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**i**nsights

# Valuation & Impairment Insights

Navigating Fair Value Measurement  
& IAS 36 Impairment

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# Executive Summary

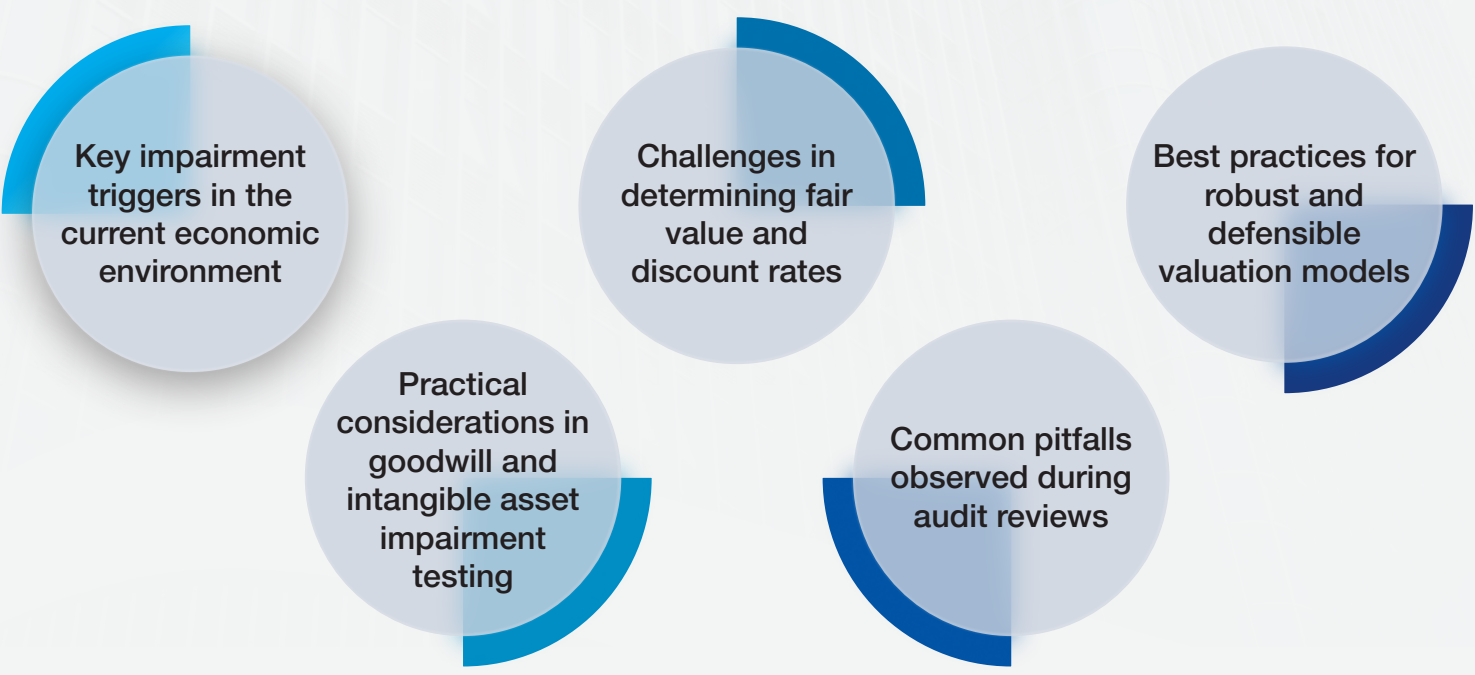
As macroeconomic volatility, rising interest rates, sectoral disruption, and evolving regulatory scrutiny continue to shape financial reporting landscapes, valuation and impairment testing have become critical areas of focus for management, auditors, and regulators.

Changes in discount rates, evolving risk premiums, and revised growth expectations have increased the likelihood of impairment triggers across goodwill, intangible assets, and long-lived assets.

Organizations must ensure that fair value measurements and impairment testing comply with **IFRS 13 Fair Value Measurement and IAS 36 Impairment of Assets**, while reflecting realistic cash flow expectations, market participant assumptions, and appropriate discount rates.

Proactive impairment assessment and robust valuation methodologies not only ensure compliance but also enhance financial transparency and stakeholder confidence.

## This publication outlines:



Key impairment triggers in the current economic environment

Challenges in determining fair value and discount rates

Best practices for robust and defensible valuation models

Practical considerations in goodwill and intangible asset impairment testing

Common pitfalls observed during audit reviews



# Market Environment & Impairment Risk Landscape

## Rising Impairment Risk in the Current Economic Climate

Global and regional economic shifts have introduced heightened uncertainty into valuation assumptions. Inflationary pressures, tightening monetary policy, and sector-specific disruptions have increased scrutiny over asset carrying values.

### Key macroeconomic factors impacting valuations:

- Rising interest rates increasing discount rates and lowering present values
- Inflation impacting operating costs and margin projections
- Supply chain disruptions affecting growth forecasts
- Energy price volatility affecting industrial and manufacturing sectors
- Technology disruption reshaping long-term growth expectations

In the GCC, sectors such as **real estate, healthcare, retail, fintech, and manufacturing** are experiencing valuation sensitivity due to cost pressures and demand fluctuations.

## Indicators of Impairment (IAS 36)

Entities must assess impairment indicators at each reporting date.

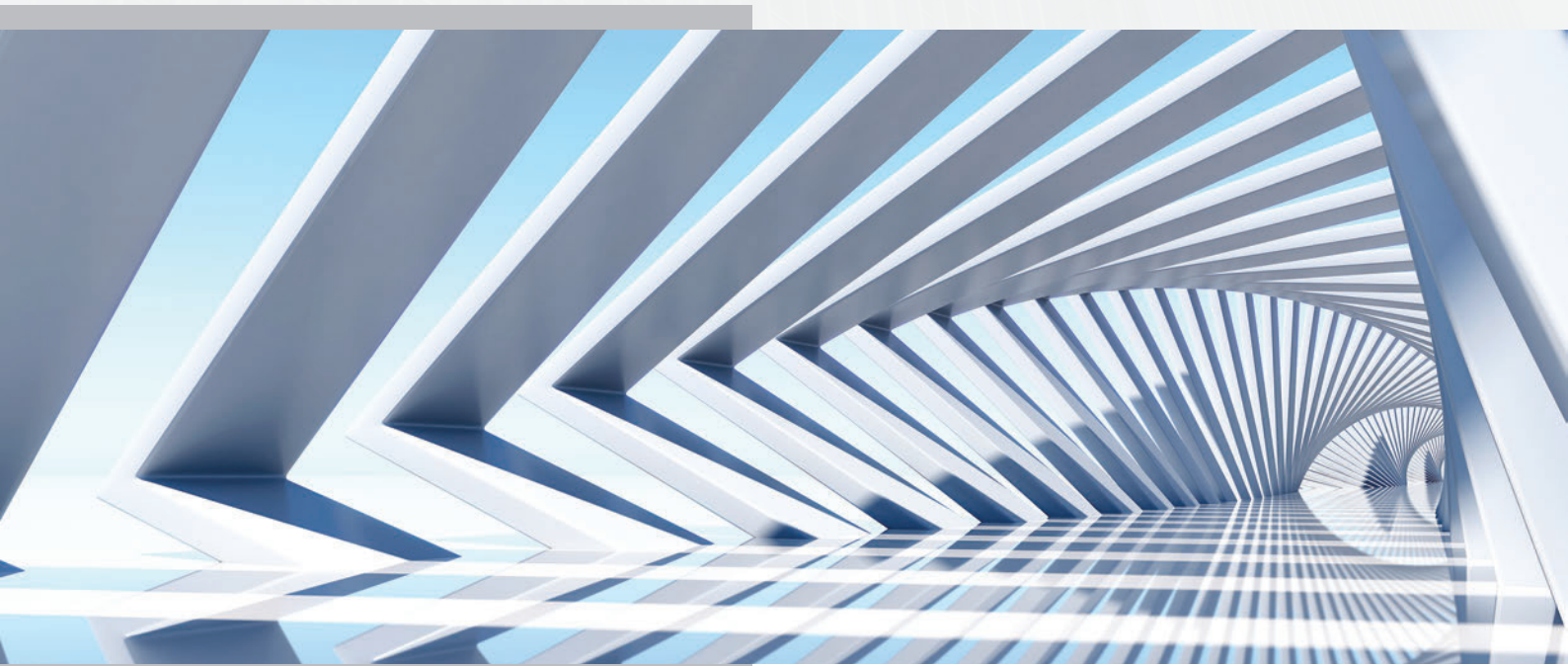
### External Indicators

- Decline in market value
- Adverse economic or regulatory changes
- Increase in market discount rates
- Market capitalization below net asset value

### Internal Indicators

- Underperformance vs forecast
- Operational restructuring
- Changes in asset utilization
- Cash flow losses or declining margins

Early identification enables timely and defensible impairment assessments.



# Goodwill & Intangible Asset Impairment Considerations

## Why Goodwill Impairment Risk is Increasing

Goodwill remains one of the most scrutinized balance sheet items due to its sensitivity to assumptions and forward-looking projections.

### Key risk drivers:

- Over-optimistic growth projections post-acquisition
- Integration challenges impacting synergies
- Rising cost of capital
- Market multiple contraction
- Increased competition and pricing pressure

Entities must perform annual goodwill impairment testing regardless of impairment indicators.

## Cash Generating Units (CGUs): Defining the Right Level

A critical step in impairment testing is identifying appropriate CGUs.

Common challenges include:

- Over-aggregation masking underperformance
- Misalignment between management reporting and CGUs
- Allocation of shared assets and corporate costs
- Synergy allocation assumptions

Improper CGU identification remains a frequent audit observation.

## Intangible Assets with Indefinite Useful Lives

Assets such as brands and trademarks require annual impairment testing.

### Key valuation challenges:

- Determining appropriate royalty rates
- Brand strength assessment
- Market comparability limitations
- Forecasting long-term brand sustainability



# Fair Value Measurement & Discount Rate Challenges

## IFRS 13 Fair Value Hierarchy

Fair value measurement requires market participant assumptions.

Level	Input Type	Examples
Level 1	Quoted prices	Listed equities
Level 2	Observable inputs	Market multiples
Level 3	Unobservable inputs	Discounted cash flow models

Most impairment valuations fall under **Level 3**, requiring robust assumptions and documentation.

## Determining the Appropriate Discount Rate

The discount rate is one of the most sensitive inputs in impairment testing.

### Components typically include:

- Risk-free rate
- Equity risk premium
- Beta (industry risk)
- Size premium (if applicable)
- Country risk premium
- Cost of debt & capital structure

Recent increases in global interest rates have materially impacted discount rates, often leading to valuation declines.

## Terminal Value Sensitivity

Small changes in terminal growth or discount rates can significantly impact recoverable amounts.

### Best practice includes:

- Sensitivity analysis disclosure
- Conservative terminal growth assumptions
- Alignment with long-term GDP/inflation expectations



# Audit Focus Areas & Best Practices

## Common Audit & Regulator

Audit scrutiny has increased significantly in valuation and impairment testing.

### Frequently observed issues:

- Overly optimistic cash flow forecasts
- Unsupported growth assumptions
- Inconsistent assumptions across financial models
- Discount rates not aligned with market data
- Lack of sensitivity analysis
- Insufficient documentation of key judgments

### Conclusion

In an environment marked by economic uncertainty and increased regulatory scrutiny, valuation and impairment testing have become critical to financial transparency and stakeholder confidence.

Organizations that adopt disciplined valuation methodologies, realistic assumptions, and proactive impairment assessments will be better positioned to withstand audit scrutiny and market volatility.

## Best Practices for Robust Impairment Testing

Organizations should adopt a structured approach:

### Strengthen Forecast Reliability

- Align projections with historical performance and market outlook
- Document key assumptions and rationale

### Enhance Discount Rate Support

- Use market-based inputs
- Update macroeconomic assumptions annually

### Perform Sensitivity Analysis

- Assess headroom vulnerability
- Identify scenarios that may trigger impairment

### Improve Documentation & Governance

- Maintain audit-ready valuation documentation
- Ensure management review and approval process

### Conduct Early Impairment Assessments

- Avoid year-end surprises
- Support strategic decision-making



# Contact Us

For further information, clarification and discussion concerning the contents, please contact

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