

DISCOUNT RATES EARLY WARNING



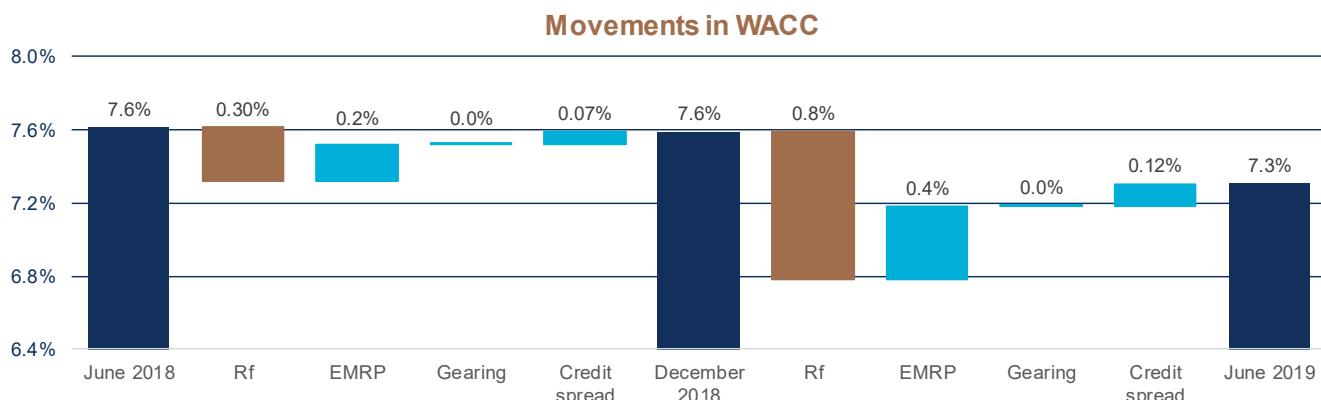
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IMPAIRMENT IN FOCUS

30 June is fast approaching, and ASIC has announced their focus areas for this reporting season. While changes to accounting standards are dominating the spotlight, ASIC has flagged impairment testing and asset values as the next item on its list of critical issues.

Following a review of 30 June 2018 annual reports, ASIC Commissioner John Price said, “*ASIC’s concerns continue to relate to impairment of non-financial assets and inappropriate accounting treatments.*”

To assist with your planning, we provide an early update on how discount rates have changed since 30 June 2018. It will be followed by a more detailed analysis of the appropriate parameters to build-up a discount rate as at 30 June 2019 shortly thereafter.



Source: Leadenhall

Government bond yields have been on a downward trend over the past year with the initial decline from June to December 2018 offset for the most part by a slight rise in our assessed market risk premium. However, bond yields have continued to decrease since. With marginal changes in credit spread and stable levels of debt, overall market discount rates are now lower than the year prior (after a further increase in the market risk premium to 7.0%).

Given the decrease in discount rates, companies should have more headroom for impairment testing as at June 2019 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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