

## Proposed IFRS (IAS) Discount Rates Euro-Zone – as of 31 January 2022

### Background

Appropriate discount rates should always be determined by considering the nature of the liabilities and other plan specific factors in consultation with the client and their auditor. Choosing an appropriate discount rate is ultimately the client's decision.

According to IAS 19 (and most other commonly used accounting standards), the relevant rate for discounting (post-) employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds (HQCB) where the currency and term to maturity (duration) of the corporate bonds should be consistent with the estimated term to maturity (duration) of benefit obligations. Market practice typically considers HQCB as AA-rated corporate bonds (where they exist).

The number of HQCB may be limited within regions in order to cover the whole range of liability durations. This can lead to alternative approaches to extrapolate yield curves, in most of these cases governmental bonds are used as an alternative. Separate curves in different currencies and countries are available through our partner firms. The method used to determine the yield curve was developed with members of Abelica Global.



## Proposed Discount Rates as of 31 January 2022

Duration in years	Rate – EUR
3	0.16%
4	0.33%
5	0.47%
6	0.59%
7	0.69%
8	0.78%
9	0.85%
10	0.91%
11	0.97%
12	1.01%
13	1.06%
14	1.09%
15	1.13%
16	1.16%
17	1.18%
18	1.21%
19	1.23%
20	1.25%
21	1.27%
22	1.29%
23	1.31%
24	1.33%
25	1.34%
26	1.36%
27	1.37%
28	1.38%
29	1.39%
30	1.41%

## Methodology

In accordance with IAS 19, the basis for determining our yield curve is the “iBoxx Corporates AA” index. This index includes bonds with different maturities of high-quality companies and is published by Markit, a global index provider.

Annual return on the iBoxx € Corporates AA (in %)	1-3 years	3-5 years	5-7 years	7-10 years	10+ years
As of 31 January 2022	-0.076	0.307	0.538	0.676	1.167

Since the iBoxx index is published for only 5 different maturities, we use the method of ordinary least squares to create a yield curve (shown in the figure above).

The derived interest margin (shown in the figure below) is added to the AAA rated government bond yield curve from the euro area, which is published by the ECB to form our yield curve.

iBoxx € Corporates AA as of 31 January 2022	1-3 years	3-5 years	5-7 years	7-10 years	10+ years
Interest Margin (in %)	0.525	0.692	0.750	0.738	1.029
Average Modified Duration (in Years)	1.680	3.769	5.676	7.974	14.020

A logarithmic function is used for the interpolation between and for the extrapolation of the interest margin for higher maturities, which are not covered by the values of the iBoxx index. This ensures that the typical flattening course of yield curves is generated.

### Further Information and Contact



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