

How important are Intangible asset impairments ?



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What is intangible assets ?

Impairment of Assets

Case Study

Key takeaways

What is intangible assets ?

Reference : TAS 38 Intangible Asset

Impairment of Assets

Case Study

Key takeaways

What is intangible assets ?

“Intangible assets” is an identifiable non-monetary asset without physical substance

Characteristics of intangible assets:

- **Controlled by the entity**
- **Future economic benefits are expected to flow to the entity**
- **Lack physical substance**
- **Identifiable:**
 - **Separable or**
 - **Arises from contractual or other legal rights**
- **Example:**
 - **Computer software**
 - **Licenses**
 - **Intellectual property: patents, copyrights, trademarks, logo**
 - **Goodwill which arising in a business combination**



What is intangible assets ?

Intangibles can be acquired ...

by separate purchase

as part of a business combination

by a government grant

Ex: airport landing rights, licences to operate radio or television stations, import licences or quotas or rights to access other restricted resources

by exchange of assets

by self-creation (internal generation)

Ex: patent, copyright and logo



Amortization / Impairment

Intangible Asset

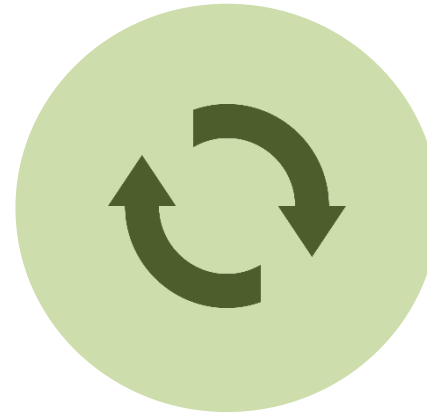
Limited life



**Amortization
&
Impairment**

Indefinite life

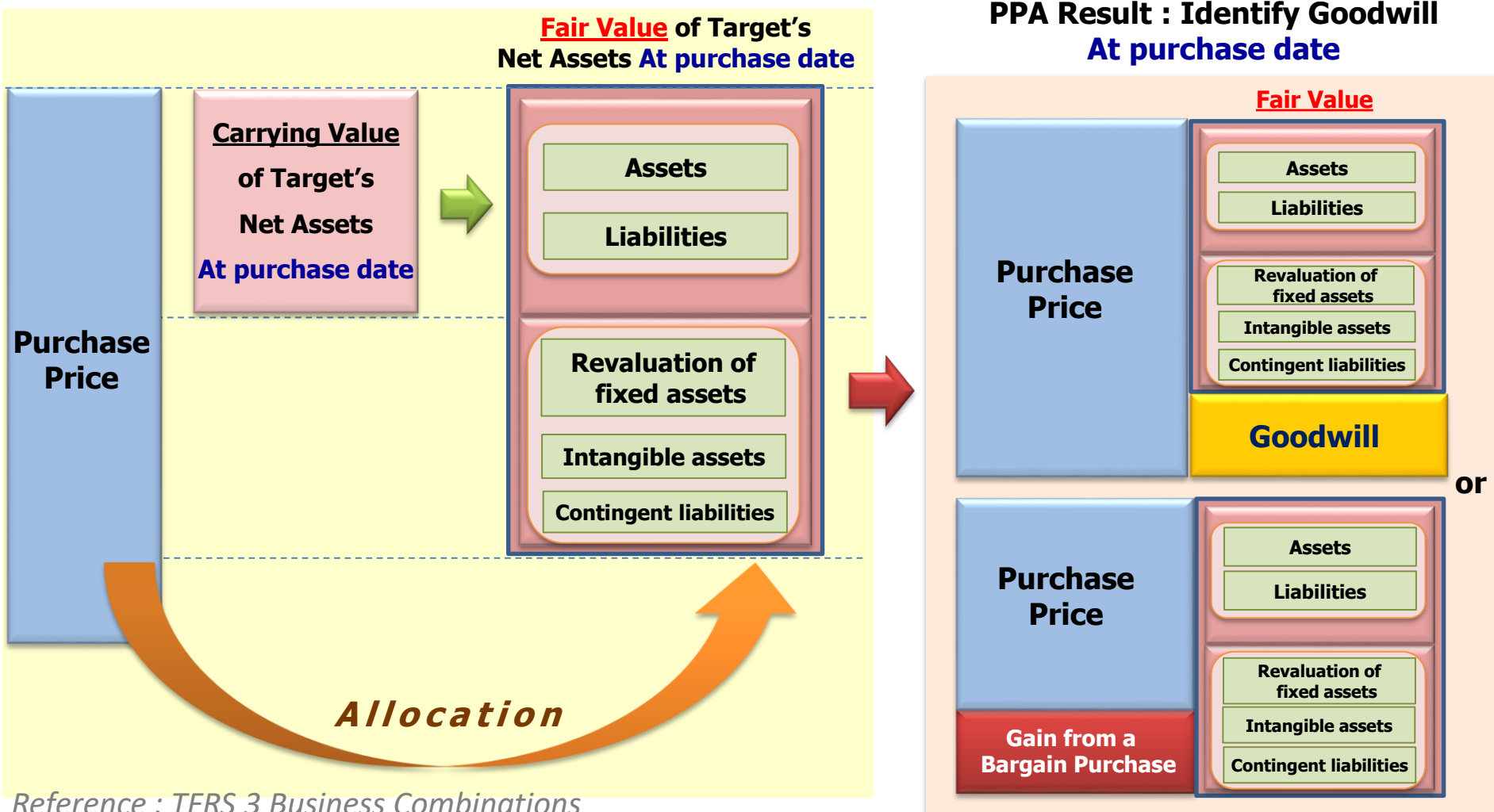
Ex., Goodwill



Impairment

Goodwill and intangible asset from PPA

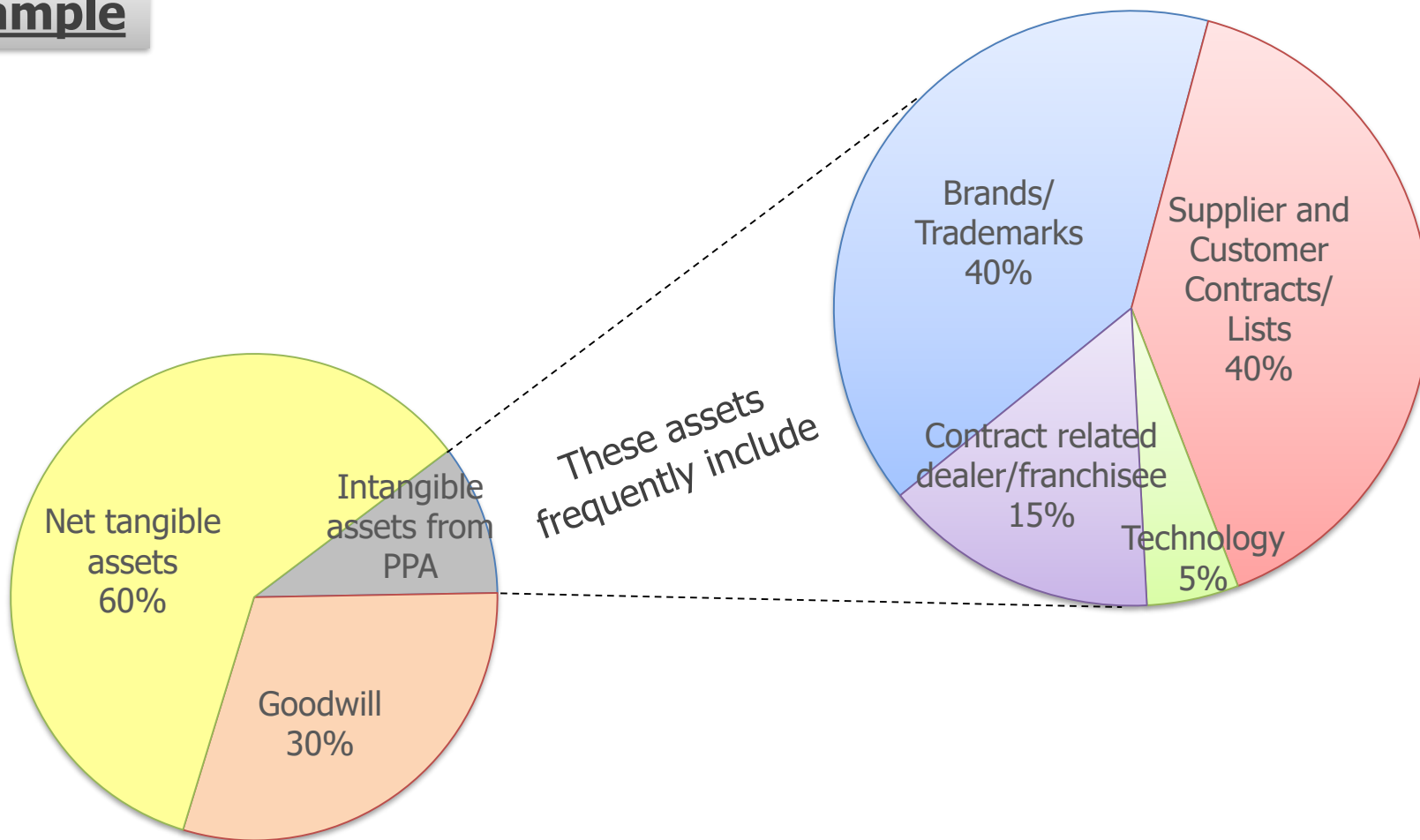
Purchase Price Allocation : PPA is the allocation of purchase price into fair value of assets, liabilities of the target including the recording of additional intangible assets / contingent liabilities in the acquirer's financial statements



Goodwill and intangible asset from PPA



Example



What is intangible assets ?

Impairment of Assets

Reference : TAS 36 Impairment of Asset

Case Study

Key takeaways

Impairment of Assets – When ?



Scope: All assets, other than: inventories (*IAS 2*), contract assets (*IFRS 15*), deferred tax assets (*IAS 12*), assets arising from employee benefits (*IAS 19*), financial assets (*IFRS 9*), investment property that is measured at fair value (*IAS 40*), biological assets (*IAS 41*), etc.

- **Goodwill**
- **Intangible asset with an indefinite useful life** (Ex: patent, copyrights, trademark and logo)

1

- **Other assets**
 - **Tangible assets,**
 - **Intangible asset with limited life**

2

The impairment indicator

External sources of information

- Asset's value / market price is declined significantly with a permanent trend
- The carrying amount higher than its market capitalization
- Competitor entering market in the same area

Internal sources of information

- Obsolescence or physical damage of an asset
- The economic performance of an asset is, or will be, worse than expected

- **Must be tested annually, even without an indicator or when an indicator exists**
- Perform **any time during an annual period, but at the same time every year.**

- **Whenever there is an indicator**

Impairment testing

Impairment of Assets – Testing



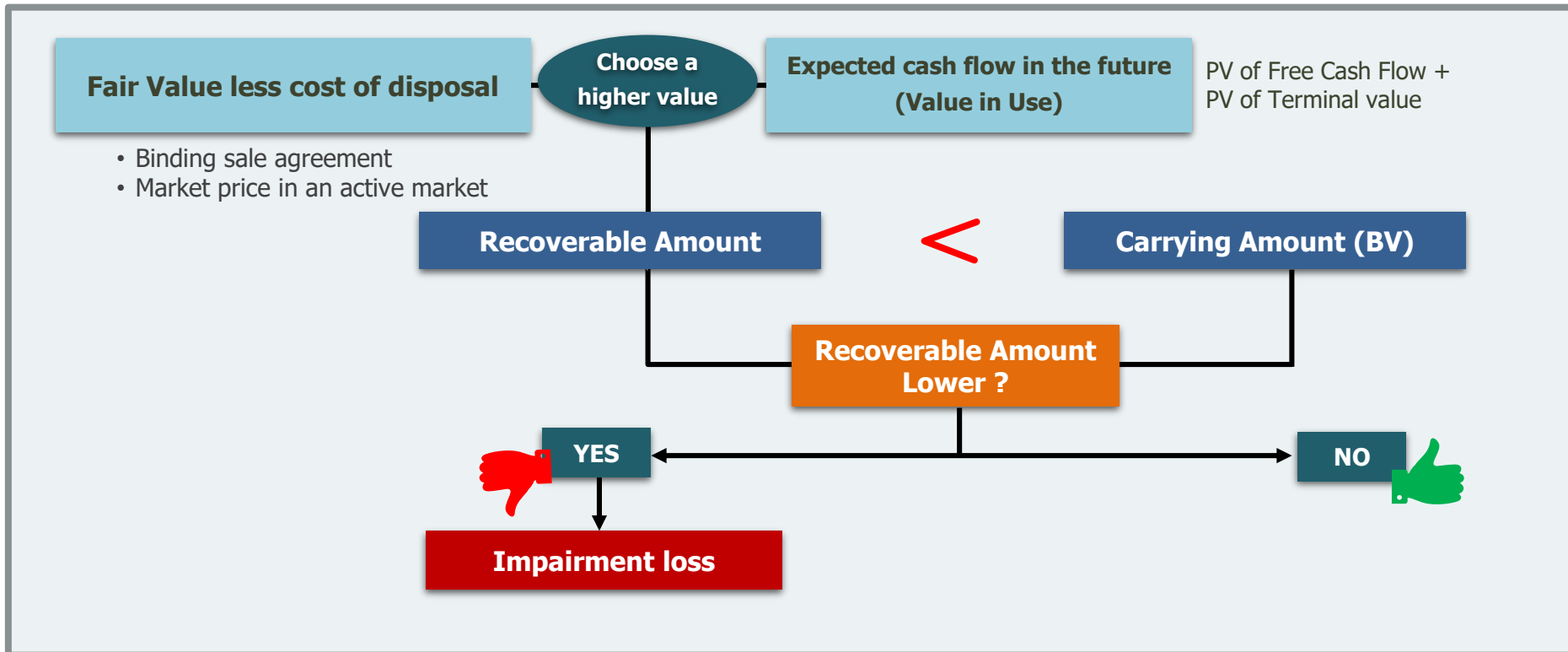
Assets that must be tested for impairment



Each individual asset

or

Cash generating Unit : CGU



Impairment of Assets – CGU

CGU



The smallest identifiable group of assets that generates **cash inflows** that are largely independent of the cash inflows from other assets or groups of assets.

- The lowest level within the entity for internal management purposes
- Not larger than an operating segment
- Ex: product lines, businesses, individual locations

Company A : Restaurant business

CGU 1



CGU 2



CGU 3

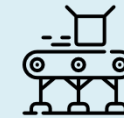
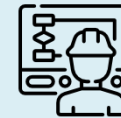


CGU 4



Company B : Manufacturing business

CGU 1



FV less costs of disposal

Cost of disposal: legal costs, stamp duty and similar transaction taxes

Value in use

- Based on the most **recent cash flow projection approved by management**. Generally available for **a maximum of 5 years**
- **Growth rate of cash flow projection** must be appropriate given the nature of the assets or operation. Generally **not exceed the long-term average growth rate for the products, industries, or country(ies)** in which an entity operates.
- **Cash flow projection should exclude:**
 - Future restructurings that are not yet committed
 - Cash inflows from future improvement to, or enhancement of asset's performance unless relevant cash outflows are included

The discount rate should **reflect the asset's (or CGU's) specific risks**

Use **pre-tax future cash flows**, and hence, a **pre-tax discount rate**

Impairment of Assets – When ?



• Goodwill

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- Intangible asset with an indefinite useful life (Ex: patent, copyrights, trademark and logo)

• Other assets

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- Tangible assets,
- Intangible asset with limited life

The impairment indicator

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Impairment testing

Impairment of investment

1

Goodwill

2

All other assets

Impairment of Assets – Reversal



Indicators of impairment reversal

For an asset other than goodwill, an impairment loss recognized in prior periods **should be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount** since the last impairment loss was recognized.



**Cannot reverse
goodwill impairment**





Lots of assumptions and significant judgements

Avoid biases

Problem with CGU identification

Focus for Regulators and Stakeholders

Impairment of Assets – Auditor’s Report

Auditor’s Report	Impairment Incidence	Potential Impact
1. Unqualified opinion (Clean opinion)	-	-
2. Unqualified opinion with emphasis on a matter paragraph	Recognize impairment correctly according to accounting standards with significant amount	-
3. Qualified opinion	1. Not recognize or 2. Recognize impairment but auditor disagree with significant amount <u>without</u> pervasive effects on financial statements	<ul style="list-style-type: none"> • SEC may request for clarification or adjustment of financial statements • Notice Pending (NP) on SET
4. Disclaimer of opinion	1. Not recognize or 2. Recognize impairment but auditor disagree with significant amount <u>with</u> pervasive effects on financial statements	As Securities and Exchange Act; <ul style="list-style-type: none"> • Financial statements have to be adjusted • Trading Suspension (SP) on SET until submit adjusted financial statements • Get penalty
5. Adverse opinion		

Auditor's report impact on reliability, image, and share price of the Company

Impairment of Assets – Disclosure

Circumstance that lead to the recognition or reversal of impairment loss.

Amount of impairment loss recognized or reversed.

Nature of individual asset and the segment to which the asset belongs.

Description of the cash-generating unit (CGU)

Recoverable amount of CGU is fair value less costs of disposal or value in use.

Concerns on intangible asset impairment disclosure



Inadequate disclosures, and a lack of consistency, on management's key assumptions and sensitivity analysis.

The disclosure of discount rates was too aggregated, with many companies disclosing a single average rate.

High growth rates used in impairment calculations.

What is intangible assets ?

Impairment of Assets

Case Study

Key takeaways

Case Study – The impairment indicator



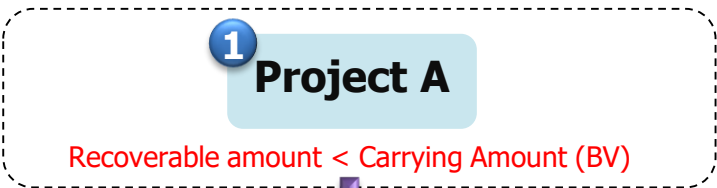
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- Significant decrease in **oil price** in the world market with a permanent trend
- **Coal price** has continuously dropped and weaker long-term coal price outlook due to persistent oversupply and lower demand
- Revise **development plan**
- Significant postpone the final investment decision / project **production plan**
- Changes in **production costs**
- Forecast of **performance decline**
- Changes in the Group's **policy and investment strategy**
- Long-term forecast on **decreasing production volume** of coal mine



Significant indicators to perform asset impairment testing



Impairment loss on E&P assets



Impairment loss on goodwill, mine properties, and PPE

Case Study – Goodwill Impairment

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Recoverable amount



Goodwill



Must be tested annually, even without an indicator

Impairment testing

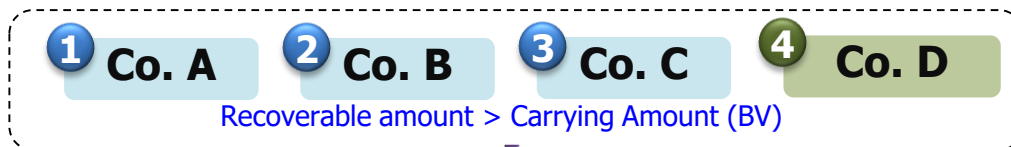
Key estimates and assumptions

❖ Fair Value less cost of disposal

- Market Capital value from SET
- Securities trading fee reference from brokerage companies

❖ Value in Use

- Cash Flow Projection from business planning department: power, gas, oil, non-oil, P&R and E&P
- Convenient store margin
- Growth rate of cash flow projection from financial planning department. (GDP Growth rate)
- Discount Rate (By Industry) from financial planning department.
- Terminal value calculated by using discounted cash flows



No impairment loss on Goodwill



Impairment loss on Goodwill

Case Study – Intangible impairment



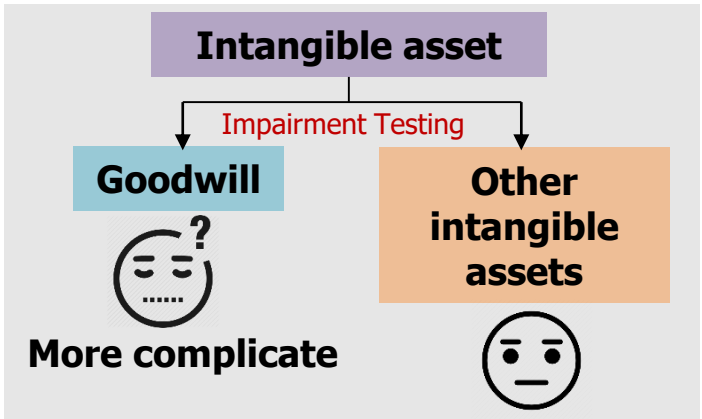
Co. A	Intangible asset from PPA	66
	Net assets	2
	Initial goodwill	170
	Total	238



Co. A	Intangible asset from PPA	66
	Net assets	2
	Initial goodwill	140
	Total	208

Goodwill Impairment of 30 – no reversal

Appropriate purchase price ?



Where there are impairments,

other unknown liabilities may be lingering on the balance sheet as well.



To Management Committee / Audit Committee / Board of Directors

Meeting Agenda: PTT Group performance report for the year



Background and indicator of impairment

Accounting concept of impairment

Key assumption used and calculation method

Impacts on PTT financial statements





To Investors

Communication Channels:

SET Notification

Financial statements and MD&A submitted on SET Portal

Analyst Meeting

Analysts, Fund managers, and Bankers

Conference Call

(Optional)

After disclose F/S or SET notification to analysts & fund managers
(Analysts can have recommendation on their research)

Press Meeting

(Optional)

Media and Journalists

What is intangible assets ?

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Key takeaways

Key takeaways

Judgements and Assumptions

CGU Identification

A focus for the regulators / auditor



Impairment testing must be effective to derive the right amount, right timing and adequate disclosure



Reflect the efficiency of investment and capital allocation of Managements and Board of Directors

