Appendix 1 - Comparison of the Alternative Proposal and the 2013 ED and IASB current re-deliberations

The table below compares the Alternative Proposal to the 2013 ED / current IASB re-deliberation status and explains the Industry's concerns with the IASB's proposals compared with the Alternative Proposal.

Topic	Alternative Proposal	2013 ED / current IASB re-deliberations	Comparison of the Alternative Proposal and 2013 ED / current re-deliberations
Scope	Applicable to all participating contracts. Participating contracts include all contracts which provide policyholders with a right to receive, as a supplement to the guaranteed benefits, a variable return either contractually or at the discretion of the issuer. The variable return could be based upon one or more of the following: (a) the performance of a specified pool of contracts or a specified type of contract; (b) realised and/or unrealised investment returns on a specified pool of assets; or (c) the profit or loss of the company, fund or other entity that issues the contract.	**Current IASB re-deliberations** The Board decided that if adopted, the scope of the unlocking of the CSM for changes in the insurer's share of asset returns will be limited to contracts when those changes can be viewed as an "implicit asset management fee". This is defined as only when: • the returns to be passed to the policyholder arise from the underlying items the entity holds (regardless of whether the entity is required to hold those items or whether the entity has discretion over the payments to policyholders); • there is a minimum amount (either fixed or determinable) that the entity must retain; and • the policyholder will receive a substantial share of the total return on underlying items. **2013 ED "Mirroring Approach"** The "mirroring approach" proposed to limit the application to those contracts which "requires the entity to hold underlying items" and "specifies a link between the payments to the	The scope proposed for the "mirroring approach" in the 2013 ED and in current IASB re-deliberations relating to an "implicit management fee" is too narrow in scope and would exclude a significant amount of participating contracts written by insurers from the proposals. This will result in inconsistent accounting treatment of contracts which are economically similar in nature. The Alternative Proposal is intended to be applicable to all types of participating contracts to ensure consistency in application of the accounting principles. This would allow for consistent treatment of economically similar contracts and improve comparability. The Alternative Proposal reflects the nature of the contracts where insurers use discretion to provide policyholders with a more stable long term rate of return over the life of the contract. The use of discretion in the level of returns allocated to policyholders is present in many types of participating contracts.

Topic	Alternative Proposal	2013 ED / current IASB re-deliberations	Comparison of the Alternative Proposal and 2013 ED / current re-deliberations
		policyholder and the returns on those underlying items".	
Discount rate used to present interest expense in profit or loss	Interest expense reported in the income statement is determined using the current portfolio book yield where an insurer applies amortised cost, FVOCI or mixed measurement to the underlying assets. The current portfolio book yield is determined consistently with the investment return reported in the income statement for the assets which back the insurance contract liabilities. The book yield approach would be applied to all participating contracts to which the Alternative Proposal is applied.	**Current IASB re-deliberations** The IASB is exploring two approaches for determining the discount rate used for the presentation of interest expense in profit or loss, the "Effective yield" and a "Book yield". **Book yield** The book yield approach proposed by the IASB staff is applicable only in the circumstances when it minimises accounting mismatches with underlying items. The book yield would have limited application. It is not permitted when equity instruments are measured at FVOCI or when investment properties are measured at cost and the policyholder receives a share of capital gains. At inception of the contract, the yield curve for the presentation of the unwind of the discount that would be recognised in profit or loss is the same as the yield curve used for the measurement of the liability on the balance sheet. The effect of the difference in those yield curves immediately after inception would be recognised as a gain or loss in profit or loss in subsequent periods	The book yield approach described by the IASB staff would only apply to a narrow subset of participating contracts. This will not eliminate accounting mismatches in the same manner as the book yield in the Alternative Proposal and will also not achieve consistency in reporting between assets and liabilities. As the book yield in the Alternative Proposal applies to all types of participating contracts it ensures economically similar contracts are treated consistently. The book yield described by the IASB staff differs to the book yield in the Alternative Proposal, as the IASB staff proposes prohibiting its application where equity instruments are measured at FVOCI and investment properties are valued at cost but the policyholder shares in the capital gains. The CFO Forum's view is that a limitation is not required as such assets can be accommodated by the computation of the book yield. The effective yield proposed by the staff would not eliminate accounting mismatches as successfully as the book yield proposed under the Alternative Proposal as its application will be limited to portfolios containing only debt instruments when in many instances insurers will have a mixed portfolio of assets underlying the participating contract.

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		Effective yield The effective yield approach proposed by the staff is a form of the effective interest method used to allocate the interest income or interest expense in profit or loss. The staff has recommended that approaches would be applied to contracts for which the cash flows that vary with underlying items are a substantial proportion of the total benefits to the policyholder over the life of the contract.	
Initial measurement of CSM	The day one liability calculation includes the insurer's compensation (i.e. the potential profit on the contract). The day one calculation includes the expected future returns on the underlying investments which impact the best estimate liability for the policyholder. Hence the CSM calculation includes the relevant portion of these future returns on underlying assets that relate to compensation to the insurer for future services. The CSM is the difference between the present value of premium inflows and the present value of expected benefits and expenses plus the risk adjustment. It contains	We believe the day one liability calculation is the same as for the Alternative Proposal.	We believe that on day one the general approach under the 2013 ED and the Alternative Approach have the same outcome.

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	expected compensation to the insurer for services from all profit sources, including expected investment returns.		
Subsequent measurement of CSM - unlocking	The CSM reflects the future unearned profits arising from provision of services for the participating insurance contract. The CSM is unlocked for all assumption changes that impact expected future profits and that relate to future services, including financial assumptions which are impacted by the change in value of the underlying assets and changes in reinvestment assumptions. Changes in financial and non-financial assumptions are treated consistently for subsequent measurement. As financial assumptions, including investment returns, impact the day one CSM calculation it is consistently reflected in the subsequent measurement.	**2013 ED** The 2013 ED proposed to treat the changes in assumptions on subsequent measurement inconsistently to the day one initial measurement treatment for participating contracts: It proposes that the financial assumptions, including the future investment returns for the insurer are not included in the unlocking of the CSM, despite in our interpretation it being so on day one. Paragraph B68d stated that the contractual service margin is not adjusted for changes in estimates of cash flows that depend on investment returns if those changes arise as a result of changes in the value of the underlying items. The ED proposed that such changes do not relate to services provided under the contract. **Current re-deliberations** The IASB staff have described an approach where if the CSM was to be adjusted for changes in the insurer's share of asset returns this would only be in the circumstances when those changes can be viewed as an implicit management fee. For any other type of participating contracts the CSM is not adjusted for changes in estimates of cash flows that depend on investment returns if those changes arise as a	**Reflecting future unearned profits** The approach described by the staff in the current re-deliberations would be very limited in scope of its application. This would mean that the CSM would not represent the total future unearned profits for a significant portion of participating contracts despite them being economically similar to those contracts included within the IASB's scope. The CSM is defined in the ED as unearned profit that the entity recognises as it provides services under the contract. For many participating contracts, the share in the underlying asset returns not attributed to policyholders form part of the insurer's profits for services provided. These profits are earned over the life of the contract in line with the provision of services. The service margin earned by insurers incorporates amounts that the entity will participate in over time from the underlying assets recognising that services are provided over the life of the contract. It is therefore wider than an implicit management fee. Asset management activities, i.e. crediting asset returns to the policyholder, are explicit services under the insurance contracts. The level of future compensation for these services changes with asset returns, which impacts the future cash flows to policyholders in the liability and the unearned profit in the CSM. The benefit of the Alternative Approach is that CSM is defined consistently at initial recognition and for subsequent measurement, as it is calculated on a fully unlocked basis, consistent with the other building blocks. The 2010 ED introduced the concept of nil gain at inception of the contract

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		result of changes in the value of the underlying items. In effect the CSM represents a residual.	and subsequent IASB decisions to unlock the CSM for changes in cash flows results in the CSM being an updated measurement each period representing future unearned profit. It is relevant therefore that the CSM is also unlocked for all elements of the compensation the insurer receives from the contract.
Release of the CSM	The release of the CSM is in accordance with the fulfilment of the contract as services are provided. The appropriate service driver(s) for the release of the CSM to the income statement will depend on the nature of the services provided by the relevant participating insurance contract.	**2013 ED** The 2013 ED provided principles based guidance requiring the CSM to be released in a systematic way best reflecting the remaining transfer of services being provided under the contract. The 2013 ED acknowledged that the services in a participating contract include insurance coverage and asset management. **Current re-deliberations** For non-participating contracts the Board has decided to specify that the appropriate pattern for the transfer of services is according to the passage of time. The IASB has not yet decided on the appropriate recognition pattern for the contractual service margin for contracts with participating features. The IASB staff paper for the May 2014 Board meeting noted that because the CSM is a blend of insurance coverage and asset management services that are not separately identifiable, any recognition pattern for the CSM is inevitably arbitrary, at least to some extent.	The CFO Forum supported the principle in the 2013 ED for the release of the CSM. The Alternative Proposal provides the same principle based approach for the release of the CSM. If the pattern of service to be used is mandated for specific product types it could lead to inappropriate performance reporting if the driver does not reflect the nature of the services provided under the contract.

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Presentation of changes in insurance liabilities due to changes in the discount rate in OCI or profit or loss	An insurer should elect to present the effect of changes in the discount rate in OCI or in profit or loss as an accounting policy choice.	**2013 ED** The OCI approach for the presentation of discount rate change is applied to non-participating contracts. In subsequent re-deliberations the option to present changes in OCI or P&L is an accounting policy choice for non-participating contracts. **Current re-deliberations** The IASB has identified that it is yet to decide on whether the OCI approach provides useful information for participating contracts.	The principle in the Alternative Proposal for the presentation of changes in the discount rate is consistent with the IASB's tentative decision from the March 2014 Board meeting for non-participating contracts. In the Alternative Proposal this principle is extended to participating insurance contracts.
Options and Guarantees	Cash flows arising from options and guarantees that are embedded in the insurance contract are treated consistently with all other elements of the insurance contract liability.	**2013 ED** The 2013 ED proposed that changes in the value of options and guarantees embedded in the insurance contract are reported in the P&L for contracts in the scope of the "mirroring approach". **Current re-deliberations** The IASB has identified that it is yet to decide on how an entity should account for changes in the value of options and guarantees.	We believe the treatment of the cash flows associated with options and guarantees proposed in the 2013 ED for contracts in the scope of the "mirroring approach" is inconsistent with the remainder of the cash flows in the insurance contract. Options and guarantees embedded in the insurance contract represent an element of the fulfilment cash flows consistent with all other components of the liability. To be consistent with IASB building block principles, options and guarantees embedded within the insurance contract should be treated in the same way as all other components of the insurance contract.
Bifurcation of cash flows	There is no requirement to bifurcate cash flows. A single yield curve is applied to the measurement of the whole insurance contract liability, including options and guarantees.	**2013 ED** The 2013 ED proposed that for contracts in the scope of the "mirroring approach" to determine interest expense in the income statement, different discount rates should be applied to the different types of cash flows contained in the contract: • The discount rate applied to cash flows that vary with returns on underlying	The application of the discount rate to measure the insurance contract liability in the Alternative Proposal is consistent in concept with the requirements in the 2013 ED for non-participating contracts. The difference in application with the 2013 ED for participating contracts is the removal of the requirement to bifurcate cash flows and the application of a single yield to all contractual cash flows. The 2013 ED requirement to bifurcate cash flows was overly complex and does not correspond to the way the contracts are

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		items would be reset each time there is a change in estimate of investment returns that results in changes to the amounts paid to policyholders. • The discount rate applied to cash flows that do not vary with underlying items would be locked in at inception. **Current re-deliberations** In the discussion of the potential direction on participating contracts, the IASB Board has suggested that the measurement model should not result in the requirement to bifurcate cash flows. The IASB intends to consider how to avoid the bifurcation of cash flows for presentation purposes.	managed. The operational challenge and cost of implementing the requirement would outweigh the benefits.
Disclosure	Disclosure of the components of the CSM and how the CSM develops over the reporting period. Including the movement in the fulfilment cash flows, risk adjustment and the CSM and the drivers of reported performance in the period.	**2013 ED** The disclosure objective in the 2013 ED was that an entity shall provide sufficient information to permit reconciliation of the amounts disclosed to the line items that are presented in the statements of profit or loss and other comprehensive income and of financial position. Similar disclosures to that described for the Alternative Proposal would be required to meet this disclosure objective for CSM.	The CFO Forum recognises that an essential component of the reporting proposition is transparent disclosure. We envisage that the final standard should include requirements that enable the reader to understand the key aspects such as assumptions, features of options and guarantees, and sensitivities. As under the Alternative Proposal the CSM is intended to represent future unearned profit, it has significant similarities with the value of in force business recognised in Embedded Value reporting. The life insurance industry has extensive experience in developing disclosures that demonstrate period on period movements, expected run-off, and other aspects of interest to users of such supplementary information.