

Staff recommendation per Agenda Paper 3D

77. Consequently, the staff recommend that the boards:

- (a) confirm the objective of the discount rate is to adjust the future cash flows for the time value of money.
- (b) do not prescribe a method for determining the discount rate.
- (c) provide guidance that the discount rate should:
 - (i) be consistent with observable current market prices for instruments with cash flows whose characteristics reflect those of the insurance contract liability, including in terms of timing, currency and liquidity, but excluding the effect of the insurer's non-performance risk.
 - (ii) exclude any factors that influence the observed rates but are not relevant to the insurance contract liability (eg risks not present in the liability but present in the instrument for which the market prices are observed, such as any investment risk taken by the entity that cannot be passed to the policyholder).
 - (iii) exclude the effect of risks and uncertainties that are reflected elsewhere in the measurement of the insurance contract liability.

Revised staff recommendation:

The staff recommend that the boards:

- (a) confirm the objective of the discount rate is to adjust the future cash flows for the time value of money and reflect the characteristics of the insurance contract liability.
- (b) do not prescribe a method for determining the discount rate.
- (c) provide guidance that the discount rate should:
 - (i) be consistent with observable current market prices for instruments with cash flows whose characteristics reflect those of the insurance contract liability, including in terms of timing, currency and liquidity, but excluding the effect of the insurer's non-performance risk.
 - (ii) exclude any factors that influence the observed rates but are not relevant to the insurance contract liability (eg risks not present in the liability but present in the instrument for which the market prices are observed, such as any investment risk taken by the entity that cannot be passed to the policyholder).
 - (iii) reflect only the effect of risks and uncertainties that are not reflected elsewhere in the measurement of the insurance contract liability.
- (d) require disclosure of the yield curve used for each major relevant currency.