

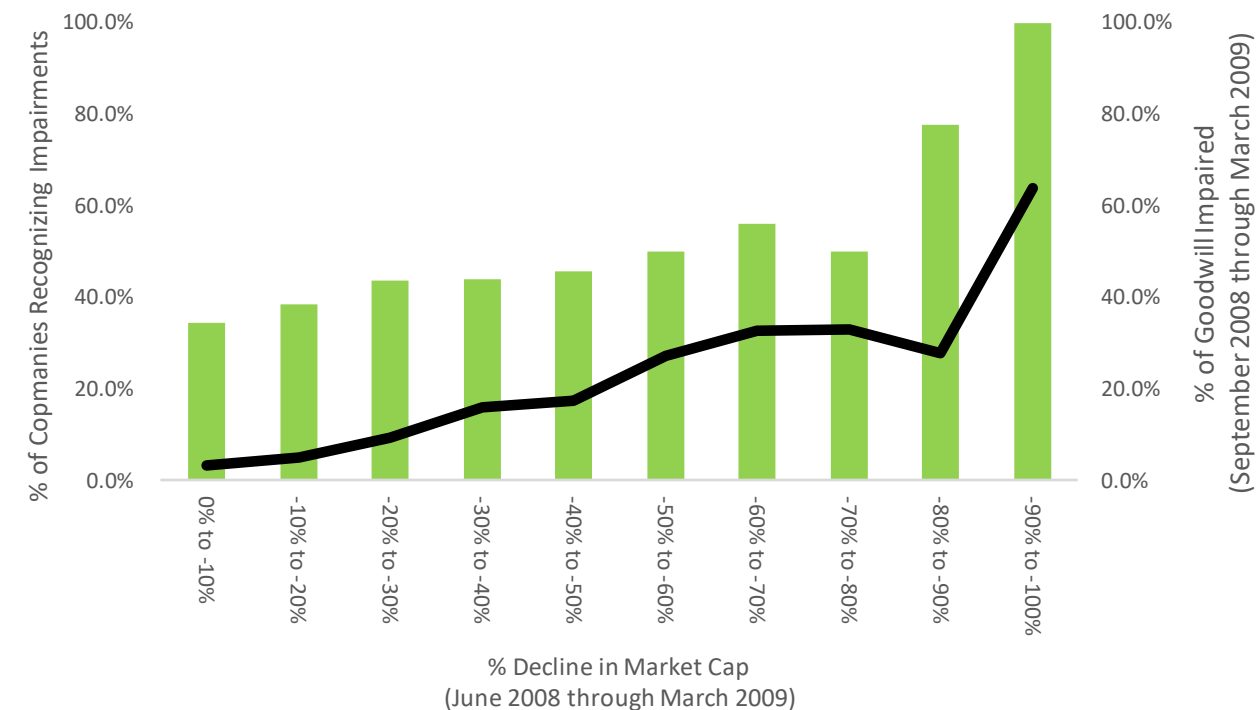
Will steep declines in capital markets due to COVID-19 require testing for impairment?

Historically, declines in the stock market can trigger testing of tangible assets, goodwill and other intangible assets for impairment. However, other factors (triggers) that may accompany stock price declines are typically examined as well.

The Financial Crisis of 2008–2009 provides a guidepost to how companies viewed impairment testing during periods of market volatility. Our analysis shows that the impairments recognized by companies in our sample tracked closely with decreases in their stock price.



Source: S&P Capital IQ.
Population: Current S&P 500 companies publicly—traded as of January 2008.



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Types of Triggering Events¹:



(1) IAS 36 Goodwill should be tested for impairment when a triggering event occurs that indicates that the recoverable of an entity (or a cash-generating unit) may be below its carrying amount.

IAS 38 - Intangible Assets

- Testing at the single asset level or cash-generating unit (goodwill)
- Multiple valuation methods usually considered including discounted cash flow (DCF) and market multiples

IAS 16 - Property, Plant and Equipment

- Testing frequency dependent upon the **occurrence of trigger—based events**
- Recoverable amount estimated and compared to carrying amount
- Allocation of impairment loss to asset classes

Considerations

- In what order are the tests performed?
- How do I define cash-generating unit?
- What is my core asset and life?
- How do cash flows in 360 differ from the 350 test?
- How do I model alternative scenarios in a time of unprecedented uncertainty?
- How much weight do I place on intrinsic DCF value vs. market?

Other Considerations - Impairment analysis

Reforecasting and modeling:

Given the immense uncertainty in the near and medium term, consider alternative scenarios in your forecasting process and performing enhanced modeling.

Cash management:

Evaluate whether you have cash to cover operations and obligations under alternative scenarios and stay connected with your lenders.

Key benefits/solutions provided by Deloitte

Entities may need to implement new internal controls or modify existing ones.

Disclosure and reporting:

Consider whether there is a need to update the risk factor to provide more specificity about the potential impact of significant events and current and potential future impact on their operations, financial condition, or liquidity.

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