IFRS Judgments in Impairment Testing
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Understanding IFRS Judgments

**Perspective**
- Issuer
- Auditor
- User
- Regulator

IAS 1 Presentation of Financial Statements

**IAS 1.122 (Disclosure of Accounting Policies)**

> "An entity shall disclose, in the summary of significant accounting policies or other notes, the judgments, apart from those involving estimations, that management has made in the process of applying the entity’s accounting policies and that have the most significant effect on the amounts recognized in the financial statements."

IAS 1.123 provides examples of judgments to be made by management.
**IAS 1 Presentation of Financial Statements**

**IAS 1.125 (Sources of Estimation Uncertainty)**

“An entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year. In respect of those assets and liabilities, the notes shall include details of:

(a) their nature, and
(b) their carrying amount as at the end of the reporting period.

**IFRS Judgments in Impairment Testing**

- Impairment Testing under IFRS
  - Impairment of Non-Financial Assets (IAS 36)
    - Property, Plant, and Equipment
    - Intangible Assets
    - Goodwill
  - Impairment of Financial Assets (IAS 39)
    - Receivables
    - Loans
    - Debt securities
Judgments related to the application of the IAS 36 impairment model

Identifying an asset that may be impaired

- Asset or Cash Generating Unit (CGU)
- Indication of Impairment (external/internal sources)

Measuring the recoverable amount

- Fair value less costs to sell
- Value in use

Judgments related to the application of the IAS 36 impairment model

Goodwill

- Allocation of goodwill to cash-generating units
- Disposition or reorganization of an operation

Reversing an impairment loss

- Assessment for indication
- Limitation of reversal
Judgments related to the application of the IAS 36 impairment model

- Disclosure requirements in accordance with IAS 36
- Impairment losses for each class of assets
- Information for reportable segments
- Specific information for each material impairment
- Value in use: key assumptions and approach
- Fair value: key assumptions and approach
- Sensitivity of key assumptions

Judgments related to the application of the IAS 39 impairment model

IAS 39.58 states:

“An entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets measured at amortized cost is impaired.”
Judgments related to the application of the IAS 39 impairment model

**Objective evidence**

- Significant financial difficulty of the issuer
- Probable that the borrower will enter bankruptcy
- Disappearance of an active market for that asset

IAS 39.63 states:

“If there is objective evidence that an impairment loss on financial assets measured at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate.”
Judgments related to the application of the IAS 39 impairment model

IFRS 7.37 states:

“An entity shall disclose by class of financial asset an analysis of financial assets that are individually determined to be impaired as at the end of the reporting period, including the factors the entity considered in determining that they are impaired”.

Committee of European Banking Supervisors (CEBS) Assessment of banks’ transparency (30 June 2010)

Disclosure areas for improvement

- Impairment information
- Fair values
Committee of European Securities Regulators (CESR)
Activity Report on IFRS Enforcement 2009 (23 Sept 2010)

Recurring Issues Identified
- Impairment of financial assets
- Assessment of active/non-active markets on fair value measurement
- Determination of fair value

Public Company Accounting Oversight Board (PCAOB)
Report on Inspection of Registered Accounting Firms (29 Sept 2010)

Observations by the Board’s Inspection Staff
- Fair value measurements
- Impairment of goodwill and long-lived assets
- Allowance for loan losses
- Off-balance-sheet structures
Understanding IFRS Judgments

- Experience
- Critical Thinking
- Transparency and Disclosure
- Training and Education
- Guidance