

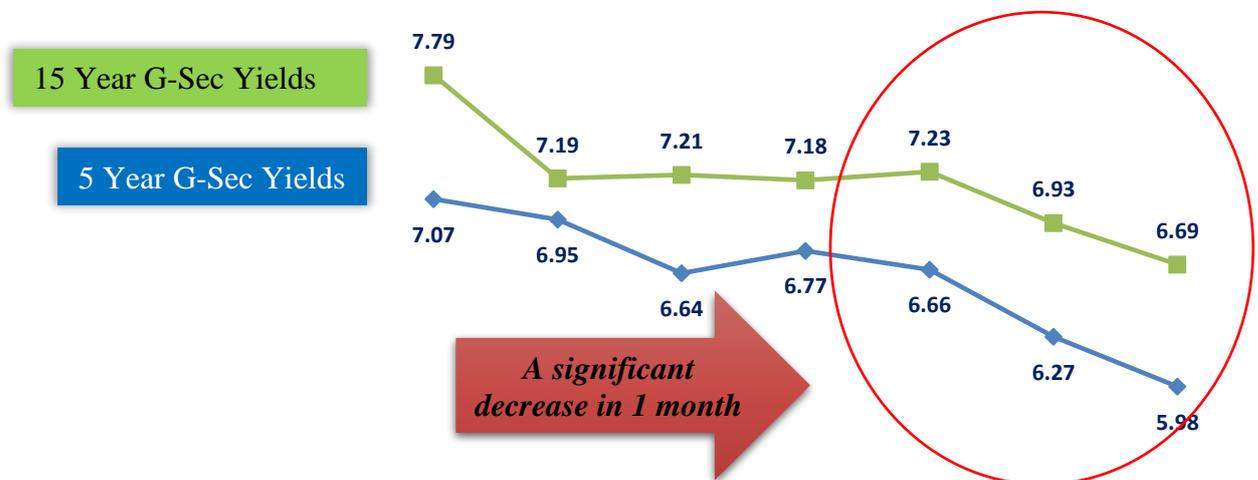
## Being prepared for volatility and uncertainty in Year-end valuations

As you know, all of us across the Globe are witnessing economic turmoil. In lieu of the same, India is also bracing itself to face the challenges resulting from the economic impact of Coronavirus coupled with the failure of some financial institutions. We believe that clients should be prepared for a potential period of volatility in the short term.

In particular, the discount rate which is governed by the market yield on the Government securities may move significantly and therefore it would be difficult to predict the movement of rates during March 2020. Hence, we feel that it would be prudent for the Company to brace itself for a volatile result if it was engaging in quarterly valuations. Yearly valuations may also register a wide swing in liability, with some solace to those who have a matched investment/asset-liability position in determining the overall impact on the provisions.

We have presented the volatility seen for 5-year bonds to show the impact on the liability on completion of the vesting period for Gratuity and the volatility on for 15-year bond yields keeping in mind the long-term nature of employee benefit liabilities, as under:

### ANNUALISED PAR YIELDS



	29-03-2019	28-06-2019	30-09-2019	31-12-2019	31-01-2020	28-02-2020	09-03-2020
◆ Annualised Par Yields for a 5 year term	7.07	6.95	6.64	6.77	6.66	6.27	5.98
■ Annualised Par Yields for a 15 year term	7.79	7.19	7.21	7.18	7.23	6.93	6.69

It is probably too early to assess whether this volatility will have far longer-term implications and to what extent long term assumptions for salary growth, attrition for example should be updated.

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However, in terms of the Discount rate, it is our recommendation to:

- Not have preconceived assumptions in mind for the discount rate
- Evaluate the discount rate as close as possible to the yearend date itself.
- Send the employee census data as early as possible (e.g. effective 1 March 2020) so we can start validating the same if the Company feels there would not be any substantial movement in data after it is submitted to us.
- Agree the approach with your auditor.
- Where some companies tend to consider Discount Rates as on 15th March or 15<sup>th</sup> or 29<sup>th</sup> February to finalise Accounts faster. Such Companies may face audit and investor queries if there is wide difference in the rate adopted and the rates on the actual year end accounting date. In such cases, agree a threshold with your auditor beyond which you will need to reassess the results.

Implementing our recommendations is planned to reduce having to re-value the liabilities several times, so we can meet client's timescales. In anticipation of the increased demand our Firm has however decided to upgrade systems and resources to take care of these requirements.

We hope that you will find our recommendations useful, understand our views and we look forward to your support on the yearend valuations.

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