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Consultants and Actuaries

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Topic to be covered:

Volatility in the Interest Rate March 2017 v/s September 2017

Contents:

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Background

- Employee Benefit Obligations are to be valued based on G-Sec rate of estimated term as prevalent at the end of the reporting period.

- 10 Years G.Sec. Yield was 7.12% as on March 2017 and is 6.94% as of 29th September 2017, resulting in a drop in the yield of 0.18%.

- CPI Index:

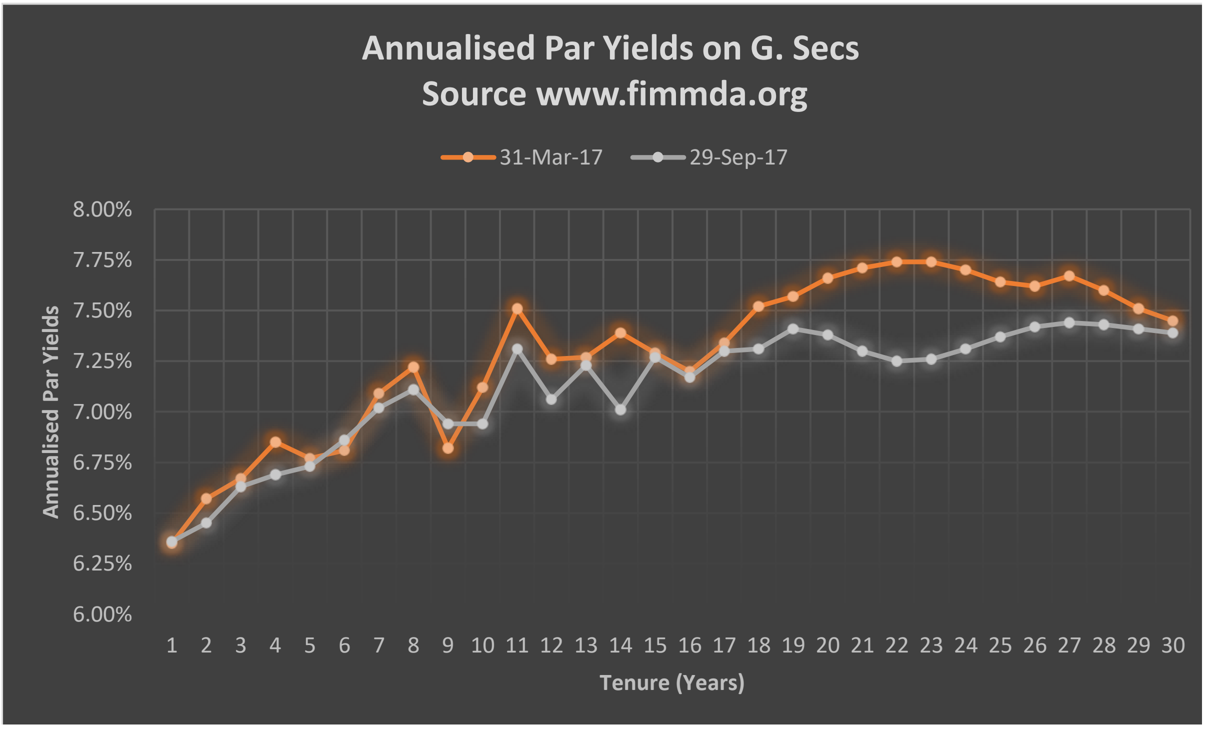
March 2017 - Feb 2017	0.36%	March 2017 - March 2016	2.61 %
August 2017 – July 2017	0.00 %	August 2017 – August 2016	2.52 %

- The yearly CPI has decreased from 2.61% in March 2017 to 2.52% in August 2017, this gives a drop of 0.09%.

- Impact of change in assumption is recognised in Profit & Loss in case of AS 15, whereas in case of Ind AS 19 it is recognised though OCI.

Changes

Below is comparison of G - Sec rates for various tenures at March 2017 and September 2017.



Comments

- The G- Sec yield drop will increase the liability, as the assumptions are correlated and the drop should also apply to the inflation in the wage being considered.

- In case Ind AS valuation is taken by company, additional charge to OCI due to the change in discount rate assumption can be estimated from Sensitivity of Obligation as disclosed at March 2017 under Ind AS 19.

- If a correlation in the assumptions are to be considered, one must take a re-look at the future salary escalation and if the Net gap remains same, there may not be much change in the liability. One must discuss this correlation with actuaries so as to have correlated assumptions.

- There is also a possibility of the fair value of the Plan Assets going up due to the fall in the yield resulting in the lowering in the provision requirements for funded plans.

- Over the last couple of years, G-Sec rate is very volatile and decreased to significantly low rate, this results into Actuarial Loss on Obligation. In case of Ind AS this volatility is passed through OCI for Post-Employment Benefit plans so Profit and Loss account remain consistent.

- Discount rate is taken based on G-Sec rate of estimated term of obligation, as G-Sec rates vary a lot across various term of bonds. Estimated term of obligation is calculated by actuarial techniques applying probability of Attrition and death rate. So it is suggested to review Attrition rate assumption based on actual past experience of company.

Reference:

Inflation: http://www.inflation.eu/inflation-rates/india/current-cpi-inflation-india.aspx
G-Sec Yield: www.fimmda.org (Per Annum yield)

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