



SOCIETY OF ACTUARIES

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IAA Discount Rate Project Wrap-Up

By Frank Grossman

Central bankers are a fairly inscrutable lot. No wonder many actuaries have given up parsing every announcement of the Federal Reserve's Open Market Committee, instead trusting that, when the various quantitative easing programs come to an end, interest rates will inevitably rise. The abiding questions are, however, when will rates rise, and perhaps more importantly by how much?

What's a financial actuary to do with those idle moments no longer devoted to Fed watching? One could learn how to play the clarinet, or maybe watch the episodes of *The Wire* one more time. Yet I can't think of a better and more productive use of free time than delving into the recently published *Discount Rates in Financial Reporting: A Practical Guide*.

As described elsewhere in *The Financial Reporter* (viz. "IAA Discount Rate Project Update," number 86, September 2011), *A Practical Guide* is the final result of the International Actuarial Association's (IAA) three-year Discount Rate Project. This volume contrasts current approaches to setting discount rates across life, non-life and pension areas of practice, offering insights from the United States and elsewhere around the globe. Its primary audiences are financial reporting actuaries as well as actuarial students seeking a greater understanding of the topic.

In addition to an introductory section and a concluding section that summarizes recent developments, *A Practical Guide* addresses the following topics:

- Purpose and Objective When Discounting
- Risk-Free Rates
- Decomposition of Discount Rates
- Estimating Beyond the Term Period
- Replicating Portfolios
- Deflators
- Incorporation of Currency and Sovereign Risks
- Credit and Liquidity Risks
- Inflation
- Non-life Insurance Considerations
- Product Cash Flows Correlated to the Discount Rate Including Participating Business

- Stochastic Methods
- Treatment of Investment-Related Expenses
- Investment Assumptions
- Technical Reviews, Peer Reviews and Audits
- Communication and Presentation of Results, Assumptions and Methods

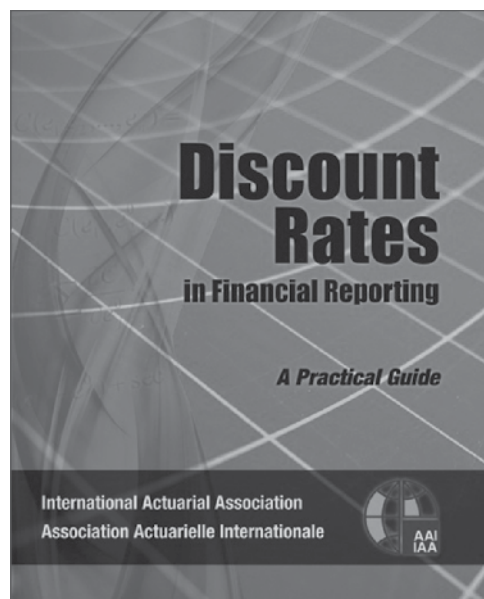
Nearly two-thirds of *A Practical Guide*'s 320 pages are devoted to 13 in-depth case studies. Many references to relevant technical papers are also included.

Information about how to order your copy of *Discount Rates in Financial Reporting: A Practical Guide* may be found on the IAA's website www.actuaries.org. The price for a hard-bound copy, including access to a searchable soft-copy version, is C\$150 for delivery to U.S. addresses. The soft-copy alone is available for C\$75. In keeping with the IAA's educational mandate, university students with proper documentation may access the soft-copy for free.

Once again, the IAA extends its thanks to all members of the SOA Financial Reporting Section for their support of the Discount Rate Project and other actuarial education initiatives. ■



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