



## SYNOPSIS

**TITLE OF PRESENTATION**  
**interest market**

**Risk Free Discount Rates and the NZ fixed**

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Key words: risk free, government stock, market efficiency

Reporting under NZ IFRS 4 requires a risk free discount rate to be used. At face value this is quite straightforward as the starting point is reference to Government Stock. Interpretations of this however vary, with many Life Insurance Companies using bank swap rates which are higher (particularly post credit crunch). The NZ Government stock market is showing some significant shortcomings, mainly due to a shortage of supply exacerbated by significant amounts held to maturity offshore. Particularly unreliable are the two longest dated stocks (6 ½ and 9 years) and the consequences of extrapolating beyond this. This paper explores the market dynamics, the different types of stock available and the theory behind why yields are different for different types of stock, including, liquidity, risk and scarcity adjustment.