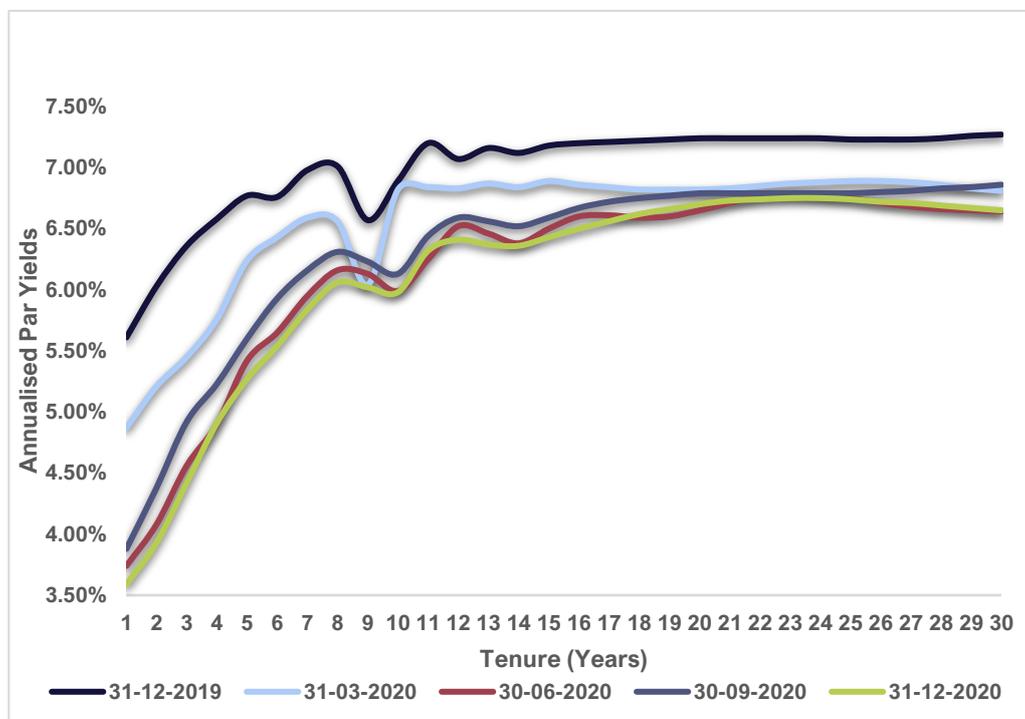


KAP's Interest Rate Updates for Employee Benefits as on 31 December 2020

Tenure	Yield 31-12-2020	Yield 31-03-2020
1	3.59%	4.87%
2	3.93%	5.21%
3	4.42%	5.45%
4	4.91%	5.76%
5	5.27%	6.24%
6	5.54%	6.43%
7	5.84%	6.59%
8	6.06%	6.56%
9	6.02%	6.04%
10	5.98%	6.82%
11	6.32%	6.84%
12	6.41%	6.83%
13	6.37%	6.87%
14	6.36%	6.84%
15	6.43%	6.89%
16	6.50%	6.86%
17	6.56%	6.84%
18	6.62%	6.82%
19	6.66%	6.82%
20	6.70%	6.82%
21	6.73%	6.83%
22	6.74%	6.85%
23	6.75%	6.87%
24	6.75%	6.88%
25	6.74%	6.89%
26	6.72%	6.89%
27	6.71%	6.88%
28	6.69%	6.86%
29	6.67%	6.83%
30	6.65%	6.81%

Volatility in rates continue, as seen in our comparison of Annualised Par Yields on Government Securities (G-Sec)/Discount Rates. We have comments and insights for the year and immediate past quarter:



Source: www.fimmda.org with prices/yields published by FBIL



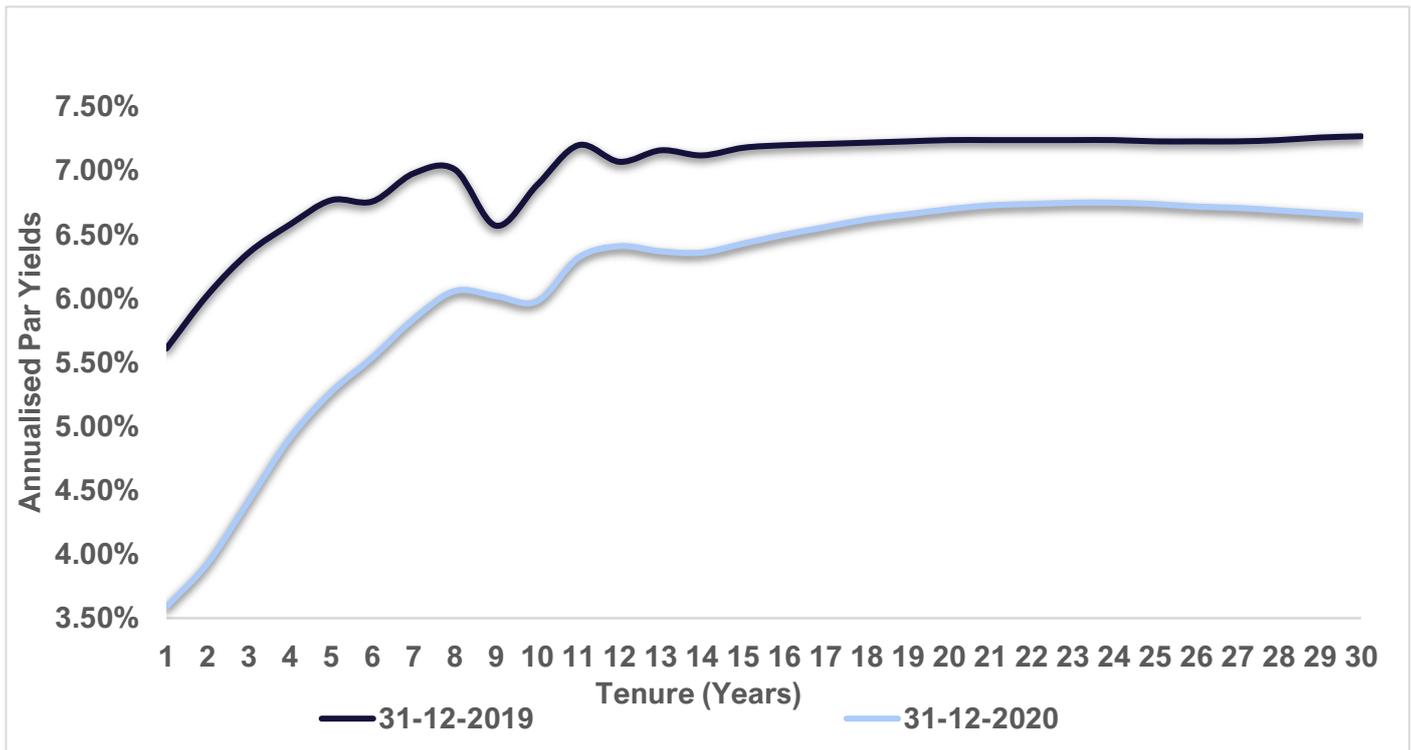
COMMENTS AND *INSIGHTS*

“Pandemic effect has made the Discount Rate volatile with downward bias. The expected buoyancy in the economic activity post pandemic may see a rising tail”

- Economic factors have rendered the G-Sec rates very volatile and a significant decrease is seen in the rates over the last year. G-sec rates have reduced on an average by 45 basis points when compared to March 2020 rates with a fall being seen for the 10-year bonds by almost 80 basis points.
- Rates, however, have decreased on an average by approximately 15 basis points when compared with September rates. **Such decreases will contribute to an increase in the employee benefits obligation for a 3-month period.**
- The volatility has been heightened during the last few months due to the uncertainty of the economic impact of the pandemic in the medium and long term. A reduction in the rates will give rise to Actuarial Losses. **We have seen some of these losses be balanced with a dampening of salary increase expectations by companies. The net impact on obligation calculations is largely determined by the gap between the salary growth rate and the discount rate. However, even a small change when deciding assumptions should be done with careful consideration of the entity's expectations and after discussion with the Actuary and Auditor so that they reflect the best long-term estimates.**



G. SEC RATES AS AT 31ST DECEMBER 2019 VS. 31ST DECEMBER 2020



COMMENTS AND INSIGHTS

- The G-sec rates have reduced significantly during the lockdown, with major impact being seen for the tenure of 5 and 10 years.
- With the easing of the lockdown, G-Sec rates have shown a steady improvement.
- Rates for longer durations seem less volatile and have shown steady improvement since Unlock 3.0 on account of the kick-starting of various economic activities.
- As a result of decreasing G-sec rates as at Dec 2020 compared with Dec 2019, a booked Actuarial Loss will be seen due to change in financial assumptions for IFRS reporting, if all other assumptions remain the same as last year.

Some Important Links: -

Indian Accounting Standard 19 - <https://indiasaccess.icaai.org/download/2019/asb0719/272/272asb-cias-2019-20-vol2-24.pdf>

Accounting Standard 15 (R) - https://www.mca.gov.in/Ministry/notification/pdf/AS_15.pdf

Guidance issued by AASB amid Covid-19 - <http://www.ka-pandit.com/assets/newsletter/A-Synopsis-of-the-Guidance-Issued-by-Auditing-and-Assurance-Standards-Board-amid-Covid-19.pdf>

Interest Rate Updates: -

September 2020 - https://www.ka-pandit.com/assets/newsletter/Interest_Rates_Updates_September_2020.pdf

June 2020 - <http://www.ka-pandit.com/assets/newsletter/Interest-Rates-Updates-June-2020.pdf>

March 2020 - http://www.ka-pandit.com/assets/newsletter/KAP_Update_Volatility_in_the_Interest_Rate-March_2020.pdf

If you have any queries about this article or anything else related to measuring employee benefit costs, please get in touch with us at:

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