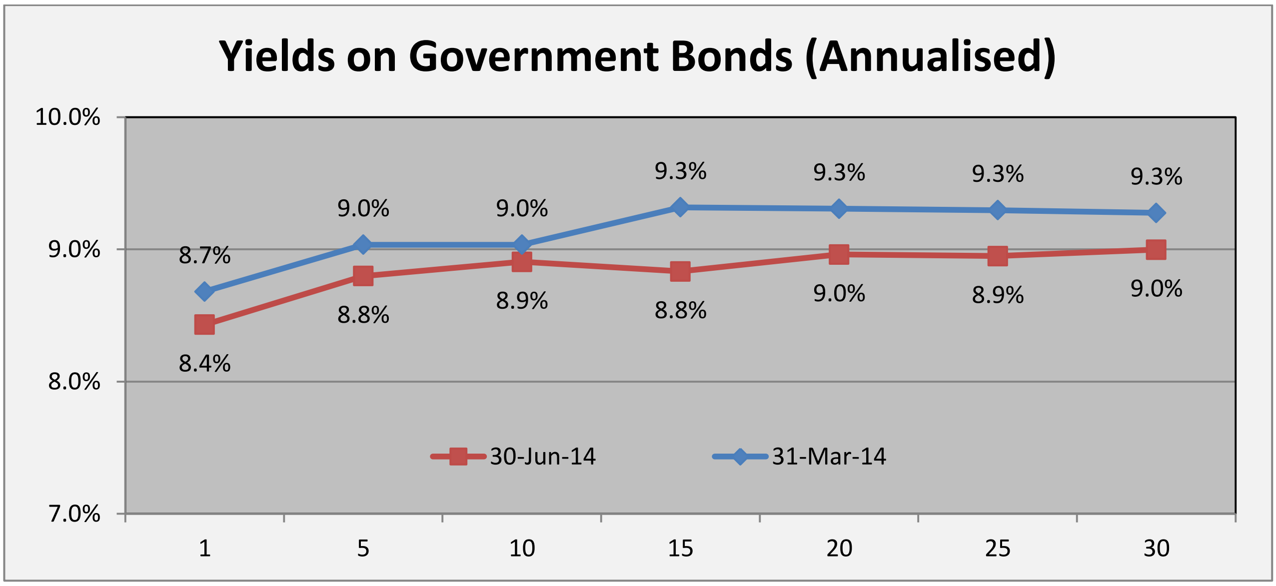
KPAC

Discount Rate for Actuarial Valuations as at 30 June 2014

Para 78 of Accounting Standard (AS) 15: Employee Benefits, which deals with discount rate to be used in actuarial valuations of employee benefit schemes, requires:

*"The rate used to discount post-employment benefit obligations (both funded and unfunded) should be determined by **reference to market yields at the balance sheet date on government bonds**. The currency and term of the government bonds should be consistent with the currency and estimated term of the post-employment benefit obligations."*

Please find below a ***comparison of yields on government bonds as on 31 March 2014 and 30 June 2014***:



* Please note that the yields provided in chart above are interpolated yields in cases where a bond of exact term to maturity is not available.
Please note that the government bond yields are quoted on semi-annual basis and yields in above chart have been annualised.

As can be seen from the above chart, the market yields (and hence discount rates) have decreased by c 30 bps compared to the previous quarter. Thus, assuming all other assumptions are held constant, one would **expect some actuarial loss** in this quarter's valuation. However, the Companies may ***consider a consistent decrease in salary growth rate (subject to the existing level of salary increase assumption being appropriate)***.

Such a move can help offset the one off movements in liability. In fact, consistency between actuarial assumptions has also been highlighted in ***Para 76 of AS15***, which states:

*"Actuarial assumptions are mutually compatible if they reflect the **economic relationships between factors such as inflation, rates of salary increase, the return on plan assets and discount rates**. For example, all assumptions which depend on a particular inflation level (such as assumptions about interest rates and salary and benefit increases) in any given future period assume the same inflation level in that period."*

For any further information, please contact:

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