



[Stockbyte]/Thinkstock



Impairment testing advisory service



Afi

www.afi.es

Prevailing accounting rules require asset impairment testing

The prevailing accounting principles applicable to corporates and financial institutions (IFRS, Spanish GAAP 2007 and the Bank of Spain Circulars adapting these rules for banks) require reporting entities to test their assets for impairment at least at the end of each reporting period with a view to detecting the need to write down the value of any of their assets.

The main assets subject to impairment testing are:

- Goodwill arising on business combinations
- Intangible assets, especially those generated by acquisitions
- Tangible fixed assets
- Financial assets: equity investments, portfolios of financial instruments, derivatives, etc.

The benefits of outsourcing impairment tests

The performance of impairment testing by an independent expert makes auditors and other external agents (rating agencies, the securities market regulator, investors) more confident about the results.

The work done by Afi includes assisting its clients when it comes to 'negotiating' with their auditors, defending the methodology, the valuation assumptions used and the results, with a view to minimising, insofar as possible, the need for potential impairment charges.

In our experience, the fact that an external report is available considerably facilitates the acceptance of fair values by the auditors, as these reports reinforce the audit procedures incumbent upon the latter.

It may also be necessary to resort to an external expert when it comes to valuing complex assets or instruments.

Classes of assets valued by AFI

Afi has experience valuing a variety of assets and liabilities held by corporates and banks, such as:

- Investees
- Goodwill arising on business combinations
- Concessions
- Intangible assets: trademarks, licenses, contracts, patents, technology, etc
- Financial assets: loan portfolios, hedging instruments, fixed-income instruments, structured products, etc.



www.afi.es

The Afi approach

Afi takes a flexible approach to assisting corporates and banks with their impairment testing work. The advisory assignment can take several forms:

- Performance of a comprehensive valuation report covering all assets subject to impairment testing.
- Performance of specific valuation reports for assets showing signs of impairment.
- Reports estimating the discount rates applicable to asset valuations to be used as input for in-house valuations performed by the reporting entity's management.

Afi's work takes the form of reports containing sufficient detail for presentation to third parties. These reports comply with all the requirements stipulated by accounting rules.

Afi's assignment includes presenting and defending its reports to the company's auditors, a task that includes:

- Justifying the valuation methodology used.
- Defending the valuation assumptions used.
- Defending the results of the valuation exercise.
- Analysing the impact of any potential adjustments proposed by the auditors.

Classes of assets valued by Afi

- Investees
- Goodwill arising on business combinations
- Concessions
- Intangible assets: trademarks, licenses, contracts, patents, technology, etc
- Financial assets: loan portfolios, hedging instruments, fixed-income instruments, structured products, etc
- Tangible fixed assets

AFI's flexible approach

- Comprehensive valuation of all assets subject to impairment testing
- Individual valuation of assets showing signs of impairment
- Discount rate analysis for use as input for in-house valuation work

Key benefits of outsourcing impairment tests

- Back-up vis-à-vis auditors
- Increased credibility vis-à-vis external agents (rating agencies, CNMV, investors)
- Ability to value complex assets

Contact

For any additional information or queries, please contact:

Contact: **Pablo Mañueco | Pablo Guijarro**
 E-mail: **pmanueco@afi.es | pguijarro@afi.es**
 Tel: **915 200 106**
 Fax: **915 200 167**

Website: **www.afi.es**