AcSB Accounting Standards Board

COVID-19 Resource

Impairment of Goodwill and Intangible Assets with an Indefinite Life (ASPE)

What you need to know (May 2020)

What's the issue?

1. COVID-19 has had a significant economic impact on Canadian businesses. It may have contributed to operating losses in the current period, forecasted losses, or an overall change in the business environment in which an enterprise operates. As a result, private enterprises should consider whether these changes indicate that goodwill or intangible assets with indefinite lives are impaired in accordance with Section 3064, *Goodwill and Intangible Assets*, in Part II of the CPA Canada Handbook – Accounting Standards for Private Enterprise (ASPE).

2. For more information on impairment of intangible assets with a finite useful life, refer to the resource, "Impairment of Long-lived Assets (ASPE)."

Do I need to test for impairment of intangible assets with an indefinite life in the current period?

3. It depends. For intangible assets with an indefinite life, private enterprises will need to use judgment to assess whether changes in events and circumstances arising from COVID-19 indicate that the asset may be impaired. (Paragraph 3064.65)

4. Such indicators could include current-period operating losses, or a projection of continuing losses associated with the intangible asset's use. For example, a restaurant franchise, the name of which is an intangible asset with an indefinite life, may be experiencing current-period losses due to closures. They may also be projecting future losses due to prolonged social distancing measures once they are allowed to open such as limits on how many guests are allowed in the restaurant at one time. This

may indicate that the restaurant name is impaired. For examples of additional impairment indicators, refer to *Impairment of Long-lived Assets*, paragraph 3063.10 as required by paragraph 3064.65.

5. When the carrying amount of the intangible asset exceeds its fair value, an impairment loss shall be recognized in an amount equal to the excess. (Paragraph 3064.66)

Do I need to test for impairment of goodwill in the current period?

6. It depends. Goodwill is tested for impairment whenever events or changes in circumstances indicate that the carrying amount of the reporting unit to which the goodwill is assigned may exceed the fair value of the reporting unit. (Paragraph 3064.72) Indicators that may arise from COVID-19 include:

   (a) Due to mandatory closures and social distancing, businesses catering to large group events, such as restaurants and event spaces, may have experienced mandatory closures and operating losses, representing a significant adverse change in the business climate.

   (b) A car manufacturer may have experienced a decline in sales as consumers hold off on big-ticket purchases. As a result, private enterprises may have determined this to be an indicator to test impairment of the manufacturing equipment in accordance with Section 3063. A trigger to test for impairment of a significant asset group within a reporting unit would also be a trigger to test for impairment of goodwill.

   (c) A private enterprise may have decided to close a less-profitable reporting unit within its business as a result of continued losses and cash flow challenges due to COVID-19.
   For additional indicators, refer to paragraph 3064.73.

7. When the carrying amount of a reporting unit, including goodwill, exceeds its fair value, a goodwill impairment loss shall be recognized in an amount equal to the excess. (Paragraph 3064.74)

8. The effects of the COVID-19 pandemic may trigger impairment tests for goodwill and other long-lived assets. When goodwill and another asset (or asset group) of a reporting unit are tested at the same time, the other asset (or asset group) is tested for impairment before goodwill. When the asset group is impaired, the impairment loss is recognized prior to goodwill being tested for impairment. (Paragraph 3064.76)

How will COVID-19 affect the measurement of fair value?

9. In estimating fair value, private enterprises will need to consider how COVID-19 affects the assumptions used in its impairment model such as the timing and amount of cash flows, expectations about the possible variations in the amount of cash flows, the risk-free rate, and the price for bearing risk, which is discussed further in paragraph 10. The estimate of cash flows may need to be updated based on changes in expectations of future cash flows.

10. COVID-19 may also affect the discount rate used for the impairment test. The derivation of the discount rate includes a risk-free borrowing rate and an adjustment for risk. A reduction in overnight borrowing rates by central banks could result in a decrease in the discount rate due to a reduction in the risk-free rate. However, private enterprises would need to consider whether the adjustment for

risk has increased. An enterprise might consider risks related to the uncertainty of the duration of the COVID-19 pandemic and its impact on expected cash flows, as well as other market risks such as market demand for the asset. Any risks adjusted in the cash flows should not be adjusted in the discount rate to avoid double counting.

11. For private enterprises with a year-end prior to the start of the COVID-19 pandemic such as December 31, 2019, the assumptions should reflect conditions existing at the balance sheet and prior to the start of the pandemic. If management expects significant changes in estimates after December 31, 2019, disclosure may be required. Disclosure would include an estimate of the financial effect, when practicable, or a statement that such an estimate cannot be made. (Paragraph 3820.11(b)) For enterprises with later year-ends such as March 31, 2020, the initial events of the COVID-19 pandemic would be included in the fiscal year, and the assumptions used in the impairment model would be reflective of those existing at the balance sheet date. However, as the pandemic continues to evolve, there may be subsequent event disclosure requirements for those entities to consider as well. For more information on subsequent events, refer to the resource, Subsequent Events (ASPE).

Extracts from relevant Accounting Standards for Private Enterprises

Standard	Guidance
Section 3063	.10 Examples of such events or changes in circumstances related to a long-lived asset include, but are not restricted to: (a) a significant decrease in its market price; (b) a significant adverse change in the extent or manner in which it is being used or in its physical condition; (c) a significant adverse change in legal factors or in the business climate that could affect its value, including an adverse action or assessment by a regulator; (d) an accumulation of costs significantly in excess of the amount originally expected for its acquisition or construction; (e) a current-period operating or cash flow loss combined with a history of operating or cash flow losses, or a projection or forecast that demonstrates continuing losses associated with its use; or (f) a current expectation that, more likely than not, it will be sold or otherwise disposed of significantly before the end of its previously estimated useful life ("more likely than not" means a level of likelihood that is more than 50 percent). There may also be other indications that the carrying amount of an asset is not recoverable.
Section 3064	.65 *An intangible asset that is not subject to amortization shall be tested for impairment whenever events or changes in circumstances indicate that its carrying amount may exceed its fair value.* (Examples of such events or changes in circumstances are listed in IMPAIRMENT OF LONG-LIVED ASSETS, paragraph 3063.10. There may be other indications that intangible assets not subject to amortization are impaired.) .66 *When the carrying amount of the intangible asset exceeds its fair value, an impairment loss shall be recognized in an amount equal to the excess.* .67 *An impairment loss for an intangible asset shall not be reversed if the fair value subsequently increases.* .68 *Separately recorded indefinite-lived intangible assets, whether acquired or internally developed, shall be combined into a single unit of accounting for purposes of testing impairment if they are operated as a single asset.* .72 *Goodwill shall be tested for impairment whenever events or changes in circumstances indicate that the carrying amount of the reporting unit to which the goodwill is assigned may exceed the fair value of the reporting unit.*

Standard	Guidance
	.73 Examples of such events or circumstances include, but are not limited to: (a) a significant adverse change in legal factors or in the business climate; (b) an adverse action or assessment by a regulator; (c) unanticipated competition; (d) a loss of key personnel; (e) a more-likely-than-not expectation that a significant portion or all of a reporting unit will be sold or otherwise disposed of; (f) the testing for write-down or impairment of a significant asset group within a reporting unit; or (g) the recognition of a goodwill impairment loss in its separate financial statements by a subsidiary that is a component of the reporting unit. .74 *When the carrying amount of a reporting unit, including goodwill, exceeds its fair value a goodwill impairment loss shall be recognized in an amount equal to the excess. The goodwill impairment loss recognized shall not exceed the carrying amount of goodwill. A goodwill impairment loss shall not be reversed if the fair value of the reporting unit subsequently increases.* .76 When goodwill and another asset (or asset group) of a reporting unit are tested for impairment at the same time, the other asset (or asset group) is tested for impairment before goodwill. For example, when a significant asset group is to be tested for impairment (thus potentially requiring a goodwill impairment test), the impairment test for the significant asset group is performed before the goodwill impairment test. When the asset group is impaired, the impairment loss is recognized prior to goodwill being tested for impairment.
Section 3820	.10 *Disclosure shall be made of those events occurring between the date of the financial statements and the date of their completion that do not relate to conditions that existed at the date of the financial statements but:* *(a) cause significant changes to assets or liabilities in the subsequent period; or* *(b) will, or may, have a significant effect on the future operations of the enterprise.* .11 *At a minimum, the disclosure shall include:* *(a) a description of the nature of the event; and* *(b) an estimate of the financial effect, when practicable, or a statement that such an estimate cannot be made.*