Hot Topic: Coronavirus

Increased risk of impairment of goodwill and long-lived assets

March 16, 2020 (Updated April 8, 2020[1])

KPMG discusses FAQs relating to the impairment of goodwill and long-lived assets as a result of COVID-19.

Background

The COVID-19 outbreak is having a significant impact on global markets driven by supply chain and production disruptions, workforce restrictions, travel restrictions, reduced consumer spending and sentiment, among other factors, which are negatively impacting companies' financial performance.

As part of the overall analysis of the financial reporting impacts of COVID-19, companies may need to evaluate the recoverability of goodwill, intangible assets, property, plant and equipment, and lease right-of-use (ROU) assets.

General questions that companies may be asking include the following.

- Has our supply chain been disrupted so that we cannot procure raw materials or components for finished goods?
- Has volatility in commodity prices negatively impacted revenues or production costs?
- Have workforce limitations impeded our ability to manufacture products or service our customers?
- Have we provided concessions to our customers that exceed normal business practice?
- Have we lost business due to event cancellations, store or facility closures, lower consumer sentiment, etc.?
- Are operations being curtailed temporarily, or assets mothballed?
- Have the circumstances significantly changed how we expect to use our long-lived assets?
- Are our customers struggling to pay their obligations or even remain in business?
- Has our stock price significantly decreased?
- Have we revised our earnings guidance downward?

If the answer to any of these questions is 'yes', a triggering event may have occurred and impairment testing may be required.

[1] The Q&As have been added in this update

Goodwill

Goodwill is tested for impairment at a level of reporting referred to as a 'reporting unit'. A reporting unit is an operating segment or one level below an operating segment (also known as a 'component'). A quantitative impairment test is used to identify and measure any impairment. An impairment loss is incurred when the carrying amount of a reporting unit is greater than its fair value; the excess is the impairment loss recognized.[2] [350-20-35-1 – 35-2]

A company has the option of performing a qualitative evaluation of whether it is more likely than not that a reporting unit's fair value is less than its carrying amount (Step 0 evaluation). If it is more likely than not that the goodwill is impaired, the company must move on to the quantitative test. If it is not, the company need not perform the quantitative test. [350-20-35-3 – 35-3A, 35-3D]

Goodwill is tested for impairment on an annual basis. However, goodwill must be tested between annual tests if an event occurs or circumstances change to indicate that it is more likely than not that an impairment loss has been incurred (i.e. a triggering event). [350-20-35-28 – 35-30]

Example triggering events

The following are examples (not exhaustive) of events or circumstances that suggest a possible impairment of goodwill, many of which resonate in the current environment. [350-20-35-3C]

Macroeconomic conditions	Deterioration in general economic conditions; limitations on accessing capital; fluctuations in foreign exchange rates; other developments in equity and credit markets.
Industry and market considerations	Deterioration in the environment in which an entity operates; an increased competitive environment; a decline in market-dependent multiples or metrics (absolute terms and/or relative to peers); a change in the market for an entity's products or services; a regulatory or political development.
Cost factors	Increases in raw materials, labor or other costs that have a negative effect on earnings and cash flows.
Financial performance	Negative or declining cash flows or a decline in actual or planned revenue or earnings compared with actual and projected results of relevant prior periods.
Entity-specific events	Changes in management, key personnel, strategy or customers; contemplation of bankruptcy; litigation.
Events affecting a reporting unit	Changes in the composition or carrying amount of net assets; a more-likely-than-not expectation of selling or disposing of all, or a portion, of a reporting unit; the testing for recoverability of a significant asset group within a reporting unit; recognition of a goodwill impairment loss in the financial statements of a component subsidiary.
Share price	A sustained decrease in share price (absolute terms and/or relative to peers). The capital markets downturn as a result of the COVID-19 outbreak may be a triggering event that requires a company to test its goodwill for impairment. However, a single day's market capitalization might not be the best indication of fair value in volatile markets; instead, it might be appropriate to use an average market price over a reasonable period of time preceding the measurement date (see Question 80).

2 This Hot Topic assumes that ASU 2017-04 (simplifying goodwill impairment testing) has been adopted. If it has not been adopted, goodwill is tested for impairment following a two-step process, but the issues discussed in this Hot Topic remain the same, unless otherwise noted.

Question 10

Do we expect companies to have a triggering event for goodwill in the period ended March 31, 2020?

Interpretive response: It depends. We expect that many companies will have a triggering event because the current conditions give rise to one or more of the factors identified above. However, the analysis as to whether it is more likely than not that the fair value of one or more reporting units is below their carrying amounts is company-specific. Therefore, there could be situations in which no triggering event has occurred for a particular company.

For example, a company may be able to conclude that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount if its market capitalization is still in excess of its book value, and there was significant headroom at its reporting units in previous quantitative tests. In such cases, a decline in share price and deterioration in economic factors might not be expected to reduce fair value below the carrying amount.

If a company concludes that there is not a triggering event, we believe its conclusion should be supported by robust documentation clearly laying out the judgments made and why each of the factors does not demonstrate that it is more likely than not that the fair value of any reporting unit is below its carrying amount.

Question 20

If a company has experienced a decline in stock price consistent with its industry, does it have a triggering event?

Interpretive response: It depends. As discussed in Question 10, it is important that companies evaluate all factors contributing to the industry stock price relative to their own situations. However, generally speaking, an industry decline often indicates economic and/or other factors that give rise to a triggering event.

Even with the sudden declines in the overall market stemming from COVID-19, we do not believe the current market would be considered disorderly, and the industry and overall market trends should be considered to determine if a triggering event has occurred. We believe the equity markets are generally efficient and provide a meaningful indicator of fair value. While the equity markets are presently volatile, they are active; and equity values used in impairment testing should not be adjusted for any type of illiquidity or mark-to-model techniques.

Question 30

Can a company apply Step 0 in a goodwill impairment test when there is a triggering event?

Interpretive response: Generally, no. The factors to consider when evaluating whether there is a triggering event are the same as the factors to consider in the qualitative test. Therefore, after a triggering event, a qualitative analysis would likely indicate the company should move to the quantitative impairment test. [350-20-35-3C, 35-66]

Determining fair value

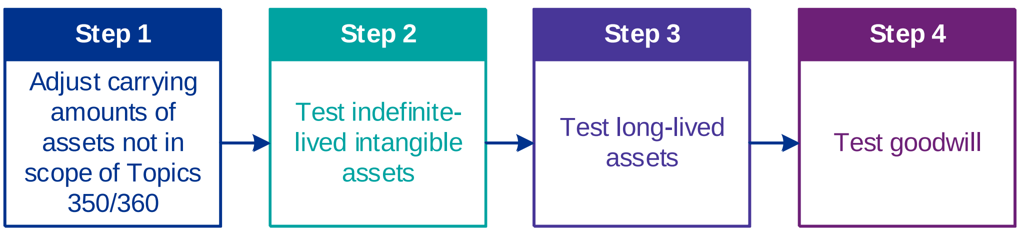
The quantitative goodwill impairment test compares the fair value of a reporting unit to its carrying amount. The fair value of the reporting unit is the price at which the reporting unit as a whole could be sold in an orderly transaction between market participants. [350-20-35-22]

For general guidance on the determination of fair value, see KPMG's Q&A: Fair value measurement.

Question 40

Does the sequence in which a company performs its impairment testing matter?

Interpretive response: Yes. A company may need to test goodwill and other assets (e.g. long-lived assets, equity method investments and/or inventory) for impairment at the same time. The company should perform impairment testing in the following order.



The company makes adjustments to carrying amounts for any resulting impairment losses before performing the next test. However, if an asset group that includes goodwill is classified as held-for-sale, the goodwill is tested for impairment before the rest of the disposal group and additional guidance under Topic 360 applies. [350-20-35-31]

Question 50

Can a company disregard current market prices because of COVID-19?

Interpretive response: No. Subtopic 350-20 states that "market prices in an active market are the best evidence of fair value and shall be used as the basis for measurement, if available." Many may question whether the current equity markets are in temporary decline or dislocated, and are therefore not an appropriate measure of fair value. We believe the equity markets provide a meaningful indicator of fair value, even in depressed markets, and therefore market prices should always be considered when available in measuring fair value. However, the quoted market price of an individual security need not necessarily be the sole measurement basis of the fair value of a reporting unit (see Question 90). [350-20-35-22]

Further, it may be appropriate to use an average price in certain situations (see Question 80).

Question 60

Can a company change its valuation techniques for goodwill impairment testing as a result of COVID-19?

Interpretive response: It depends. In many cases, multiple valuation approaches are acceptable. Changing the weighting or valuation techniques used is appropriate when the resulting change in measurement is more representative of fair value, and the change would be considered a change in estimate. For example, when estimating the fair value of a reporting unit, both a market approach and an income approach may be appropriate. If multiple valuation approaches are used to estimate fair value, the results of each should be considered and weighted, as appropriate, in estimating the fair value of the reporting unit.

We expect each of the valuation techniques used to measure the fair value of the reporting unit to reasonably corroborate the results of the other techniques applied. In theory, each measure of fair value should approach the same amount as the calculations in each method are further refined. Less reliance should be placed on internally developed models that have not been calibrated to observable orderly transactions.

Careful judgment should be applied when placing more emphasis on one valuation technique over another. Given the changes in the economic outlook for many companies, it may be appropriate to change the weighting or valuation techniques to reflect the current environment. However, it is not appropriate to change and disregard a previously used approach to avoid an impairment. For example, if a company previously determined the fair value of a reporting unit based 50% on a market approach (taking into account market capitalization) and 50% on an income approach, it would not be appropriate to change to a 100% income approach simply because the market capitalization had fallen significantly, unless the company can demonstrate and document that the market approach in the current situation does not produce a meaningful indication of fair value.

Question 70

Can a company make its best estimate of an impairment loss if not yet complete at the time it issues its financial statements?

Interpretive response: No. Before the adoption of ASU 2017-04[3], a company was required to recognize the best estimate of an impairment loss if Step 2 of the goodwill impairment test was not complete at the time the financial statements were issued (or available to be issued) and the impairment loss was probable and could be reasonably estimated. In ASU 2017-04, the Board decided to eliminate Step 2 and not to allow for an estimate if the quantitative test is not yet complete. As such, companies that have adopted ASU 2017-04 must complete the one-step impairment test before the date the financial statements are issued (available to be issued). [350-20-35-18 – 35-19]

If a public company cannot meet its filing deadline due to circumstances related to COVID-19, the SEC has temporarily extended required filing deadlines to 45 days after the original due date. For further guidance regarding regulatory relief for companies impacted by COVID-19, see KPMG's Hot Topic, SEC extends regulatory relief for companies impacted by coronavirus.

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3 See Footnote 2

Reconciling fair value to market capitalization

When performing a goodwill impairment test, a company should reconcile its market capitalization to the fair value of its reporting units, especially if the market value is lower than the fair value. The reconciliation of the fair value of the reporting units to the company's market capitalization serves as an overall check of the reasonableness of the estimated fair values attributed to multiple reporting units as part of a goodwill impairment test. [SEC Regs Comm 10/2008, 2008 AICPA Conf]

When performing the reconciliation, a company may consider the best practice guidance provided by the AICPA to identify and document significant differences between market capitalization and fair value, including control synergies, asymmetric data, entity-specific versus market capital structures, and other factors.[4] Some or all of the difference between market capitalization and fair value may be ascribed to a control premium or Market Participant Acquisition Premium (MPAP), depending on the circumstances. However, a company should not simply default to ascribing an increase in the difference between the market capitalization and the concluded fair value to an increase in the control premium or MPAP. Instead, the company should understand how its stock price has been affected by general market conditions and volatility (see Question 90).

A low stock price may reflect a temporary decline. However, a low market capitalization, especially when below the company's or the reporting unit's carrying amount, may indicate that there are additional factors to consider in determining the fair value of the reporting unit. A goodwill triggering event and impairment test is not based on an other-than-temporary decline in fair value; instead, an impairment loss exists when the fair value of a reporting unit falls below its carrying amount at the measurement date.

Question 80

Can a company use an average stock price when reconciling to market capitalization?

Interpretive response: Generally, yes. The SEC staff has stated that in volatile market conditions it may be appropriate, in many cases, for management to consider the market capitalization based on an average share price over a reasonable period as a better estimate of the fair value of a reporting unit (or a company). We believe that guidance continues to be relevant in the current environment. [2008 AICPA Conf]

Given the sudden volatility in current market prices, it may be challenging to determine what period of time would be considered a 'reasonable' period. Generally, the reasonable period used in averaging the stock price will precede and lead up to, but not go past, the measurement date (e.g. March 31, 2020).

Due to the timing of recent events and volatility, it would generally not be appropriate for a company to use an average that includes dates before the recent downturn. For example, it likely would not be appropriate to use average prices for the entire quarter ended March 31, 2020. Since markets reached all-time highs toward the end of February 2020, and the suddenness of the COVID-19 related decline, we believe the appropriate period to capture for purposes of averaging might encompass days or weeks, but not months. In subsequent periods, a different average may be appropriate. In any case, a reasonable period of time should not be established with the intent to avoid an impairment.

The length of the averaging period will also depend on company-specific facts and circumstances. For example, it may not be appropriate to consider prices in periods before certain entity-specific events – e.g. loss of key customers, revision(s) in earnings guidance, reductions in workforce – as the change in price may not be due solely to volatility in the capital markets.

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[4] AICPA Accounting and Valuation Guide: Testing Goodwill for Impairment, November 2013

In any case, we would expect a company to prepare robust documentation of its key judgments in determining the averaging period.

Question 90

How does a company determine a MPAP (or control premium) in the current environment?

Interpretive response: Generally, the MPAP is best corroborated by specific, comparable and current industry transactions. If there is no (or limited) current market activity to support the MPAP, historical transactions may need to be considered. Given the sudden decline in the equity markets, we generally expect that control premiums will increase compared to historical premiums. However, companies should avoid applying control premiums based on arbitrary 'rule of thumb' percentages or backing into an amount that avoids an impairment loss.

The SEC staff has noted that the amount of the control premium "can require a great deal of judgment" and "a registrant needs to carefully analyze the facts and circumstances of their particular situation when determining an appropriate control premium and…there is normally a range of reasonable judgments a registrant might reach." Additionally, the SEC staff noted that it is their expectation that the amount of evidence supporting management's judgment would increase as the control premium increases. [2008 AICPA Conf]

We believe the SEC staff's historical views provide relevant insight in light of current market conditions, and that determining a reasonable control premium will require judgment and consideration of the company's specific facts and circumstances and available comparable transactions. When using a MPAP at the higher end of the range, more time will likely be spent supporting this assumption. Often this is done by quantifying the present value of market participant synergies that can be realized from the acquisition of the subject company.

For further guidance, companies can refer to the following sources.

— Appraisal Foundation, Valuations in Financial Reporting Valuation Advisory 3: The Measurement and Application of Market Participant Acquisition Premiums; and
— AICPA, Accounting and Valuation Guide: Testing Goodwill for Impairment.

Question 100

How does a company adjust discounted cash flow models to reflect the impact of COVID-19?

Interpretive response: Given the uncertainties in the current environment, we expect that companies will adjust both the future expected cash flows and the discount rate for the increased risk factors when compared to analyses in more stable market conditions. Further, given the current uncertainties, it may be necessary to incorporate a COVID-19 company-specific risk premium in the cost of equity estimate. In addition to the discount rate and financial projections, the long-term growth rate is another assumption that may be impacted by the COVID-19 crisis, and previous long-term growth rate assumptions may need to be revisited.

Question 110

Can a company use forward-looking valuation multiples in the current environment?

Interpretive response: It depends. When applying the guideline public company approach, forward multiples, which are based on projected financial metrics, may sometimes be used to better incorporate future growth and profitability.

Due to the significant amount of uncertainty in the current environment, many public companies have withdrawn their earnings guidance for fiscal year 2020. Earnings estimates by equity analysts may have also been withdrawn or could be stale. Given these dynamics, observable forward multiples may no longer be current or may be otherwise unreliable. As such, companies should be cautious when using observable forward multiples and perform additional due diligence to assess their reasonableness. In particular, they should confirm the date of estimates and how the estimates have been updated following the crisis. In situations where reliable forward-looking analyst estimates can be obtained, companies must also be careful to ensure that the subject company's projected financial metrics are also current.

Question 120

Does a company need to reconcile the fair value of its reporting units to its market capitalization when some but not all reporting units are tested for impairment?

Interpretive response: Yes, although the approach may differ. When a company has performed a quantitative measurement of fair value for certain of its reporting units and only a qualitative assessment for others (i.e. only some reporting units have triggering events), it could be difficult for a company to perform the market capitalization reconciliation. This may result in companies using greater judgment about when and how to perform this evaluation. [ASU 2011-08.BC34]

We believe one approach to perform the reconciliation of market capitalization is to consider the current fair value of the reporting units for which the quantitative test is performed, and a qualitative assessment for the remaining reporting units that factors in the most recent quantitative measurement. In most cases, a company should make adjustments to the most recent quantitative measurements of these reporting units to account for the change in the economic environment.

Other assets

Long-lived assets and any indefinite-lived intangible assets in a reporting unit that require impairment testing are tested for impairment before goodwill is tested (see Question 40). The carrying amounts of such assets are decreased for any impairment losses, with a corresponding adjustment to the carrying amount of the reporting unit in which those assets reside. [350-20-35-31]

In addition to potential impairment, a company should reevaluate the useful lives of its intangible and tangible assets based on the changing circumstances and management's plans to respond to these events. [350-30-35-16, 360-10-35-22]

Indefinite-lived intangible assets

Similar to goodwill, indefinite-lived intangible assets are tested for impairment on an annual basis, but more frequently if a triggering event occurs. An impairment loss is incurred when the carrying amount of the asset is greater than its fair value; the excess is the impairment loss recognized. [350-30-35-18 – 35-18A, 35-19]

The impairment indicators for indefinite-lived intangible assets are similar to those identified above for goodwill, focusing on the effect of events on the significant inputs used to determine the fair values of such assets. [350-30-35-18B – 35-18C]

Long-lived assets

The impairment testing for long-lived assets (e.g. property, plant and equipment, finite-lived intangible assets and lease ROU assets) is entirely trigger-based, and they are tested for impairment when one or more events or circumstances indicate that their carrying amounts may not be recoverable. An impairment loss *exists* if the carrying amount of the asset (asset group) exceeds the sum of the estimated undiscounted future cash flows from the use and eventual disposition of the asset group. In that case, the impairment loss is *measured* as the amount by which the carrying amount of the asset (asset group) exceeds its fair value. [360-10-15-4, 35-17, 35-21]

The following are examples (not exhaustive) of events or circumstances that suggest a possible impairment of long-lived assets, some of which resonate in the current environment. [360-10-35-21]

Market price	A significant decrease in the market price of a long-lived asset (asset group).
Changes in asset use	A significant adverse change in the extent or manner in which a long-lived asset (asset group) is being used or in its physical condition.
Changes in legal factors/ business climate	A significant adverse change in legal factors or in the business climate that could affect the value of a long-lived asset (asset group), including an adverse action or assessment by a regulator.
Cost factors	An accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset (asset group).
Financial performance	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 the use of a long-lived asset (asset group).
Events affecting an asset's use	A current expectation that, more likely than not, a long-lived asset (asset group) will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.

In addition, negative trends should be assessed to determine whether they apply to a specific point in time or an extended period of time. For example, declines in profit as a result of the COVID-19 outbreak may be short-lived or extend into the foreseeable future. When determining the impact on the recoverability of long-lived assets, companies should not only assess the current period, but analyze the impact over the remaining useful life of the asset(s).

KPMG's Hot Topic, Lease accounting impacts of COVID-19, discusses some specific considerations around lease ROU assets.

Question 130

Do we expect companies to have a triggering event for long-lived assets in the period ended March 31, 2020?

Interpretive response: It depends. In the current environment, we expect companies to have a robust process for identifying triggering events. Simply asserting that it is too soon to evaluate the impact of COVID-19 is not appropriate.

A company's evaluation should consider market-based conditions, including COVID-19's impact on the industry, sector and geographies in which the company operates, and estimates of the length of the downturn and expectations for recovery. The evaluation should also include asset-specific factors, including:

- changes in plans for the asset or asset group;
- the remaining useful life of the asset or asset group;
- the economic performance of the asset or asset group before the current events, including the results of previous recoverability analyses; and
- the previous 'cushion' between fair value and the carrying amount.

Companies may have certain long-lived assets or asset groups where a triggering event is identified and others where it is not. A company may also identify a triggering event for a reporting unit in its separate goodwill impairment test (which focuses on fair value, not recoverability), and not identify triggering events for individual long-lived assets or asset groups within that reporting unit, or vice versa.

As a reminder, when companies are performing impairment tests for both long-lived assets and goodwill at the same time, the sequence in which the impairment tests occur is important (see Question 40). While long-lived asset impairment tests are generally performed before goodwill impairment tests, in certain cases performing the goodwill impairment test may reveal new information – indicating that certain long-lived assets are not recoverable – that the company had not previously considered. In that situation, the company needs to reevaluate the recoverability of the carrying amounts of those long-lived assets and then complete the goodwill impairment test.

Question 140

How does a company determine *undiscounted* cash flows for an asset group in the current environment?

Interpretive response: Due to the uncertainties in the current environment, we expect companies to adjust the projected cash flows used in their recoverability tests and fair value estimates. The cash flows should be updated for known or expected events, such as the loss of a significant customer or tenant. Additionally, changes in management's plans or the company's ability to hold an asset or asset group may alter the time period used for recoverability – i.e. the length of cash flows projected. In all cases, the projected undiscounted cash flows used for the recoverability test should be consistent with the information the company uses for both internal planning and external communication.

Topic 360 does not require an entity to apply a single approach to testing all asset groups for recoverability and some entities apply either a best-estimate approach or a probability-weighted approach. Probability-weighted cash flows for multiple outcomes may be appropriate at this time due to uncertainty around the severity and duration of the economic impact from COVID-19 – even if the company used a best-estimate approach in prior periods.

Question 150

Should a company adjust the useful lives of long-lived assets as a result of COVID-19?

Interpretive response: It depends. Companies should periodically reassess the estimated useful life of depreciable (amortizable) long-lived assets. If COVID-19 results in a change in management's plans for an asset or asset group, its useful life should be updated. However, an entity should recognize an impairment loss before revising depreciation (amortization) estimates and a decrease in the expected useful life may be a triggering event.

Regardless of whether an impairment charge is taken, the company adjusts the depreciation (amortization) of the carrying amount over the new estimated useful life. This change in estimate is accounted for on a prospective basis only – i.e. a catch-up in the current period on a cumulative-effect basis is not appropriate.

Disclosures

A public company should consider the following disclosures relating to impairment in its interim and annual financial statements. Additionally, KPMG's Hot Topic, Subsequent events, going concern and risk disclosure impacts of COVID-19, discusses other potential disclosures relating to COVID-19.

Early warning disclosure

Disclosure of the potential for material impairment charges is required if not recorded in the current period and generally would be expected to be disclosed in periods in advance of the charge (e.g. potential for a charge in periods after March 31, 2020). [Reg S-K Item 303(a)(3)(ii)]

The SEC staff has previously stated that it has increased its focus on disclosures included in Management's Discussion and Analysis (MD&A) associated with goodwill impairment testing. The SEC staff has also discussed its expectation with respect to the types of disclosures it expects in MD&A. [2009 AICPA Conf]

For example, if a company has a reporting unit that is at risk of failing the quantitative goodwill impairment test, and an impairment of goodwill allocated to that reporting unit could be material, the SEC staff would expect that company to highlight the risk of impairment in its financial statements. Further, if the fair value of a reporting unit as of the date of the last impairment test is not substantially in excess of the carrying amount, the SEC staff expects companies to disclose:

- the percentage by which the fair value of the reporting unit exceeds its carrying amount;
- the amount of goodwill allocated to the reporting unit;
- a discussion of the assumptions used and any uncertainty inherent in those assumptions; and
- a discussion of the potential events and circumstances that could have a negative effect on the assumptions.

In addition, Topic 275 (risks and uncertainties) requires that a company disclose in its financial statements events or circumstances that could significantly affect the amounts that are reported in the financial statements. [275-10-50-8, 50-13]

Impairment charge recognized

If goodwill is impaired, the company should disclose the facts and circumstances that led to the impairment triggering events. In addition, companies should discuss how the factors that triggered the impairment charge might alter the future expectations of earnings and cash flows related to the business.

Critical accounting estimates

More transparent and robust disclosures are appropriate in the critical accounting estimates section of MD&A regarding the goodwill impairment valuation techniques and critical assumptions used, such as:

- how reporting units are determined;
- the methodology and assumptions used to determine the fair value of reporting units;
- the valuation method(s) used;
- if multiple valuation methods are used, the weighting applied to different methods and reason(s) for doing so; and
- key assumptions and sensitivity analyses.

As previously discussed, public companies should provide an explanation in MD&A of the difference between the sum of the estimated fair value of multiple reporting units and the company's market capitalization, including information about:

- how the control premium is determined; and
- the measurement date (or range of dates used) for market prices.

Public companies are also required to disclose and discuss implications of key assumptions used to develop cash flow projections for long-lived asset impairment testing within MD&A, including information about whether: [360-10-S99-2]

- the cash flow projections indicate that the company is likely to violate debt covenants in the future;
- the company has informed the market and its shareholders of its reduced expectations for the future that are sufficient to cause a future impairment charge; and
- the company has discussed with external analysts growth rates used in the impairment analysis that are lower than those used by analysts.

These disclosures are required each reporting period with an explanation of any changes from prior periods.

Subsequent events

The World Health Organization did not announce the coronavirus as a global health emergency until the end of January 2020, and no significant measures were taken by any governments until early 2020. Further, the effects of the COVID-19 outbreak did not have a significant impact on global markets and share prices until February 2020.

Therefore, in following the subsequent events guidance in Topic 855 in the context of goodwill and long-lived asset impairment testing, a triggering event related specifically to the COVID-19 outbreak would not generally be accounted for as a recognized subsequent event for companies with fiscal years ended December 31, 2019. However, companies should ensure that they properly distinguish COVID-19 related triggers from other possible triggers that could represent the culmination of conditions that existed over a relatively long period of time, in which case they may be recognized subsequent events.

For calendar-year companies that have not yet reported for the year ended December 31, 2019, who conclude that an impairment loss is a nonrecognized subsequent event, disclosures will be required. These include the nature of the event, and an estimate of its financial effect or a statement that such an estimate cannot be made. In addition, Topic 275 requires broad disclosures about risks and uncertainties, including disclosures about estimates that may change in the near future. [275-10-50, 855-10-50-2]

For companies whose fiscal year is other than the calendar year, and calendar-year companies reporting in Q1 2020, the COVID-19 outbreak is a current period event that will require ongoing evaluation to determine the extent to which developments after the respective reporting date should be recognized in that reporting period.

KPMG's Hot Topic, Subsequent events, going concern and risk disclosure impacts of COVID-19, discusses further considerations regarding subsequent events.

Question 160

Can a company use market prices after the reporting date in its average market price?

Interpretive response: Generally, no. Changes in market prices after the reporting date should not be considered in determining average market prices. Those changes do not reflect conditions at the reporting date; therefore, they are generally a nonrecognized subsequent event. However, such changes may require a company to reevaluate whether all conditions existing at the reporting date were considered.

Question 170

Should a company consider new conditions arising after the reporting date when evaluating whether a long-lived asset group is impaired?

Interpretive response: No. As the COVID-19 outbreak progresses and information evolves, a company should evaluate whether it relates to new conditions or conditions that existed at the reporting date. Estimates of cash flows and asset values for purposes of testing long-lived assets for recoverability should be based on conditions that existed at the reporting date without using hindsight.

Because it is difficult to separate the effects of hindsight when assessing conditions existing at an earlier date, it is important that judgments about those conditions, the need to test an asset for recoverability and the application of a recoverability test be made and documented together with supporting evidence on a timely basis. [360-10-35-17, 45-13]

Evolving information

The potential global and economic impacts of the coronavirus continue to evolve rapidly, and companies should monitor the situation. Companies are encouraged to maintain close communications with their boards of directors, external auditors, legal counsel and other service providers as the circumstances progress. Stay informed at read.kpmg.us/coronavirus

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