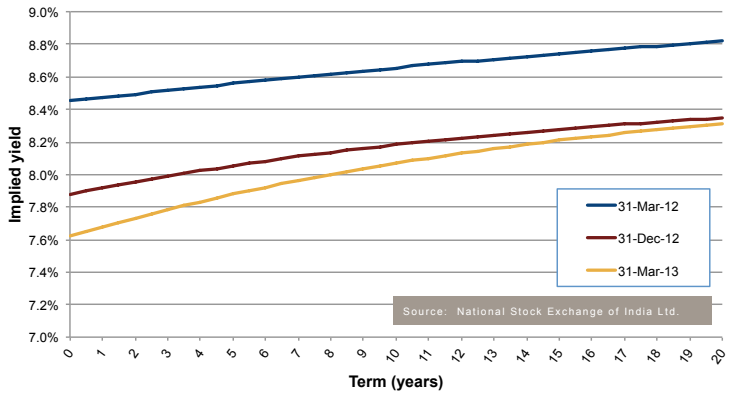
The evolution of the discount rate for measuring employee benefit obligations under AS15(R) – 31 March 2013

April 2013

This is our regular update on the evolution of the discount rate applicable to your AS15(R) liabilities. This is the accounting standard relating to the cost of providing employee benefits—such as gratuity, pension and leave encashment plans.

As a recap, the discount rate for AS15(R) purposes is set with reference to the yield on Indian government bonds. We use this rate to calculate the current cost of providing the benefits we expect you to pay in the future. The particular rate taken is assessed based on the yield curve at the date of your valuation. The chart below indicates how this yield curve has changed over the past year:

Evolution of zero-coupon yield curve for Indian government bonds



As evident from the chart above, implied yields of all terms have fallen over the year ending 31 March 2013. The impact of this fall will depend on the weighted average expected future working lifetime (WAEFWL) of your employees. (The WAEFWL represents the expected term of employment of the participants of your benefit plan, taking into account the assumptions made for attrition, retirement, disability and mortality). It will also depend on the rounding methodology you employ in setting the discount rate.

For instance, if your practice is to round the discount rate to the nearest 0.1%:

- If your WAEFWL is five years, the implied discount rate may have fallen by approximately 0.7% over the year, and in isolation this may suggest a rise in your liabilities of approximately 3%.
- If your WAEFWL is 10 years, the implied discount rate may have fallen by approximately 0.6% over the year, and in isolation this may suggest a rise in your liabilities of approximately 6%.
- If your WAEFWL is 15 years, the implied discount rate may have fallen by approximately 0.5% over the year, and in isolation this may suggest a rise in your liabilities of approximately 8%.

We would be happy to talk with you in greater detail about the discount rate applicable to your plan, or indeed any other employee benefit issues.

CONTACT

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