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

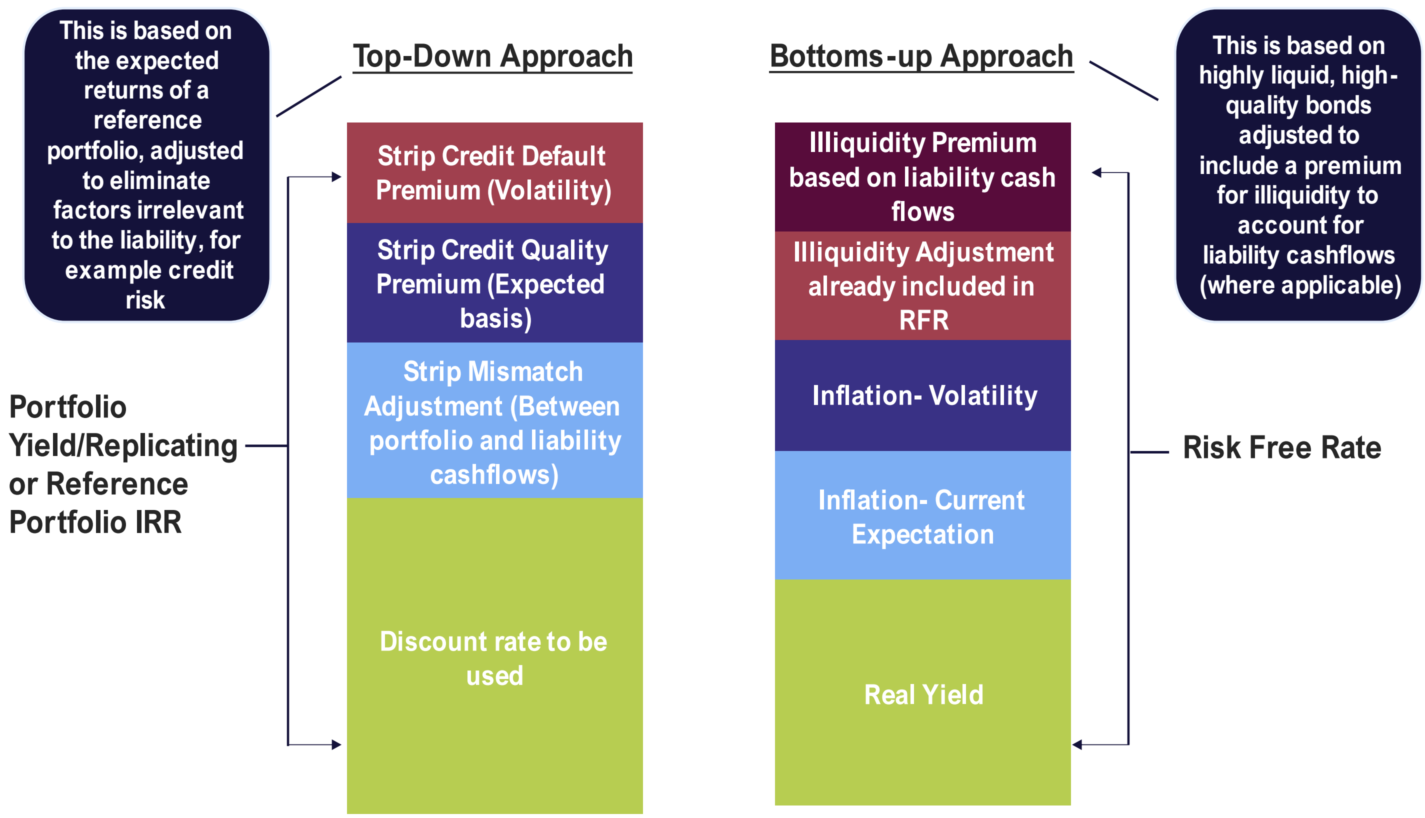
Liquidity characteristics of the insurance contracts

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

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.

M/s. K. A. Pandit Consultants & Actuaries

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

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

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

Website :
www.ka-pandit.com
E-mail :
kap@ka-pandit.com

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