

# IFRS17 – Determining Discount Rates

## Introduction

IFRS 17 sets out the requirements to discount future cash flows in deriving the value of the liabilities. An entity is thereby expected to adjust estimates of future cash flows to reflect the time value of money and the financial risks related to those cash flows. Thereby, discount rates applied should:

Reflect the time value of money

Characteristics of the cashflows

Match the timing, currency & liquidity of contracts and selected financial instruments

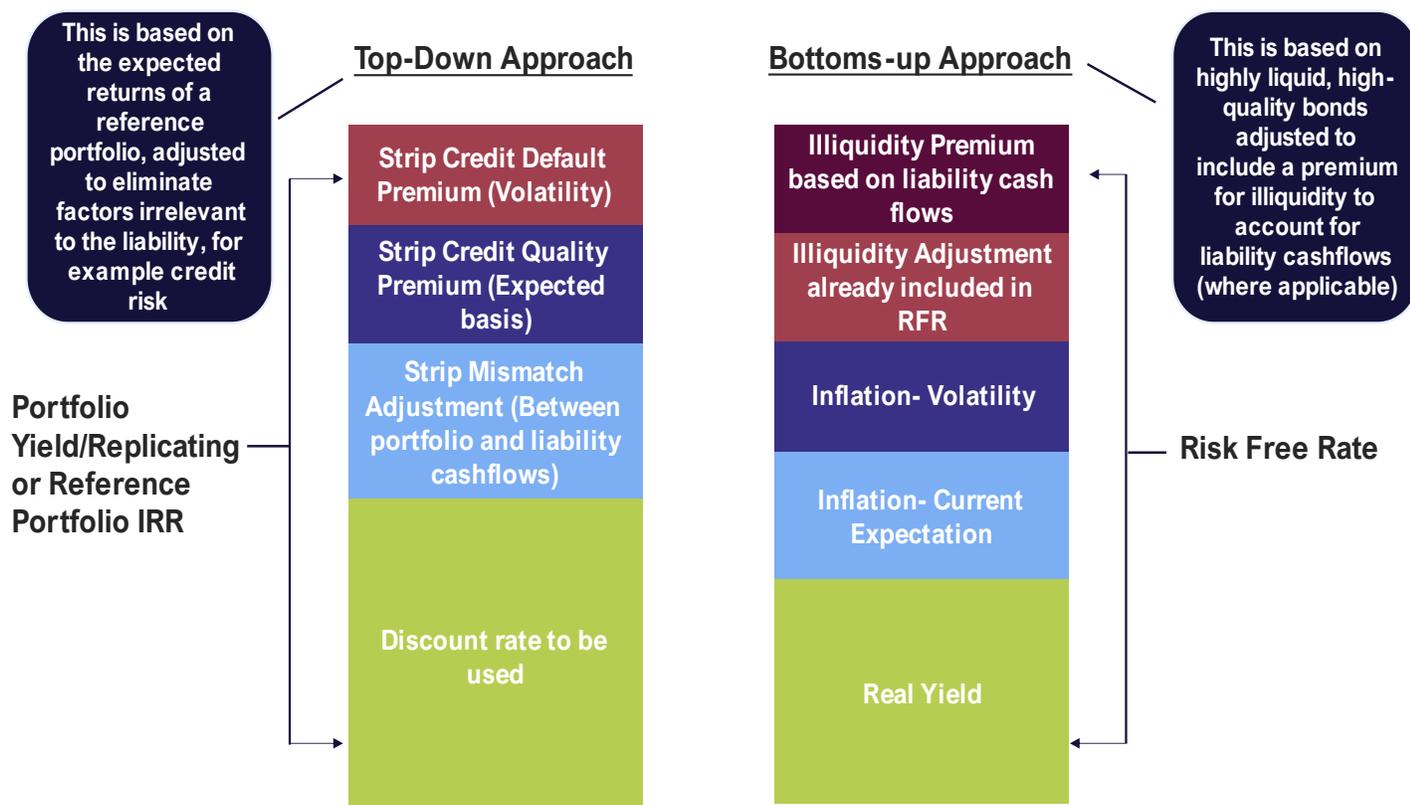
Liquidity characteristics of the insurance contracts

Consistency with current market prices of financial instruments



## Approach

The discount rate can be computed using either a Top-down approach or a Bottoms-up approach using the below methodology by an entity:



It is to be noted that the two approaches may result in a different discount rate and the Company is not required to further reconcile the differences between the two approaches.



The illiquidity premium would be added depending upon the nature of the underlying liability cashflows and the liquidity characteristics reflected by the risk-free rates. The Standard does not prescribe any methodology for determination of the illiquidity premium and hence, the Company may use its own judgement.

To gain more insights on discount rates under IFRS17 or for any other related discussions, please feel free to reach out to us at [kap@ka-pandit.com](mailto:kap@ka-pandit.com).

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