

IAS19 Discount Rates

UK region as at 31 October 2022

Background

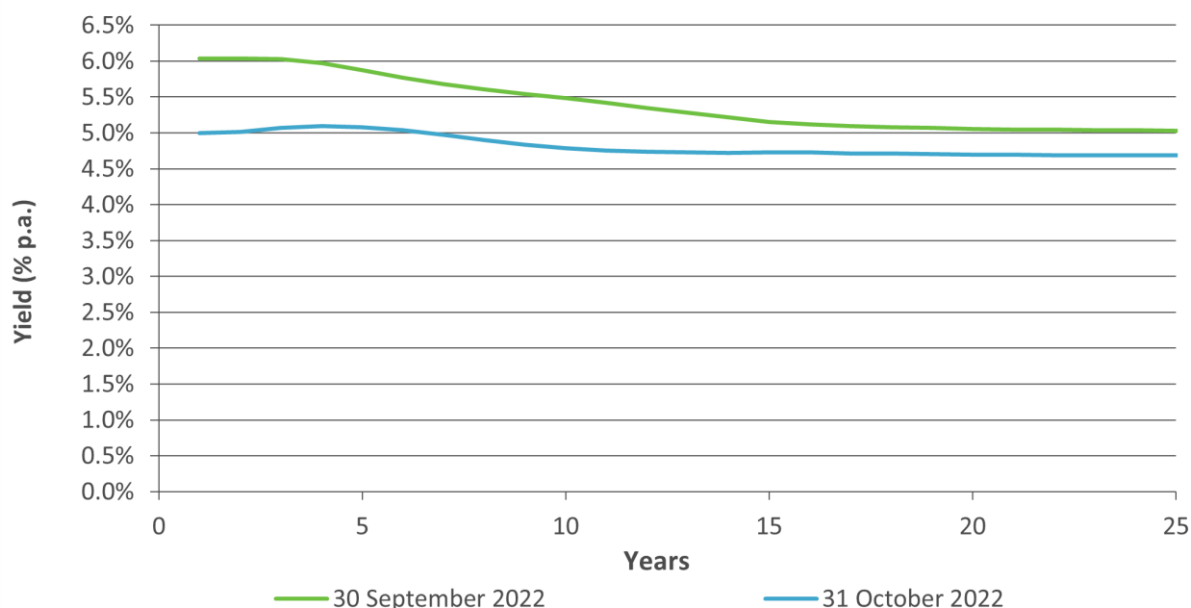
Appropriate discount rates should always be determined by considering the nature of the liabilities and other plan specific factors in consultation with the client and their auditor. Choosing an appropriate discount rate is ultimately the client's decision.

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. Separate curves in different currencies and countries are available through our partner firms.



Discount Rate Curve as at 31 October 2022



Notes:

- The discount rate should be derived as the single flat rate assumption which gives an equivalent present value of liabilities to the full corporate bond yield curve when it is used to discount the scheme cashflows.
- The information in this paper is provided for general purposes only and is not recommending or promoting a course of action. Hymans Robertson has developed derived data from external sources of information in compiling this paper and it should not be used to set accounting assumptions without further actuarial involvement. Please note that the discount rate contained within this paper may be subject to change. Therefore, the information contained in this paper should not be construed as advice and should not be considered a substitute for specific advice. We accept no liability to any party that uses the information in this paper.
- The Technical Actuarial Standard 100 which covers the principles for technical actuarial work does not apply since there are no direct users for the information contained in this paper.

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 indices, a global index provider.
- We fit a curve through iBoxx AA corporate bond bucketed data points (average duration and yield data). The maturity buckets used are 1-3, 3-5, 5-7, 7-10, 10-15 and 15+ years. Fitting to duration (rather than maturity) produces a zero coupon spot curve.
- We extrapolate the long end using a method that is designed to give a forward rate consistent with the forward rate at the long end of the data and for the spot curve to be mainly flat after about 25 years since there is very little bond data after this point.

Further Information and Contact



Samer Hafiz FIA
samer.hafiz@hymans.co.uk
+44 20 7082 6231

Matthew Davis FIA
matthew.davis@hymans.co.uk
+44 20 7082 6127

Nicola Pym FIA
nicola.pym@hymans.co.uk
+44 20 7082 6351