

DISCOUNT RATE ASSUMPTIONS

APPLICABLE FOR: IND AS 19 and as – 15 (R)

as on 31st DECEMBER 2017

In Actuarial calculations, the discount rate is the factor used to restate the value of liabilities at a future date to today's value.

In other words, how much money would be need to set aside now, given a particular liability value at a future point.

2017

One of the key actuarial assumptions, which has a material effect on the benefit obligations, is the discount rate. The discount rate reflects the time value of money but not the actuarial or investment risk. Specifically, the discount rate does not reflect the entity- specific credit risk borne by the entity’s creditors, nor does it reflect the risk that future experience may differ from actuarial assumptions.

The discount rate plays a key role in assessing whether the pension plan has enough assets to meet its future pension obligations. The discount rate should be determined by reference to market yields at the end of the reporting period. The discount rate reflects what the plan's assets can reasonably be expected to earn over the long term. From this are subtracted the cost of running the pension plan and provisions for major adverse events.

The discount rate reflects the estimated timings of benefits payments. This can be achieved by applying a single weighted average discount rate that reflects the estimated timing and amount of benefits payment and the currency in which benefits are to be paid.

**IND AS 19 – DISCOUNT RATE**

As per the **IND AS 19 Guidelines** issued by the **Ministry of Corporate Affairs**, to decide upon the rate of discounting for the post employment benefit obligations, it is suggested to used the **yields on long term Indian Government bonds.**

It is suggested in practice to follow discount rates based on assumptions, such as weighted average yields, instead of considering the actual durations matching G-Sec.

GOVERNMENT OF INDIA BOND RATES – AS ON 31STDECEMBER 2017

The yield rates below are comprised of Generic Indian government bills and bonds. The rates given below are based on the benchmark FIMMDA (Fixed Income Markets and Derivatives Association of India) indices. FIMMDA is the nodal agency designated by RBI to set financial benchmarks.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Year** | **Tenor** | **Yield Range** | **Year to Mat.** |
| GOI |  | 3M | 6.120/6.110 | 0.25 |
| GOI |  | 6M | 6.240/6.200 | 0.50 |
| GOI | 2018 | 1Y | 6.315/6.270 | 1.15 |
| GOI | 2019 | 2Y | 6.568/6.552 | 2.07 |
| GOI | 2020 | 3Y | 6.637/6.611 | 2.51 |
| GOI | 2021 | 4Y | 6.871/6.857 | 4.19 |
| GOI | 2022 | 5Y | 6.880/6.863 | 5.03 |
| GOI | 2022 | 6Y | 6.986/6.968 | 6.02 |
| GOI | 2023 | 7Y | 7.049/7.04 | 6.54 |
| GOI | 2025 | 8Y | 7.098/7.083 | 7.47 |
| GOI | 2026 | 9Y | 7.286/7.265 | 8.96 |
| GOI | 2026 | 10Y | 7.028/7.027 | 9.44 |
| GOI | 2028 | 11Y | 7.373/7.340 | 10.49 |
| GOI | 2029 | 12Y | 7.093/7.089 | 12.05 |
| GOI | 2030 | 13Y | 7.407/7.385 | 12.42 |
| GOI | 2030 | 14Y | 7.075/7.074 | 13.78 |
| GOI | 2032 | 15Y | 7.475/7.452 | 14.65 |
| GOI | 2035 | 19Y | 7.423/7.407 | 17.76 |
| GOI | 2041 | 24Y | 7.619/7.603 | 24.01 |
| GOI | 2046 | 30Y | 7.431/7.414 | 28.84 |

**GOI** – Government of India.

**Yield range** indicates the high and low ceiling.

Sources:

<https://www.bloomberg.com/quote/GIND10YR:IND>

<https://in.reuters.com/article/markets-india-gilts-table/table-thomson-reuters-reference-rates-for-india-gilts-idINL3N1O73T6>

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