



M/S. K.A. Pandit

Consultants and Actuaries

For private circulation only | 19-07-2017

Topic to be covered:

**Volatility in the Interest Rate
March 2017 v/s June 2017**

Contents:

[Background](#)
[Changes](#)
[Comments](#)
[Contact Us](#)

Offering Business Solutions

Since 1943

**We work for you,
Wherever your business takes you.**

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 6.67% as of 30th June 2017, resulting in a drop in the yield of 0.45%.
- CPI Index:

March 2017 - Feb 2017	0.36%	March 2017 - March 2016	2.61 %
May 2017 - April 2017	0.36 %	May 2017 - May 2016	1.09 %
- The yearly CPI has decreased from 2.61% in March 2017 to 1.09% in May 2017, this gives a drop of 1.52%.
- 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 through OCI.

Changes

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

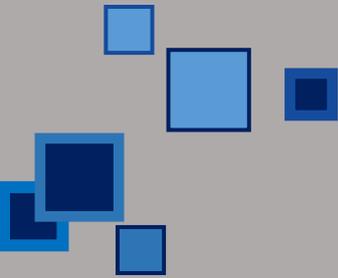


Comments

- 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)



M/S. K. A. Pandit

Consultants & Actuaries

HEAD OFFICE (MUMBAI)

2nd Floor, Churchgate House,
32-34 Veer Nariman Road,
Fort, Mumbai - 400001.
Tel .: +91-22-42922250

BRANCH OFFICE (MUMBAI)

C/201 Remi Bizcourt,
Off. Veera Desai Road,
Andheri (W), Mumbai – 400058.
Tel .: +91-22-42922231

BRANCH OFFICE (AHMEDABAD)

509, Golden Triangle,
Near Sardar Patel Stadium,
Navrangpura, Ahmedabad - 380014.
Tel .: +91-79-26460734

Website: www.ka-pandit.com Email: kap@ka-pandit.com

This material and the information contained herein prepared by M/S. K. A. Pandit Consultants & Actuaries (KAP) is intended to provide general information on a particular subject or subjects and is not an exhaustive treatment of such subject(s). This material contains information sourced from third party sites (external sites).

KAP is not responsible for any loss whatsoever caused due to reliance placed on information sourced from such external sites. By means of this material, KAP is not rendering professional advice or services. This information is not intended to be relied upon as the sole basis for any decision which may affect you or your business. Before making any decision or taking any action that might affect your personal finances or business, you should consult a qualified professional adviser.

No entity in the KAP Network shall be responsible for any loss whatsoever sustained by any person who relies on this material.

©2014 K. A. PANDIT ISO 9001:2008 CERTIFIED | ISO 27001:2013 CERTIFIED



Member of

Abelica Global™

Consultants and Actuaries