,586.9 in scenario 1). The expected payment to policyholders falls to CU1,399.0 (CU1,472.6 x 95%). The progression in the present value of expected payments to policyholders (fulfilment cash flows 'FCF') is shown in the table below:

Period end	**Inception**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**
FCF	950.0	1,026.0	1,108.1	1,174.6[5]	1,245.0	1,319.7	1,399.0
Change in the period		76.0	82.1	66.5	70.5	74.7	79.2

Scenario 3: general model—subsequent measurement

32. The accounting entries in Years 1 and 2 are the same as in scenario 1.

33. The statement of profit or loss applying the general model for each period is as follows (see Appendix A for the balance sheets):

[5] CU1,399.0/1.06^3 = CU1,174.6. Also, CU1,108.1 x 1.06 = CU1,174.6

CU	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Total
Revenue						79.3	79.3
Net underwriting result	0.0	0.0	0.0	0.0	0.0	79.3	79.3
Investment income	80.0	86.4	70.0	74.2	78.6	83.4	472.6
Interest expense	(76.0)	(82.1)	(66.5)	(70.5)	(74.7)	(79.2)	(448.9)
Accretion of CSM	(4.0)	(4.3)	(4.7)	(5.0)	(5.4)	(5.9)	(29.3)
Net investment income	0.0	0.0	(1.2)	(1.3)	(1.5)	(1.7)	(5.7)
Net profit	0.0	0.0	(1.2)	(1.3)	(1.5)	77.6	73.6

34. The accretion of interest and allocation of the CSM to profit or loss is not affected by a change in return on assets held, consequently these amounts are the same as in scenario 1 in paragraphs 9-21.

Scenario 3: variable fee approach-subsequent measurement

35. Because there is no change in estimates in Years 1 and 2, the accounting entries in years 1 and 2 are the same as in scenario 1 in paragraphs 9-21.

36. The statement of profit or loss applying the variable fee approach for each period is as follows (see Appendix A for the balance sheets):

CU	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Total
Revenue						73.6	73.6
Net underwriting result	0.0	0.0	0.0	0.0	0.0	73.6	73.6
Investment income	80.0	86.4	70.0	74.2	78.6	83.4	472.6
Interest expense	(80.0)	(86.4)	(70.0)	(74.2)	(78.6)	(83.4)	(472.6)
Net investment income	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	0.0	0.0	0.0	0.0	0.0	73.6	73.6

37. The variable fee approach is applied as described in paragraph 18, as follows:

(a) determine the change in value on the underlying items.

Policyholder fund	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Opening balance	1,000.0	1,080.0	1,166.4	1,236.4	1,310.6	1,389.2
Change in the fair value of the underlying items	80.0	86.4	70.0	74.2	78.6	83.4
Closing balance	1,080.0	1,166.4	1,236.4	1,310.6	1,389.2	1,472.6

(b) record the change in fulfilment cash flows representing the change in the obligation to pay an amount equal to the value of the underlying item;

(c) determine the change in the estimated additional fee the policyholder will pay as follows:

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
A) Change in the fair value of the underlying items	80.0	86.4	70.0	74.2	78.6	83.4
B) Fulfilment cash flows b/f	950.0	1,026.0	1,108.1	1,174.6	1,245.0	1,319.7
C) Fulfilment cash flows c/f	(1,026.0)	(1,108.1)	(1,174.6)	(1,245.0)	(1,319.7)	(1,398.9)
D) Variable fee for service (A+B-C)	4.0	4.3	3.5	3.7	3.9	4.2

(d) recognise the change in estimate of the fee and allocate the CSM to P&L for each period

CSM	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Opening balance	50.0	54.0	58.3	61.8	65.5	69.5
Variable fee for service	4.0	4.3	3.5	3.7	3.9	4.2
Allocation to P&L						(73.6)
Closing balance	54.0	58.3	61.8	65.5	69.5	0.0

Comparison of the general model and the variable fee approach

38. When there are changes in discount rates, there is a difference between the general model and the variable fee approach in the statement of profit or loss and balance sheet.

Scenario 4—changes in market discount rates, there is a financial guarantee and the entity holds the underlying items

39. In scenario 4:

    (a) at inception, the assumptions are the same as scenario 1 (set out in paragraph 9) except that the contract promises that the insurer will pay an amount to the policyholder if market rates fall below a specific rate. In Scenario 4, the minimum amount payable to policyholders is CU1,380 at the end of the coverage period.

    (b) in scenario 4 there is a subsequent change in discount rate which increases the possibility that the guaranteed return to the policyholders will apply. At the end of Year 2, the market discount rate for the underlying assets falls from 8% pa to 4% pa. In Years 3 to 6, the assets perform in line with the revised expectations.

At inception

Scenario 4: general model and variable fee approach—at inception

40. The presence of a guaranteed minimum payment to the policyholder introduces uncertainty into the measurement of the liabilities. To illustrate the effect of this uncertainty on the fulfilment cash flows, and for the purposes of this example, the

staff has included within the fulfilment cash flows an allowance for this uncertainty (sometimes referred to a measure of the time value of options and guarantees (TVOG)) by adding an amount to the present value of expected cash outflows. However, the TVOG amount in this example has not been determined using valuation techniques that are consistent with the objectives of the proposed Standard.

41. At inception, the fulfilment cash flows comprise the present value of expected future cash outflows of CU950 (the present value of the expected payment to the policyholder, ie CU1,507.5/1.08^6) and a TVOG of CU2 (CU950+CU2=CU952). The CSM is CU48. The insurance liability is CU1,000.0 (CU952+CU48).

Subsequent measurement

42. At the end of Year 2, there is a change in the market expectations. The fair value of assets held by the entity and the investment income (change in fair value) in each year are as follows:

Period end	**Inception**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**
Discount rates							
Fair value of assets	1,000.0	1,080.0	1,166.4	1,213.1	1,261.6	1,312.0	1,364.5
Investment income in year		80.0	86.4	46.7	48.5	50.5	52.5

43. The expected maturity value of assets at the end of Year 6 falls to CU1,364.5 (compared with CU1,586.9 in scenario 1). The entity will expect to incur a loss on the contract because the maturity value of the assets will be insufficient to fund the guaranteed minimum payment of CU1,380.0. At the end of Year 2 the entity expects to incur a shortfall at the end of Year 6 of CU15.5 (CU1,364.5 – CU1,380). The amount of loss that the entity incurs at the end of Year 6 will depend on market performance and is uncertain. The staff has assumed that fulfilment cash flows at the end of Year 2 include a TVOG, to reflect the uncertainty, of CU12. The progression in the present value of expected payments to policyholders (fulfilment cash flows 'FCF') is shown in the table below:

Period end	Inception	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Expected policy cash flow in Year 6	1,507.5	1,507.5	1,380.0	1,380.0	1,380.0	1,380.0	1,380.0
PV of expected cash flow in Year 6	950.0	1,026.0	1,179.6[6]	1,226.8	1,275.9	1,326.9	1,380.0
TVOG	2.0	2.0	12.0	11.0	9.0	7.0	0.0
FCF	952.0	1,028.0	1,191.6	1,237.8	1,284.9	1,333.9	1,380.0
Change in the period		76.0	163.6	46.2	47.1	49.0	46.1

Scenario 4: general model—subsequent measurement

44. The CSM is accreted each year at the rate (8% pa) applicable at the inception of the contract. The CSM at inception and each subsequent period end is as follows:

CSM	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Opening balance	48.0	51.9	56.0	60.5	65.3	70.5
Accretion (8% x opening balance)	3.9	4.0	4.5	4.8	5.2	5.6
Allocation to P&L						(76.2)
Closing balance	51.9	56.0	60.5	65.3	70.5	0.0

45. The statement of profit or loss applying the general model for each period is as follows:

[6] CU1,380/1.04[4] = CU1,179.6 (discounting a guaranteed payment at an asset-dependent rate is a simplification).

CU	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Total
Revenue						76.2	76.2
Net underwriting result	0.0	0.0	0.0	0.0	0.0	76.2	76.2
Investment income	80.0	86.4	46.7	48.5	50.5	52.5	364.5
Interest expense	(76.0)	(163.6)	(46.2)	(47.1)	(49.0)	(46.1)	(428.0)
Accretion of CSM	(3.9)	(4.0)	(4.5)	(4.8)	(5.2)	(5.6)	(28.2)
Net investment income	0.1	(81.3)	(4.0)	(3.4)	(3.8)	0.8	(91.6)
Net profit	0.1	(81.3)	(4.0)	(3.4)	(3.8)	76.9	(15.5)

46. The net investment income reflects (a) the entity's share of returns of the underlying items as the entity's economic interest in the underlying items and (b) changes in the TVOG.

Scenario 4: variable fee approach—subsequent measurement

47. The statement of profit or loss applying the variable fee approach for each period is as follows:

CU	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Total
Revenue							
Underwriting loss / reversal	0.0	(25.2)	0.5	1.4	1.4	6.4	(15.5)
Net underwriting result	0.0	(25.2)	0.5	1.4	1.4	6.4	(15.5)
Investment income	80.0	86.4	46.7	48.5	50.5	52.5	364.5
Interest expense	(80.0)	(86.4)	(46.7)	(48.5)	(50.5)	(52.5)	(364.5)
Net investment income	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	0.0	(25.2)	0.5	1.4	1.4	6.4	(15.5)

48. The underwriting loss in Year 2 arises because the CSM is exhausted. The CSM is exhausted to the extent of the current value of the guarantee. The current value of the guarantee comprises the present value of the expected shortfall (CU13.2)

and the TVOG at the end of Year 2 (CU12 in this illustrative example). In Years 3 to 6 the effect of unwinding the discount on the present value of expected shortfall (CU15.5 – CU13.2 = CU2.3) is offset by the release of the TVOG (CU12) as shown below:

CU	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Total
Present value of expected shortfall at Year 2 / subsequent unwind[7]	0.0	(13.2)	(0.5)	(0.5)	(0.6)	(0.6)	(15.5)
TVOG at Year 2 / subsequent release	0.0	(12.0)	1.0	2.0	2.0	7.0	(0.0)
Net underwriting result	0.0	(25.2)	0.5	1.4	1.4	6.4	(15.5)

49. The variable fee approach is applied as described in paragraph 18 as follows:

(a) Determine the change in value on the underlying items.

Policyholder fund	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Opening balance	1,000.0	1,080.0	1,166.4	1,213.1	1,261.6	1,312.0
Change in the fair value of the underlying items	80.0	86.4	46.7	48.5	50.5	52.5
Closing balance	1,080.0	1,166.4	1,213.1	1,261.6	1,312.0	1,364.5

(b) record the change in fulfilment cash flows representing the change in the obligation to pay an amount equal to the value of the underlying item.

(c) estimate the change in the fee that the policyholder as follows:

[7] For the purposes of this example the staff has assumed that the unwind of interest is presented in the underwriting result

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
A) Change in the fair value of the underlying items	80.0	86.4	46.7	48.5	50.5	52.5
B) Fulfilment cash flows b/f	952.0	1,028.0	1,191.6	1,237.8	1,284.9	1,333.9
C) Fulfilment cash flows c/f	(1,028.0)	(1,191.6)	(1,237.8)	(1,284.9)	(1,333.9)	(1,380.0)
D) Variable fee for service (A+B-C)	4.0	(77.2)	0.5	1.4	1.4	6.4

(d) record the change in the estimated fee and allocate the CSM to P&L for each period.

CSM	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Opening balance	48.0	52.0	0.0	0.0	0.0	0.0
Variable fee for service	4.0	(77.2)	0.5	1.4	1.4	6.4
Underwriting loss / reverse losses in P&L		25.2	(0.5)	(1.4)	(1.4)	(6.4)
Allocation to P&L						0.0
Closing balance	52.0	0.0	0.0	0.0	0.0	0.0

Comparison of the general model and the variable fee approach

50. When there are changes in discount rates, there is a difference between the general model and the variable fee approach in the statement of profit or loss and balance sheet. Under the general model the entity reports a loss in Year 2 and a profit in Year 6. In the variable fee approach the entity reports a comparatively small loss in Year 2 and the effect of releasing the TVOG (and unwinding the discount on the expected shortfall) in Years 3 to 6.

Scenario 5—changes in market discount rates, no guarantees, and the entity holds the underlying items (fixed-rate bonds)

51. In scenarios 1 to 4 the underlying items are variable rate debt instruments measured at FVPL. In scenario 5 the underlying items are fixed rate zero-coupon debt instruments.

52. At inception:

(a) the entity invests the premiums received in the investments on which the promise to the policyholder is based (that is fixed rate zero-coupon debt instruments (bonds)).

(b) The bonds are measured at FVPL.

(c) Market interest rate that apply to the bonds at inception is 7% pa.

(d) The bonds have a six year duration, ie, they are the same as the duration of the contract.

(i) The maturity proceeds of the bonds at the end of Year 6 are CU1,500.7 (CU1,000 x 1.07^6 = CU1,500.7).

(ii) The policyholder is paid CU1,425.7 (CU1,500.7 x 95%).

(iii) The entity retains CU75.0 (CU1,500.7 x 5%).

53. Market interest rates fall to 5% at the end of Year 2.

At inception

Scenario 5: general model and variable fee approach—at inception

54. The present value of future cash outflows at inception is CU950 (CU1,425.7/1.07^6). The CSM at inception is an amount equal to the initial premium (CU1,000) less the present value of future cash outflows (CU950), ie CU50. The total liability is CU1,000.

55. The journal entries are below:

Dr Cash	1,000.0	
Cr Insurance liability (fulfilment cash flows)		950.0
Cr Insurance liability (CSM)		50.0
[To record the receipt of the premium]		
Dr Investments (bonds)	1,000.0	
Cr Cash		1,000.0
[To record the purchase of the bonds]		

Subsequent measurement

56. The change in the market interest rates at the end of Year 2 affects the fair value of the bonds but, because the duration of the bonds matches the duration of the contract, the maturity value of the bonds and consequent payments to policyholders do not change. The fair value of assets held by the entity and the investment income (change in fair value) in each year are as follows:

Period end	**Inception**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**
Discount rates	7%	7%	5%	5%	5%	5%	5%
Fair value of assets	1,000.0	1,070.0	1,234.7	1,296.4	1,361.2	1,429.3	1,500.7
Investment income in year		70.0	164.7	61.7	64.8	68.1	71.5

57. Fulfilment cash flows and interest expense in each year are as follows:

Period end	**Inception**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**
Fulfilment cash flows c/f	950.0	1,016.5	1,172.9	1,231.6	1,293.1	1,357.8	1,425.7
Interest expense		66.5	156.4	58.7	61.5	64.7	67.9

Scenario 5: general model—subsequent measurement

58. In accordance with the general model the CSM is accreted each year at the rate (7% pa) applicable at the inception of the contract. The CSM at inception and each subsequent period end is as follows:

CSM	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**
Opening balance	50.0	53.5	57.2	61.3	65.5	70.1
Accretion (7% x opening balance)	3.5	3.7	4.0	4.3	4.6	4.9
Allocation to P&L						(75.0)
Closing balance	53.5	57.2	61.3	65.5	70.1	0.0

59. The accounting entries in Year 1 are as follows:

(a)	Dr Fixed rate investments	70.0	
	Cr Investment income		70.0
	[increase in fair value of investments – see table in paragraph 56]		
(b)	Dr Interest expense	66.5	
	Cr Insurance liability (fulfilment cash flows)		66.5
	[increase in current value of FCF – see table in paragraph 57]		
(c)	Dr accretion of CSM	3.5	
	Cr Insurance liability (CSM)		3.5
	[accretion of CSM – see table in paragraph 58]		

60. The accounting entries in Year 2 are as follows:

(a)	Dr Fixed rate investments	164.7	
	Cr Investment income		164.7
	[increase in fair value of investments – see table in paragraph 56]		
(b)	Dr Interest expense	156.4	
	Cr Insurance liability (fulfilment cash flows)		156.4
	[increase in current value of FCF – see table in paragraph 57]		
(c)	Dr accretion of CSM	3.7	
	Cr Insurance liability (CSM)		3.7
	[Accretion of interest on the margin]		

61. The statement of profit or loss applying the general model for each period is as follows (see Appendix A for the balance sheets):

CU	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Total
Revenue						75.0	75.0
Net underwriting result						75.0	75.0
Investment income	70.0	164.7	61.7	64.8	68.1	71.5	
Interest expense	(66.5)	(156.4)	(58.7)	(61.5)	(64.7)	(67.9)	
Accretion of CSM	(3.5)	(3.7)	(4.0)	(4.3)	(4.6)	(4.9)	
Net investment income	0.0	4.5	(0.9)	(1.0)	(1.2)	(1.3)	0.0
Net profit	0.0	4.5	(0.9)	(1.0)	(1.2)	73.7	75.0

Scenario 5: variable fee approach—subsequent measurement

62. The accounting entries in Year 1 are as follows:

(a)	Dr Interest expense	70.0	
	Cr Insurance liability (FCF)		70.0
	[To record the change in fulfilment cash flows representing the change in the obligation to pay an amount equal to the value of the underlying items]		
(b)	Dr Insurance liability (FCF)	3.5	
	Cr Insurance liability (CSM)		3.5
	[To reflect the estimated additional fee the policyholder will pay]		

63. The accounting entries in Year 2 are as follows:

(a)	Dr Interest expense	164.7	
	Cr Insurance liability (FCF)		164.7
	[To record the change in fulfilment cash flows representing the change in the obligation to pay an amount equal to the value of the underlying items]		
(b)	Dr Insurance liability (FCF)	8.2	
	Cr Insurance liability (CSM)		8.2
	[To reflect the estimated additional fee the policyholder will pay]		

64. The variable fee approach is applied as described in paragraph 18, as follows:

(a) determine the change in value on the underlying items. This is set out in paragraph 56.

(b) record the change in fulfilment cash flows representing the change in the obligation to pay an amount equal to the value of the underlying. This is set out in paragraph 57.

(c) estimate the change in the estimated fee that the policyholder will pay as follows:

	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**
A) Change in the fair value of the underlying items	70.0	164.7	61.7	64.8	68.1	71.5
B) Fulfilment cash flows b/f	950.0	1,016.5	1,172.9	1,231.6	1,293.1	1,357.8
C) Fulfilment cash flows c/f	(1,016.5)	(1,172.9)	(1,231.6)	(1,293.1)	(1,357.8)	(1,425.7)
D) Variable fee for service (A+B-C)	3.5	8.2	3.1	3.2	3.4	3.6

(d) record the change in the variable fee in the CSM and allocate the CSM to P&L for each period

CSM	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**
Opening balance	50.0	53.5	61.7	64.8	68.1	71.5
Variable fee for service	3.5	8.2	3.1	3.2	3.4	3.6
Allocation to P&L						(75.0)
Closing balance	53.5	61.7	64.8	68.1	71.5	0.0

65. The statements of profit or loss applying the variable fee approach for each period if the bonds are measured at FVPL are as follows:

CU	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Total
Revenue						75.0	75.0
Net underwriting result	0.0	0.0	0.0	0.0	0.0	75.0	75.0
Investment income	70.0	164.7	61.7	64.8	68.1	71.5	500.7
Interest expense	(70.0)	(164.7)	(61.7)	(64.8)	(68.1)	(71.5)	(500.7)
Net investment income	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	0.0	0.0	0.0	0.0	0.0	75.0	75.0

Scenario 5A—current period book yield approach for determining interest expense in profit or loss

66. This example is a continuation of Scenario 5 and illustrates the current period book yield approach for determining the interest expense in profit or loss that is described in Agenda Paper 2B *Adaptations for insurance contracts that provide policyholders with investment returns: Proposed accounting for CSM and OCI*.

67. Scenario 5 illustrates the mechanics and effects when the bonds are accounted for at FVPL. We illustrate the mechanics for determining interest expense in profit or loss when the bonds held are accounted for at:

    (a) fair value through other comprehensive income (FVOCI) in paragraphs 70-73; or

    (b) amortised cost (AC) in paragraphs 74-77.

    The following examples do not illustrate the impairment requirements in accordance with IFRS 9 as a simplification.

68. The interest expense on the insurance contract liability recognised in profit or loss is determined as equal and opposite in amount to the investment income on the underlying items held that is recognised in profit or loss. The amounts in profit and loss and OCI when the bonds are measured at FVOCI and amortised cost are determined as described below.

69. The current period book yield approach does not affect how the insurance liability is measured. Consequently, the entries to determine the amounts that adjust the

CSM, representing the change in the fee that the policyholder will pay, is the same as that set out in paragraphs 62(b) and 63(b).

When bonds are measured at FVOCI

70. The workings used to derive the amounts recognised in profit or loss and OCI for the bonds are as follows:

Period end	At Inception	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
a) Fair value of items held	1,000.0	1,070.0	1,234.7	1,296.4	1,361.2	1,429.3	1,500.7
b) Book value of items held	1,000.0	1,070.0[8]	1,144.9[9]	1,225.0	1,310.8	1,402.6	1,500.7
c) Cumulative OCI for items held	0.0	0.0	89.8[10]	71.3	50.4	26.7	0.0
d) Movement in OCI		0.0	89.8	(18.4)[11]	(20.9)	(23.7)	(26.7)
e) Investment income in P&L (effective interest rate (EIR))		70.0	74.9[12]	80.1	85.8	91.8	98.2

71. The entity would need to work out the amounts to be recognised in OCI for the liability as follows under the current book yield approach:

[8] CU1,500.7/1.07^5 = 1,070.0

[9] CU1,500.7/1.07^4 = 1,144.9

[10] CU 1,234.7 - CU1,144.9 = CU89.8

[11] CU71.3 - CU89.8 = CU(18.4)

[12] CU1,144.9 – CU1,070.0 = CU74.9

		At inception	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
a)	Discount rates	7%	7%	5%	5%	5%	5%	5%
b)	Change in fulfilment cash flows relating to obligation to pay to policyholder an amount equal in value to underlying items (See paragraph 64(c) Row A)		70.0	164.7	61.7	64.8	68.1	71.5
c)	Interest expense recognised in profit or loss		70.0	74.9	80.1	85.8	91.8	98.2
d)	Amounts recognised in OCI for the liability ((b)-(c))		0.0	89.8	(18.4)	(20.9)	(23.7)	(26.7)

72. The accounting entries in Years 1 and 2 are as follows:

(a) Year 1

Dr Investments (fair value)	70.0	
Cr Investment income (P&L)		70.0

[To record the changes for the bonds accounted for at FVOCI]

Dr Interest expense (P&L)	70.0	
Cr insurance contract (FCF)		70.0

[To record the presentation of interest expense for the liability]

(b) Year 2

Dr Investments (fair value)	164.7	
Cr Investment income (P&L)		74.9
(effective interest rate)		
Cr Movement in OCI		89.8

[To record the changes for the bonds accounted for at FVOCI]

Dr Interest expense (P&L)	74.9	
Dr Movement in OCI	89.8	
Cr insurance contract (FCF)		164.7

[To record interest expense and amounts in OCI for the liability. This is in contrast to the journal entry in 63(a) when the bonds are accounted for at FVPL.]

73. The statements of profit or loss when an entity applies the current book yield approach and measures the bonds at FVOCI are as follows:

CU	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Total
Revenue						75.0	75.0
Net underwriting result	0.0	0.0	0.0	0.0	0.0	75.0	75.0
Investment income	70.0	74.9	80.1	85.8	91.8	98.2	500.7
Change in insurance liability	(70.0)	(74.9)	(80.1)	(85.8)	(91.8)	(98.2)	(500.7)
Net investment income	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit	0.0	0.0	0.0	0.0	0.0	75.0	75.0
OCI							
Assets	0.0	89.8	(18.4)	(20.9)	(23.7)	(26.7)	0.0
Liabilities	0.0	(89.8)	18.4	20.9	23.7	26.7	0.0
Net OCI	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total comprehensive income	0.0	0.0	0.0	0.0	0.0	75.0	75.0

When the bonds are measured at amortised cost

74. Because the bonds are accounted for at amortised cost, the amounts recognised in profit or loss are determined using the effective interest rate method in IFRS 9. Accordingly there is no difference in profit or loss when bonds are measured at amortised cost rather than at FVOCI. As a result, the amounts recognised in P&L and OCI for the insurance contract liability when the bonds are at amortised cost is the same as when the bonds are accounted at FVOCI. However, because there will be a difference in the amounts recognised in OCI for the bonds, an accounting mismatch in equity arises.

75. The accounting entries in Years 1 and 2 are as follows:

(a) Year 1

Dr Investments (amortised cost)	70.0	
Cr Investment income (P&L)		70.0

[To record the changes in the bonds accounted for at amortised cost]

Dr Interest expense (P&L)	70.0	
Cr insurance contract (FCF)		70.0

[To record interest expense and amounts in OCI for the liability]

(b) Year 2

Dr Investments (amortised cost)	74.9	
Cr Investment income (P&L)		74.9

[To record the changes in the bonds accounted for at amortised cost]

Dr Interest expense (P&L)	74.9	
Dr Movement in OCI	89.8	
Cr insurance contract (FCF)		164.7

[To record interest expense and amounts in OCI for the liability. This is in contrast to the journal entry in 63(a) when the bonds are accounted for at FVPL.]

76. The statements of profit or loss when an entity applies the current book yield approach and measures the bonds at amortised cost are as follows:

CU	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Total
Revenue						75.0	75.0
Net underwriting result	0.0	0.0	0.0	0.0	0.0	75.0	75.0
Investment income	70.0	74.9	80.1	85.8	91.8	98.2	500.7
Interest expense	(70.0)	(74.9)	(80.1)	(85.8)	(91.8)	(98.2)	(500.7)
Net investment income	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	0.0	0.0	0.0	0.0	0.0	75.0	75.0
Movement in OCI							
Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities	0.0	(89.8)	18.4	20.9	23.7	26.7	0.0
Net OCI	0.0	(89.8)	18.4	20.9	23.7	26.7	0.0
Total comprehensive income	0.0	(89.8)	18.4	20.9	23.7	101.8	75.0

77. There is no difference in the CSM recognised on the balance sheet and in the statement of profit of loss under the current book yield approach and when the bonds are accounted for at FVPL, FVOCI and amortised cost.

Appendix A: Balance sheet for the scenarios above.

A1. The balance sheets are produced for each of the scenarios discussed earlier.

Scenario 1: no changes in assumptions, no guarantees and the entity holds the underlying items

	General model						
CU	**Year 0**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**
Investments at fair value	**1,000.0**	**1,080.0**	**1,166.4**	**1,259.7**	**1,360.5**	**1,469.3**	**79.3**
Fulfilment cash flows	950.0	1,026.0	1,108.1	1,196.7	1,292.5	1,395.9	0.0
CSM	50.0	54.0	58.3	63.0	68.0	73.5	0.0
Total insurance liabilities	**1,000.0**	**1,080.0**	**1,166.4**	**1,259.7**	**1,360.5**	**1,469.3**	**0.0**
Net assets	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**79.3**
Retained profit	0.0	0.0	0.0	0.0	0.0	0.0	79.3
Net Assets	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**79.3**

	Variable fee approach						
	Year 0	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**
	1,000.0	**1,080.0**	**1,166.4**	**1,259.7**	**1,360.5**	**1,469.3**	**79.3**
	950.0	1,026.0	1,108.1	1,196.7	1,292.5	1,395.9	0.0
	50.0	54.0	58.3	63.0	68.0	73.5	0.0
	1,000.0	**1,080.0**	**1,166.4**	**1,259.7**	**1,360.5**	**1,469.3**	**0.0**
	0.0	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**79.3**
	0.0	0.0	0.0	0.0	0.0	0.0	79.3
	0.0	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**79.3**

Scenario 2: changes in market discount rates, no guarantees and the entity does not hold the underlying items

		Variable fee approach						
CU		**Year 0**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**
Investments at fair value		**1,000.0**	**1,080.0**	**1,166.4**	**1,201.4**	**1,237.4**	**1,385.9**	**44.7**
Fulfilment cash flows		950.0	1,026.0	1,108.1	1,196.7	1,292.5	1,395.9	0.0
CSM		50.0	54.0	58.3	63.0	68.0	73.5	0.0
Total insurance liabilities		**1,000.0**	**1,080.0**	**1,166.4**	**1,259.7**	**1,360.5**	**1,469.3**	**0.0**
Net assets		**0.0**	**0.0**	**0.0**	**(58.3)**	**(123.1)**	**(83.4)**	**44.7**
Retained profit		0.0	0.0	0.0	0.0	0.0	0.0	44.7
Net Assets		**0.0**	**0.0**	**0.0**	**(58.3)**	**(123.1)**	**(83.4)**	**44.7**

Scenario 3: changes in market discount rates, no guarantees and the entity holds the underlying items

	General model						
CU	**Year 0**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**
Investments at fair value	**1,000.0**	**1,080.0**	**1,166.4**	**1,236.4**	**1,310.6**	**1,389.2**	**73.6**
Fulfilment cash flows	950.0	1,026.0	1,108.1	1,174.6	1,245.0	1,319.7	0.0
CSM	50.0	54.0	58.3	63.0	68.0	73.5	0.0
Total insurance liabilities	**1,000.0**	**1,080.0**	**1,166.4**	**1,237.6**	**1,313.1**	**1,393.2**	**0.0**
Net assets	**0.0**	**0.0**	**0.0**	**(1.2)**	**(2.5)**	**(4.0)**	**73.6**
Retained profit	0.0	0.0	0.0	(1.2)	(2.5)	(4.0)	73.6
Net Assets	**0.0**	**0.0**	**0.0**	**(1.2)**	**(2.5)**	**(4.0)**	**73.6**

	Variable fee approach						
	Year 0	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**
	1,000.0	**1,080.0**	**1,166.4**	**1,236.4**	**1,310.6**	**1,389.2**	**73.6**
	950.0	1,026.0	1,108.1	1,174.6	1,245.0	1,319.7	0.0
	50.0	54.0	58.3	61.8	65.5	69.5	0.0
	1,000.0	**1,080.0**	**1,166.4**	**1,236.4**	**1,310.6**	**1,389.2**	**0.0**
	0.0	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**73.6**
	0.0	0.0	0.0	0.0	0.0	0.0	73.6
	0.0	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**73.6**

Scenario 4: changes in market discount rates, there is a financial guarantee and the entity holds the underlying items

	General model						
CU	**Year 0**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**
Investments at fair value	**1,000.0**	**1,080.0**	**1,166.4**	**1,213.1**	**1,261.6**	**1,312.0**	**0.0**
Other liabilities							(15.5)[13]
Fulfilment cash flows	952.0	1,028.0	1,191.6	1,237.8	1,284.9	1,333.9	0.0
CSM	48.0	51.9	56.0	60.5	65.3	70.5	0.0
Total insurance liabilities	1,000.0	1,079.1	1,247.6	1,298.3	1,350.2	1,404.5	0.0
Total liabilities	**1,000.0**	**1,079.9**	**1,166.4**	**1,298.3**	**1,350.2**	**1,404.5**	**(15.5)**
Net assets	**0.0**	**0.1**	**(81.2)**	**(85.2)**	**(88.6)**	**(92.4)**	**(15.5)**
Retained profit	0.0	0.1	(81.2)	(85.2)	(88.6)	(92.4)	(15.5)
Net Assets	**0.0**	**0.1**	**(81.2)**	**(85.2)**	**(88.6)**	**(92.4)**	**(15.5)**

	Variable fee approach						
	Year 0	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**
Investments at fair value	**1,000.0**	**1,080.0**	**1,166.4**	**1,213.1**	**1,261.6**	**1,312.0**	**0.0**
Other liabilities							(15.5)
Fulfilment cash flows	952.0	1,028.0	1,191.6	1,237.8	1,284.9	1,333.9	0.0
CSM	48.0	52.0	0.0	0.0	0.0	0.0	0.0
Total insurance liabilities	1,000.0	1,080.0	1,191.6	1,237.8	1,284.9	1,333.9	0.0
Total liabilities	**1,000.0**	**1,080.0**	**1,191.6**	**1,237.8**	**1,284.9**	**1,333.9**	**(15.5)**
Net assets	**0.0**	**0.0**	**(25.2)**	**(24.8)**	**(23.3)**	**(21.9)**	**(15.5)**
Retained profit	0.0	0.0	(25.2)	(24.8)	(23.3)	(21.9)	(15.5)
Net Assets	**0.0**	**0.0**	**(25.2)**	**(24.8)**	**(23.3)**	**(21.9)**	**(15.5)**

[13] We assume that the entity borrows cash to settle the liability in excess of the fair value of assets at the end of Year 6

Scenario 5—changes in market discount rates, no guarantees, and the entity holds the underlying items (fixed-rate bonds)

	General model						
CU	**Year 0**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**
Investments at fair value	**1,000.0**	**1,070.0**	**1,234.7**	**1,296.4**	**1,361.2**	**1,429.3**	**75.0**
Fulfilment cash flows	950.0	1,016.5	1,172.9	1,231.6	1,293.1	1,357.8	0.0
CSM	50.0	53.5	57.2	61.3	65.5	70.1	0.0
Total insurance liabilities	**1,000.0**	**1,070.0**	**1,230.2**	**1,292.8**	**1,358.7**	**1,427.9**	**0.0**
Net assets	**0.0**	**0.0**	**4.5**	**3.6**	**2.5**	**1.3**	**75.0**
Retained profit	0.0	0.0	4.5	3.6	2.5	1.3	75.0
Net Assets	**0.0**	**0.0**	**4.5**	**3.6**	**2.5**	**1.3**	**75.0**

	Variable fee approach						
	Year 0	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**
	1,000.0	**1,070.0**	**1,234.7**	**1,296.4**	**1,361.2**	**1,429.3**	**75.0**
	950.0	1,016.5	1,172.9	1,231.6	1,293.1	1,357.8	0.0
	50.0	53.5	61.7	64.8	68.1	71.5	0.0
	1,000.0	**1,070.0**	**1,234.7**	**1,296.4**	**1,361.2**	**1,429.3**	**0.0**
	0.0	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**75.0**
	0.0	0.0	0.0	0.0	0.0	0.0	75.0
	0.0	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**75.0**