

Proposed IFRS (IAS) Discount Rates

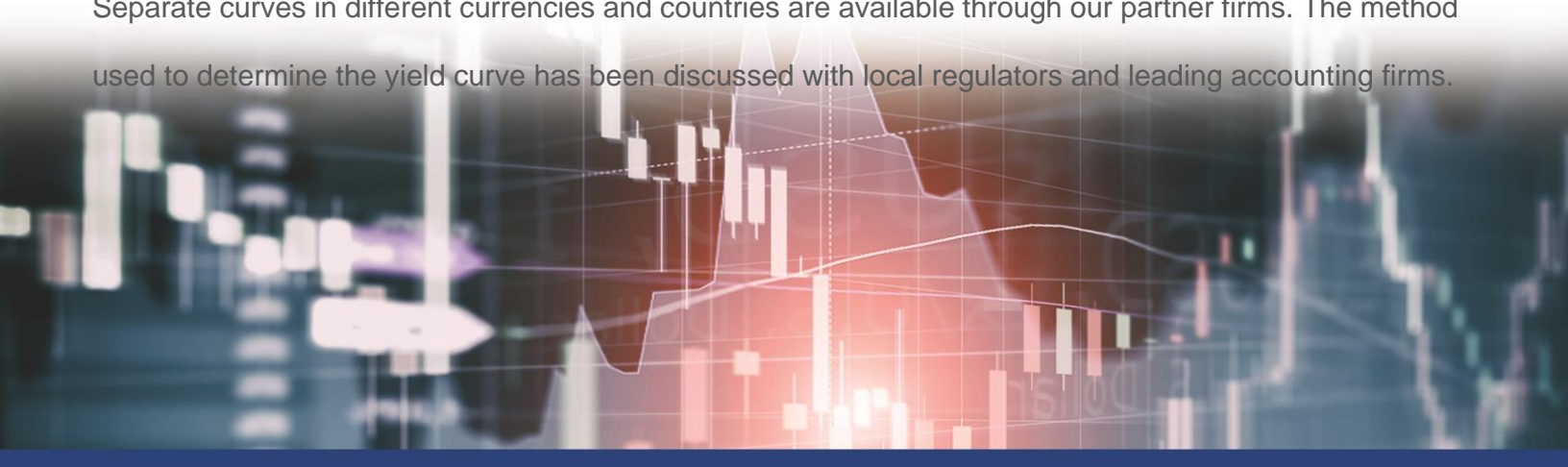
US Dollar – as of 31 October 2022

Background

Appropriate discount rates should always be determined by considering the nature of the liabilities and other plan specific factors in conversations 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 practices (and, in the USA, SEC guidance) typically consider 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 between advising organizations. Separate curves in different currencies and countries are available through our partner firms. The method used to determine the yield curve has been discussed with local regulators and leading accounting firms.



Proposed Discount Rates as of 31 October 2022

Duration in years	Rate – US\$
5	5.1% to 5.4%
6	5.2% to 5.5%
7	5.3% to 5.6%
8	5.3% to 5.6%
9	5.3% to 5.6%
10	5.3% to 5.6%
11	5.3% to 5.6%
12	5.3% to 5.6%
13	5.3% to 5.6%
14	5.3% to 5.6%
15	5.3% to 5.6%
16	5.3% to 5.6%
17	5.3% to 5.6%
18	5.4% to 5.7%
19	5.4% to 5.7%
20	5.4% to 5.7%

The most accurate approach to deriving the discount rate is to discount the plan cash flows using the full corporate bond yield curve and then calculate the equivalent single discount rate (which can be thought of as the internal rate of return). This is then the constant rate such that the present value of the cash flows discounted under this rate and the corporate bond yield curve are the same.

Since corporate bond yield curves can take on a variety of shapes (flat, upward sloping, humped, inverted), approximating the equivalent single discount rate to the spot yield with a maturity equal to the duration of the liabilities may be inaccurate.

Methodology

In accordance with IAS 19, the basis for determining our yield curve as of October 31, 2022 is as follows:

1. We begin [with the yield curve rates published monthly by the IRS](#) under The Pension Protection Act of 2006 (PPA).
2. This curve does not satisfy GAAP standards for two reasons:
 - a. The rates are a monthly average of yields during the month, rather than a point in time rate as of month-end.
 - b. The PPA curve includes credit qualities between A and AAA, whereas IAS 19 adheres to a AA standard.
3. Rates are adjusted to reflect the difference between average yields during the month and yields at month-end.
4. Rates are further adjusted for the difference between the PPA A-AAA bond universe yields and AA yields at month-end.
5. Finally, tiny adjustments are made to ensure a smooth pattern of forward yields in our curve. This adjustment is made conservatively- to ensure that the results produce liabilities at least as high as unsmoothed rates.

Further Information and Contact

For full details on the construction of the yield curves, please contact Brian Donohue.



Brian Donohue
bdonohue@octoberthree.com
+01 312-878-2435