DISCOUNT RATES
EARLY WARNING

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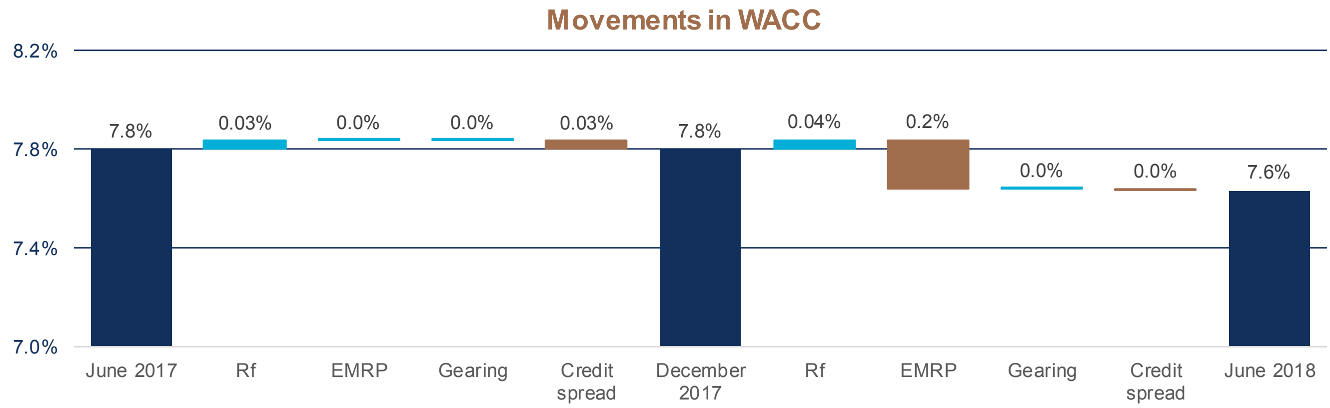
IMPAIRMENT SPOTLIGHT

With the 30 June reporting season looming, ASIC has reiterated its continuing focus on impairment.

Following a review of over 200 annual reports of listed / public interest entities for the year ended 30 June 2017, ASIC Commissioner John Price said, "*The largest number of our findings continue to relate to impairment of non-financial assets and inappropriate accounting treatments.*" ASIC has once again highlighted impairment testing and asset values as one of the key focus areas for 30 June 2018 reporting.

To assist with your planning, we provide an early update on how discount rates have changed since 30 June 2017. It will be followed by a more detailed analysis of the appropriate parameters to build-up a discount rate as at 30 June 2018 shortly thereafter.



Source: Leadenhall

The various components of the weighted average cost of capital were generally stable for the first half of the financial year. Since then, a slight decrease in the market risk premium (from 6. 5% to 6.25%) has contributed to a lower cost of equity. With government bond yields and gearing remaining roughly similar year-on-year, this has resulted in a general decrease in market discount rates since December 2017.

Given the decrease in discount rates, companies should have more headroom for impairment testing as at June 2018 unless their forecast cash flows have declined compared to the prior year. This will not of course be correct for all businesses and cash generating units given their individual circumstances but may serve as a guide.

We believe this is an area that will continue to attract significant attention from boards, auditors and ASIC.

For further information on selecting an appropriate discount rate for your company or cash generating units please feel free to call us.

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Leadenhall has provided valuation expertise and advice for more than 30 years. We specialise in the valuation of businesses, companies and intellectual property as part of:

- Independent expert's reports for listed and unlisted public companies
- Dispute resolution and shareholder determinations
- Financial reporting including impairment assessment, intangible assets and financial instruments
- Tax compliance
- Transaction evaluation and to support other decision making

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Leadenhall doesn't just offer thought leadership; it prides itself on knowledge delivery. You can trust us to go beyond the maths, provide you with a deeper understanding of the assumptions made and produce a valuation that you truly understand. That means you can proceed with certainty, safe in the knowledge that you won't risk your reputation – or the outcome of any transformative business decision you make.

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