

# OCI option



### IAS 1

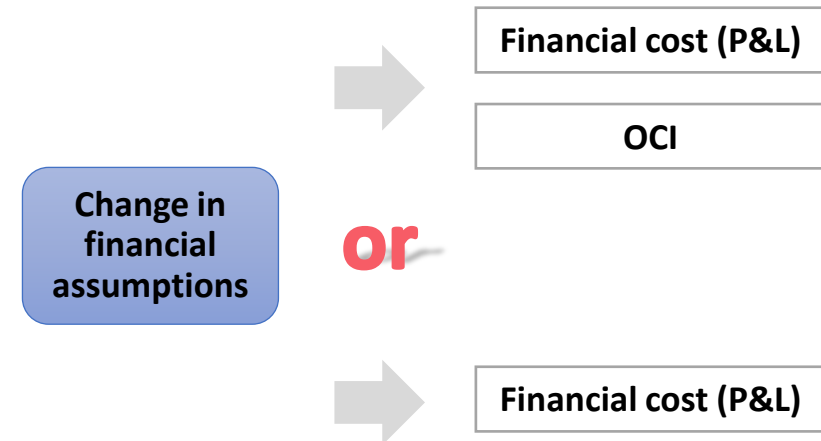
*Other Comprehensive Income comprises items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other IFRSs.*

### Other Comprehensive Income is a method to:

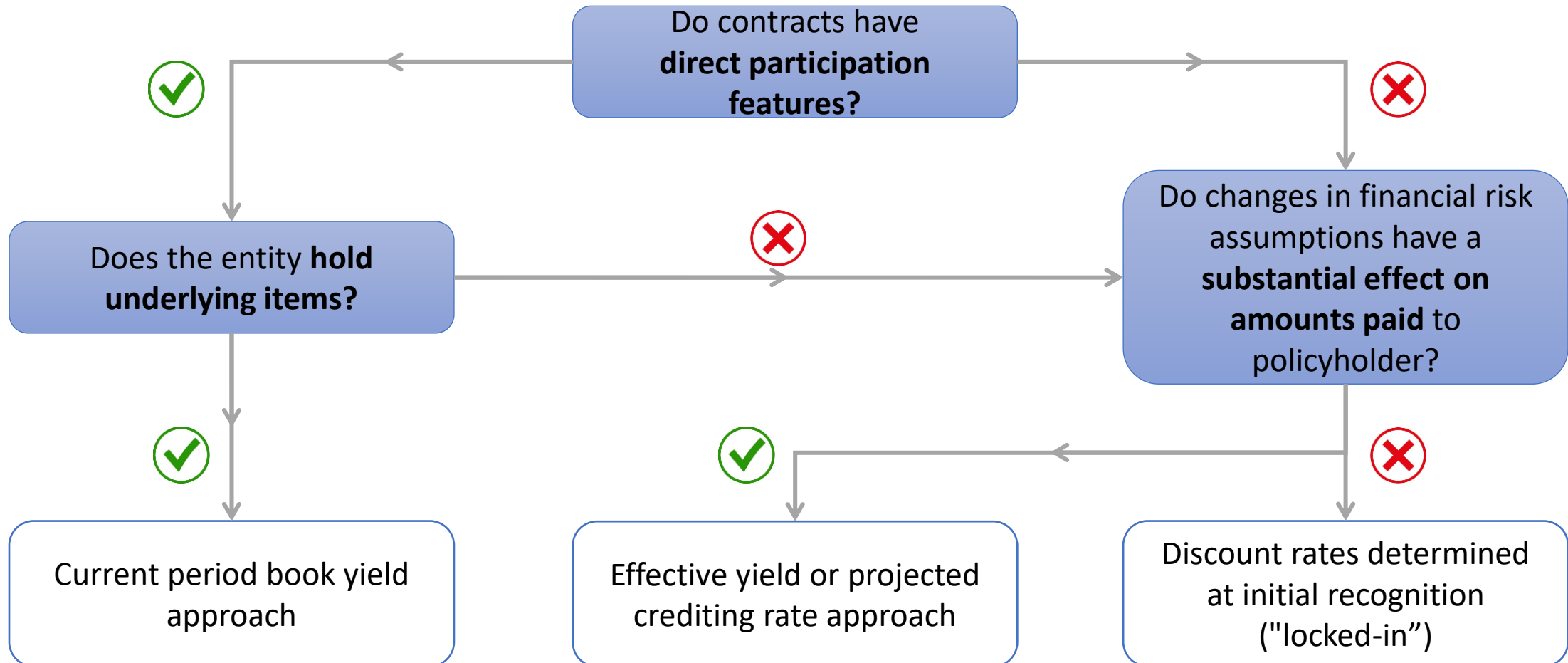
- Remove short term volatility from P&L
- Eliminate accounting mismatch between assets-related and liabilities-related income statement impacts
- Separate underwriting performance from financial effects

### IFRS 17 OCI option

Accounting policy choice – to present changes in financial assumptions in P&L **or** OCI



OCI option decision tree



### Example: "locked-in rate"

- Three year accident contract with single premium
- Change of interest rate at the end of year 1 from 10% (initial) to 5%

Present Value of FCFs	Inception	Y1	Y2	Y3
Disc. at locked-in rate [A]	403	-347	-182	0
Disc. at current rate [B]	403	-372	-190	0
Disc. Rate change impact on PVFCF [A] - [B]		-25	-9	0

Total finance cost in a year		-115	-48	-26
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Unwinding of interest of 10% and change of discount

Unwinding of interest of 5%

OCI option applied	Y1	Y2	Y3	Total
P&L	-90	-64	-34	-189
OCI	-25	16	9	0

OCI option not applied	Y1	Y2	Y3	Total
P&L	-115	-48	-26	-189
OCI	0	0	0	0

- OCI option "on": smoother profit recognition (locked – in rate)
- OCI option "off": increased costs in Y1 due to change of discount rate
- Both options present the same total financial cost (total OCI equals to zero)

### Example: current book yield

- Three year, single premium contract with direct participation
- Change of interest rate at the end of year 1 from 10% (initial) to 5%

Asset valuation	Inception	Y1	Y2	Y3
Fair value	1 500	1 811	1 901	1 997
Change in fair value		311	91	95
Amortised cost	1 500	1 650	1 815	1 997
Change in amortised cost		150	165	182
Disc.Rate change impact		161	86	0

OCI option applied	Y1	Y2	Y3	Total
P&L	-150	-165	-182	-497
OCI	-161	74	86	0

OCI option not applied	Y1	Y2	Y3	Total
P&L	-311	-91	-95	-497
OCI	0	0	0	0

- OCI option "on": smoother profit recognition (amortized cost)
- OCI option "off": increased costs in Y1 due to change of discount rate
- Both options present the same total financial cost (total OCI equals to zero)