



IFRS 17 : Future of discount rates working party

Terms of Reference

Background

IFRS 17 requires insurers to set appropriate discount rates for insurance liabilities. The standard sets out principles that insurers must comply with but allows different techniques to be used to derive appropriate discount rates.

For IFRS 17, these principles are now sufficiently clear that there is value in the actuarial profession developing some thought leadership to consider how the different discount rate mechanisms may operate.

The working party will consider the different ways discount rates might be set and highlight aspects actuaries may consider when determining appropriate methodologies.

The working party will not produce guidance for actuaries when setting IFRS 17 discount rates. Output from the working party will be designed to aid actuaries in considering discount rates, rather than any form of endorsement by the actuarial profession of particular methodologies.

Approach

The working party was formed under the sponsorship of the Life Research Sub-committee to take this work forward.

The working party works closely alongside the IFRS 17 Transversals, IFRS 17 CSM and General Insurance working parties. The working party is also expected to liaise with regulators and industry bodies where possible.

Composition of working party

The working party comprises up to 14 members of the actuarial profession, primarily those working within life insurance, to perform this research. It is recommended that membership includes actuaries with experience in pricing, financial reporting and investment.

Specific goals and areas to be investigated

Examples of areas for the working party to consider include:

- A summary of existing research material on the topic.
- Analysis of both the top-down and bottom-up methods of deriving discount rates
- Consideration of approaches to determining the allowance for credit risk and liquidity premium
- Determining discount rates where stochastic modelling is used.

Output

Material will be developed to provoke thought and generate input over the course of the working party. This will include articles, presentations and, if deemed appropriate, a sessional paper.