Appendix B: Proposed accounting for contracts with participation features

	No cash flows that vary with returns from underlying items	Discretionary crediting rate but there is no clearly identified portfolio of underlying items specified in the contract	Contract specifies policyholder receives returns determined by reference to a clearly identified portfolio of underlying items	Contract specifies the policyholder receives returns on underlying items held with no discretion	Contract specifies the policyholder receives returns on underlying items held but subject to discretion
1. Cash flows	Include in measurement all cash flows that related directly to fulfilment of insurance contract, reflecting expectations about how any discretion would be exercised.				
2. Discount rate	Adjust cash flows to reflect the time value of money using a rate that reflects the extent of any asset dependency. When there is no asset dependency, the appropriate rate is risk-free rate plus liquidity premium. Different techniques could be used to meet this objective including eg risk neutral modelling, real world modelling (using the deflators approach), stochastic approaches, etc.				
3. Risk adjustment	Adjust cash flows to reflect compensation for bearing the uncertainty about the amount and timing of cash flows. The risk adjustment reflects all risks associated with the insurance contract, other than those reflected through the use of market consistent inputs. It does not reflect the risks that do not arise from the insurance contract, such as investment risk relating to the assets that an entity holds (except when that investment risk affects the amounts payable to policyholders), asset-liability mismatch risk or general operational risk that relates to future transactions.				
4. CSM at inception	Determined at an amount that is equal and opposite to the sum of the amount of the fulfilment cash flows for the insurance contract at inception.				
5. CSM at subsequent measurement (unlocking) – asset share	When: • there is no clearly identified pool of underlying items; • the policyholder does not retain a share of the returns from underlying items; or • policyholder does not expect a substantial proportion of cash flows the contract to vary with changes in underlying items. Then changes in estimates that arise because of changes in financial assumptions (changes in discount rates) would be recognised in profit or loss or OCI.		When: • there is a clearly identified pool of underlying items; • policyholder expects a substantial proportion of cash flows the contract to vary with changes in underlying items; and • the policyholder expects to retain a substantial share of the returns from underlying items. Then the CSM would be adjusted for the following: • changes in the expected net variable fee for service (ie change in the PV of share of the returns of underlying items); and • changes in the expected present value of the cost of guarantees. This approach treats all changes in estimates arising from changes in financial assumptions as an underwriting effect.		
6. CSM at subsequent measurement (unlocking) – changes in estimates from non-financial assumptions	Adjust CSM to reflect changes in estimates of cash flows and risk adjustment that relate to future service, other than those that arise because of changes in financial assumptions. Changes in estimates that adjust the CSM include those that arise as a result of the application of any discretion.				

<table>
<tr><th></th><th>No cash flows that vary with returns from underlying items</th><th>Discretionary crediting rate but there is no clearly identified portfolio of underlying items specified in the contract</th><th>Contract specifies policyholder receives returns determined by reference to a clearly identified portfolio of underlying items</th><th>Contract specifies the policyholder receives returns on underlying items held with no discretion</th><th>Contract specifies the policyholder receives returns on underlying items held but subject to discretion</th></tr>
<tr><td>7. Allocation of CSM (see Agenda Paper 2C)</td><td colspan="5">Allocate on basis of passage of time. As a consequence of the level of aggregation principles, this would mean that the CSM recognised in profit or loss would reflect the number of contracts remaining in force.</td></tr>
<tr><td>8. Discount rate for accretion of CSM and unlocking</td><td colspan="2">Reflects that the consideration for the contract is not affected by current value of underlying items.
• Accrete interest on the CSM using a locked-in rate at inception of contracts.
• Determine the PV of changes that estimate that unlock the CSM using a locked-in rate.</td><td colspan="3">Reflects that the consideration for the contract varies according to the current value of underlying items.
• No need to accrete interest on the CSM as the measurement of the value of the underlying items already reflects the time value of money in the obligation.
• Determine the PV of changes that estimate that unlock the CSM using the current liability rate at reporting date.</td></tr>
<tr><td rowspan="2">9. OCI</td><td colspan="5">If using an OCI accounting policy, the objective is to eliminate accounting mismatch in profit or loss between insurance investment expense on the liability and the investment income on related assets.</td></tr>
<tr><td colspan="2">When the performance of underlying items cannot all be attributed to the policyholder, apply an effective yield approach. This is the case when:
• contracts not in scope of unlocking for asset share; or
• the entity does not holds the underlying items.

The entity recognised in profit or loss an amount of insurance investment expense determined using the effective yield approach.
The entity recognises in OCI the effect of changes in discount rates. This includes both:
• the effect of changes in discount rates on fixed cash flows; and
• changes in cash flows that vary with changes in interest rates and the effect of any discount rate changes on those cash flows (if any) .</td><td>Apply a current period book yield approach only when:
• contracts are in scope for unlocking for asset share; and
• entity expected at inception to hold the assets and has held the assets in each reporting period.
In all other cases apply an effective yield approach.</td><td colspan="2">When the performance of underlying items is all attributable to the policyholder, apply a current period book yield approach. This is the case when:
• contracts in scope for unlocking asset share; and
• The entity holds the underlying items
The entity recognises in profit or loss an amount of insurance investment expense determined so that there is no net investment margin on the underlying items in profit or loss.
The difference between the current value interest expense and the current period book yield is recognised in OCI.</td></tr>
<tr><td>10. Reassessment of eligibility</td><td colspan="5">Determine accounting approach at inception with no reassessment.</td></tr>
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