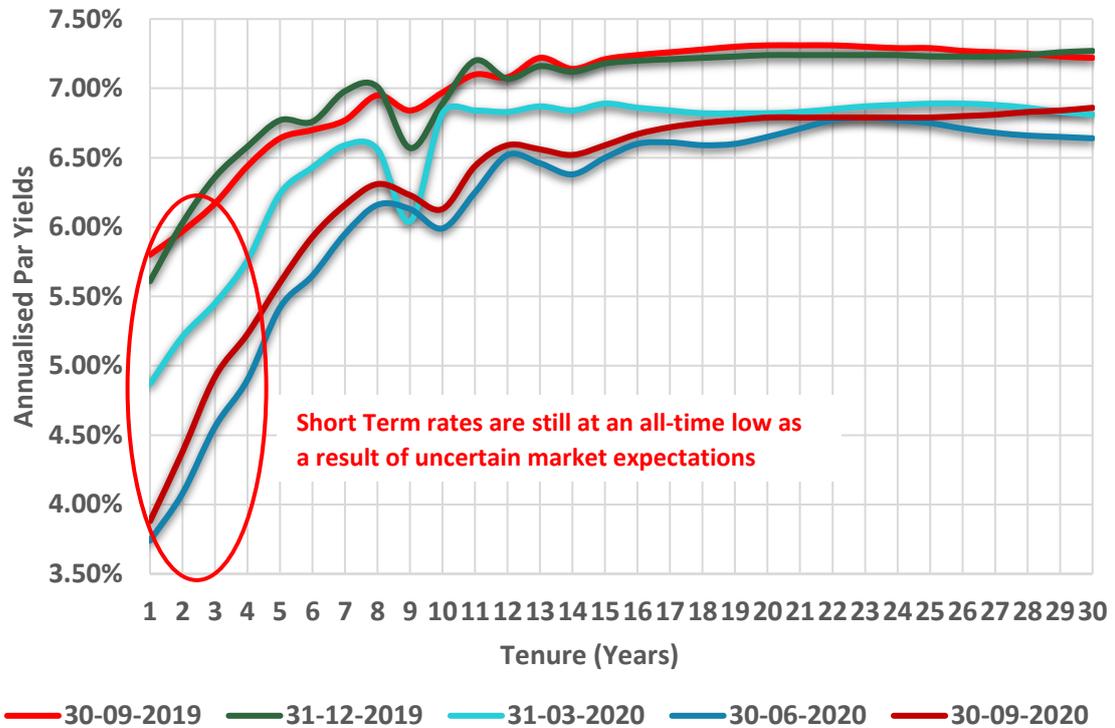


KAP's Interest Rate Updates for Employee Benefits as on 30 September 2020

Tenure	Yield 30 th September 2020	Yield 31 st March 2020
1	3.88%	4.87%
2	4.38%	5.21%
3	4.92%	5.45%
4	5.23%	5.76%
5	5.60%	6.24%
6	5.93%	6.43%
7	6.16%	6.59%
8	6.31%	6.56%
9	6.23%	6.04%
10	6.13%	6.82%
11	6.44%	6.84%
12	6.59%	6.83%
13	6.56%	6.87%
14	6.52%	6.84%
15	6.59%	6.89%
16	6.67%	6.86%
17	6.72%	6.84%
18	6.75%	6.82%
19	6.77%	6.82%
20	6.79%	6.82%
21	6.79%	6.83%
22	6.79%	6.85%
23	6.79%	6.87%
24	6.79%	6.88%
25	6.79%	6.89%
26	6.80%	6.89%
27	6.81%	6.88%
28	6.83%	6.86%
29	6.84%	6.83%
30	6.86%	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



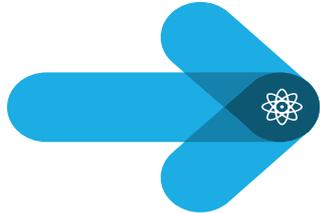
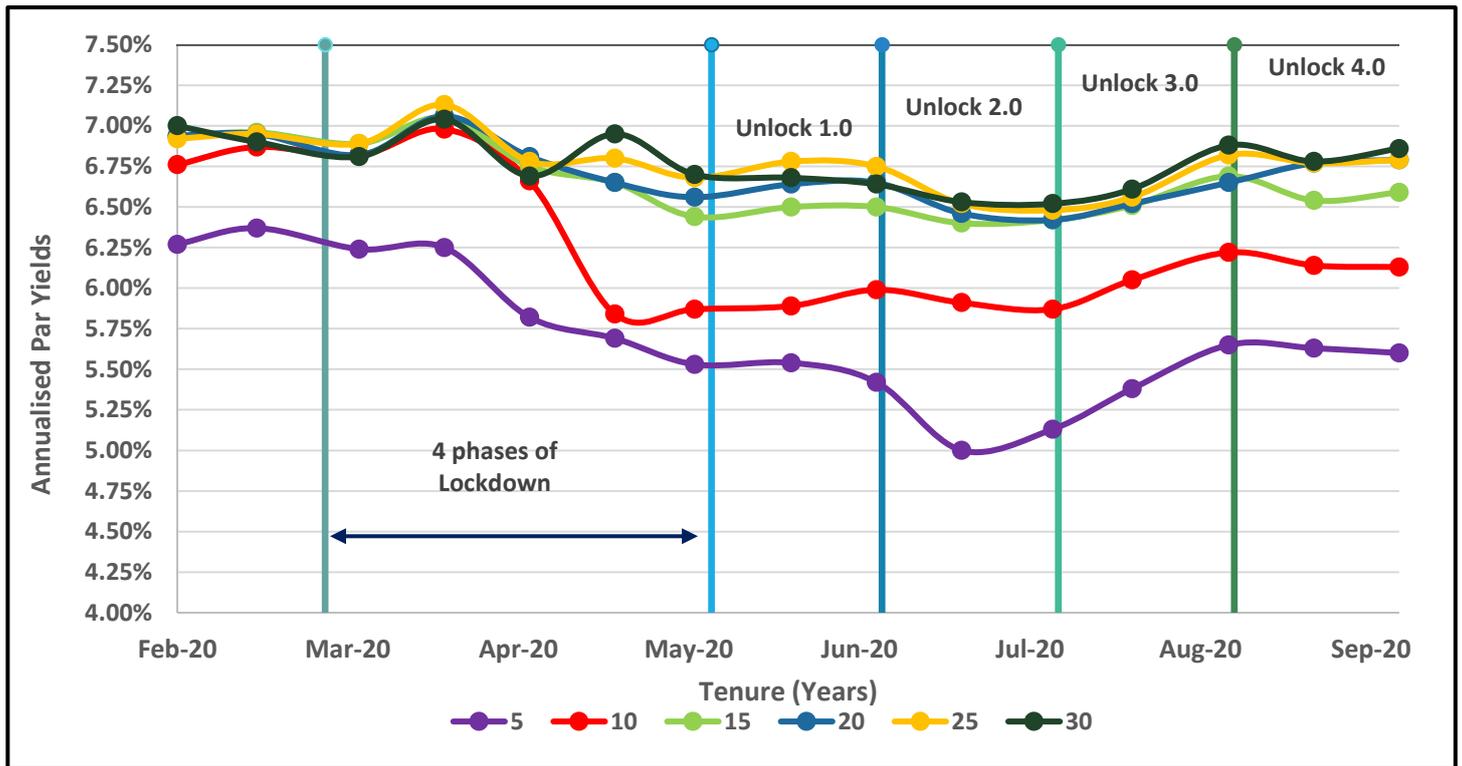
COMMENTS AND *INSIGHTS*

- 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 20 basis points when compared to March 2020 rates with a fall being seen for the 10 year bonds by almost 70 basis points.
- Rates, however, have increased on an average by approximately 15 basis points when compared with June rates. For a short and medium term period up to 7 years, there has been an improvement of the G-Sec rates by approximately 30 basis points when compared with June.
Such increases will contribute to a decrease 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.*

“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”



INTEREST RATES THROUGH THE LOCKDOWN AND UNLOCK PHASES



Lockdown:

- Lockdown 1.0 - 25 March 2020
- Lockdown 2.0 - 15 April 2020
- Lockdown 3.0 - 04 May 2020
- Lockdown 4.0 - 18 May 2020



Unlock:

- Unlock 1.0 - 01 June 2020
- Unlock 2.0 - 01 July 2020
- Unlock 3.0 - 01 August 2020
- Unlock 4.0 - 01 September 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.

Some Important links:-

Indian Accounting Standard 19 - <https://indasaccess.icai.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

Volatility in the Interest Rate - March 2020 - http://www.ka-pandit.com/assets/newsletter/KAP_Update_Volatility_in_the_Interest_Rate_March_2020.pdf

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

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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