

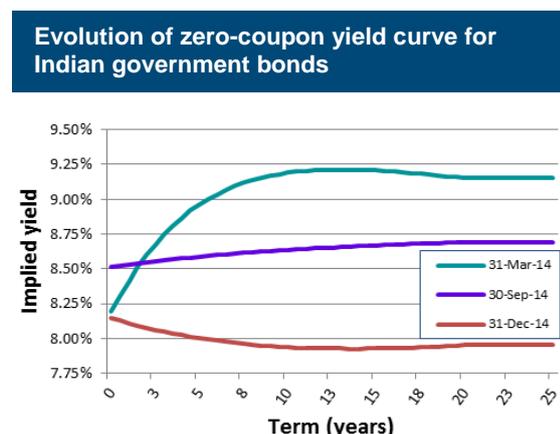
# The evolution of the discount rate for measuring employee benefit obligations under AS15(R) – 31 December 2014

January 2015



This is our quarterly update on the evolution of the discount rate for measuring employee benefit obligations under AS15(R). We consider the change in discount rates between 30 September 2014 and 31 December 2014 and the possible impact of this change on the value of your obligations.

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 and the average duration of your liabilities. The chart below indicates how the yield curve has changed during the year ended 31 December 2014.



Source: National Stock Exchange of India Ltd.

As evident from the chart, implied yields at 31 December 2014 are lower at all durations than at 30 September 2014 or 31 March 2014.

The impact of this fall will depend on the weighted average expected future working lifetime (WAEFWL)<sup>1</sup> of your employees. It will also depend on the rounding methodology you employ in setting the discount rate. From a directional perspective, and all else being equal, a lower yield will lead to a higher estimated liability.

For instance, if your practice is to take a discount rate rounded to the nearest 0.1%:

- For a WAEFWL of five years, the implied discount rate has fallen approximately 0.6% since 30 September 2014, and in isolation this may suggest a rise in defined benefit obligation in the order of 3%. Relative instead to 31 March 2014, the fall in the discount rate would suggest a rise in obligation in the order of 5%.
- For a WAEFWL of 10 years, the implied discount rate has fallen approximately 0.7% since 30 September 2014, and in isolation this may suggest a rise in defined benefit obligation in the order of 7%. Relative instead to 31 March 2014, the fall in the discount rate would suggest a rise in obligation in the order of 13%.
- For a WAEFWL of 15 years, the implied discount rate has fallen approximately 0.8% since 30 September 2014, and in isolation this may suggest a rise in defined benefit obligation in the order of 12%. Relative instead to 31 March 2014, the fall in the discount rate would suggest a rise in obligation in the order of 20%.

## CONTACT

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 issue.

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<sup>1</sup> The WAEFWL represents the expected term of employment of the participants of your benefit plan, taking into account the assumptions made for resignation, retirement, disability, and mortality.