THE EXCHANGE
SEMINAR SERIES

MARKET INSIGHTS FOR PUBLIC COMPANIES

Public Companies Reporting – What's Changed and How

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Wherever business takes you MNP.ca

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Reporting & Regulatory Update

Agenda

- Reporting & Regulatory Update
  - Impairment - Core Principles of IAS 36
  - Government grant - CEWS
  - Costs to sell – Inventories
  - New Standards Issued But Not Yet Effective

Impairment

- Core Principles of IAS 36

Effect of COVID-19

Why we need to discuss impairment today?

- Disruption in supply chains, workforce and travel restrictions, reduced consumer spending, and significant declines in revenue for most industries
- Expect many companies will have impairment indicators given that COVID-19 is likely to give rise to one or more of the factors in IAS 36
- If a company concludes that there is no impairment indicator:
  - Need robust documentation
  - Clear documentation on how and why each of the indicators in IAS 36 would not lead to impairment

Core principles of IAS 36

Scope includes PP&E, ROU assets, intangible assets and goodwill, investments in subsidiaries, associates and JVs

Whenever possible an impairment test is performed on an individual asset. Otherwise tested in cash-generating unit (CGU)

Annual testing required for goodwill and intangible assets that either are not available for use or have an indefinite useful life

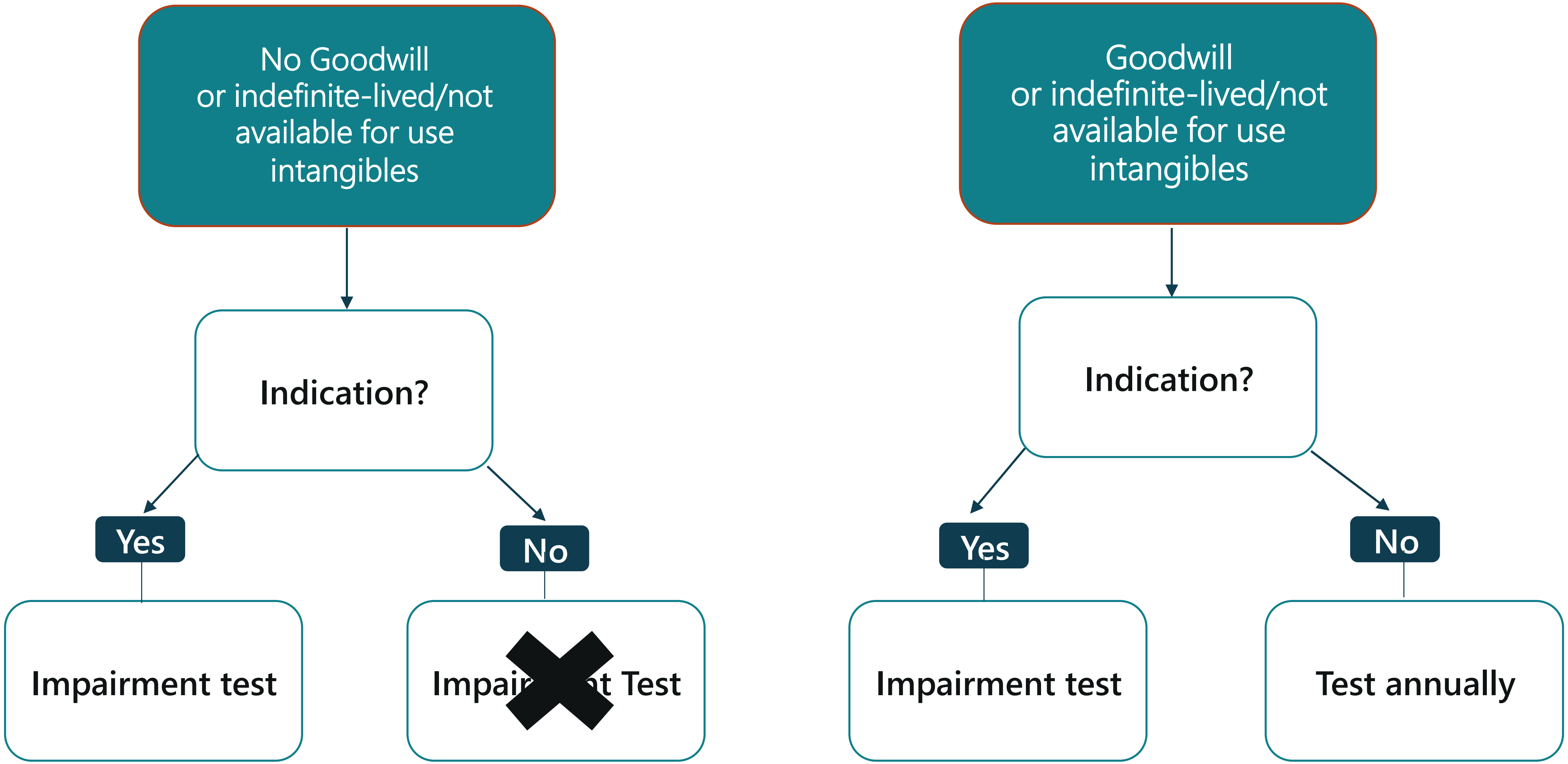
Loss recognized if carrying amount exceeds the greater of fair value less costs to sell and value in use

Reversal of impairment loss recognized except for goodwill

Steps in impairment testing

1. Determine when to test for impairment
2. Identify the level at which to test for impairment
3. Determine the sequence of impairment testing
4. Determine the carrying amount
5. Determine the recoverable amount
6. Measure and recognize impairment loss

Determine when to test for impairment



Timing of impairment tests

Common pitfalls

Not testing assets with an indefinite useful life, and intangible assets not yet available for use

Not considering the existence of indicators of impairment of goodwill at the reporting date when an annual impairment test has already been carried out

Not testing assets acquired in recent acquisitions

Not testing goodwill acquired in recent acquisitions as it is provisional/unallocated

Cash-generating unit

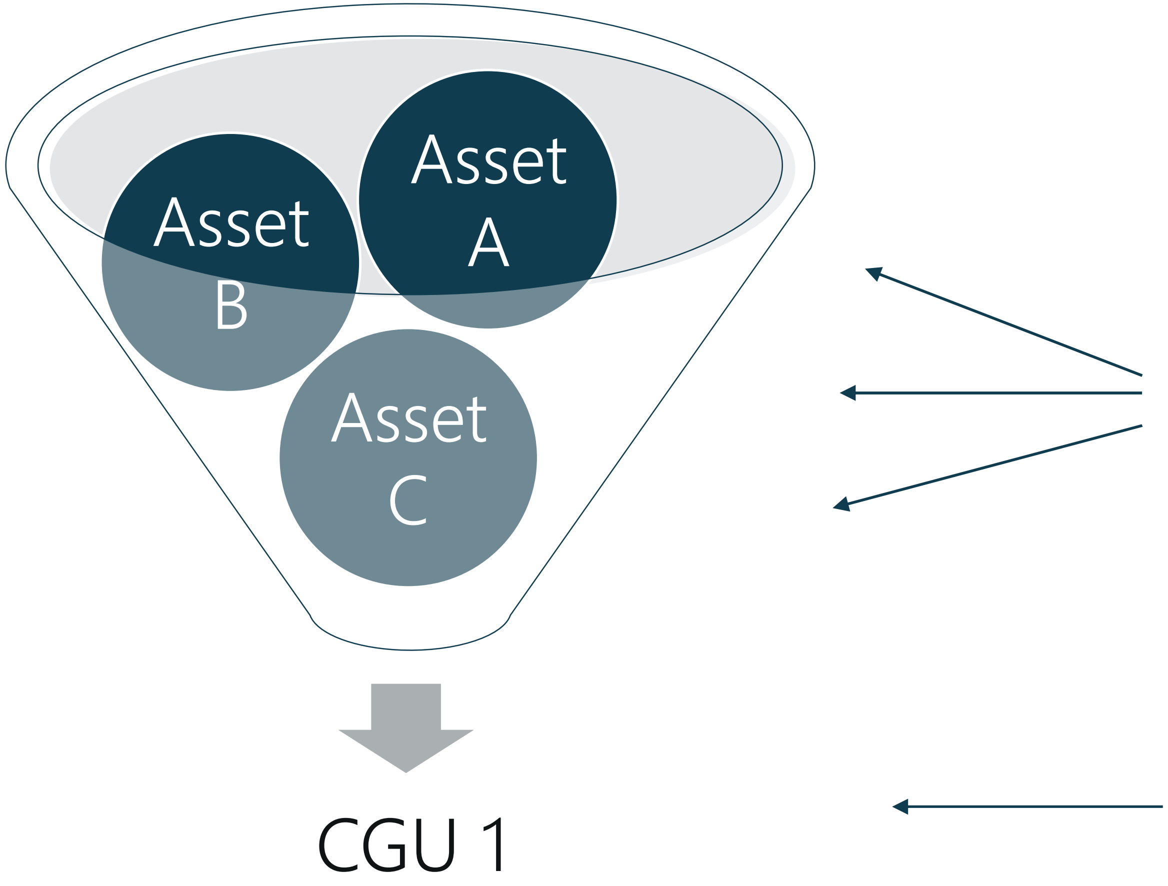
Estimate recoverable amount for:

- the individual asset, or if not possible
- the asset's CGU

Apply CGU concept when the asset does not generate cash flows which are independent from other assets

The identification of CGUs requires judgement, and can be one of the most difficult areas of impairment accounting

Determine the sequence of impairment testing



Step 1:
Test first individual assets and record any impairment loss

Step 2:
Test CGU and record any impairment loss .

Carrying amount of a CGU

Carrying amount should be consistent with composition of cash flows

Decommissioning liabilities (Asset Retirement Obligations)

Lease liabilities

Working capital adjustments

Deferred taxes

Include in carrying amount if recoverable amount is FVLCD

Exclude from carrying amount if recoverable amount is VIU

Corporate Assets

Allocate to CGUs if possible, on a reasonable and consistent basis

Impairments Involving Non-Controlling Interests (NCI)

Partial Goodwill Option

Method of Measuring the NCI	Result	Impairment considerations
Measure the NCI at the proportionate interest in the acquiree's recognized identifiable net assets	Recognizes only the acquirer's share of the goodwill in the acquiree	Recoverable amount of CGU includes 100% of its cash flows but carrying amount will not include 100% of the goodwill. For impairment testing, entities must gross up the goodwill allocated to the CGU to include the NCI's share. Allocate any resulting impairment loss between the amount relating to the parent's recognized goodwill and the NCI's share.

Calculation of recoverable amount: Higher of

Fair value less costs of disposal

Market-based

Value in use

Entity-specific

Costs of disposal

+

−

Includes

- Legal costs
- Stamp duty
- Similar transaction costs
- Cost of removing the asset
- Direct incremental costs to bring the asset into condition for its sale
- Sales commissions

Excludes

- Termination benefits
- Costs associated with reducing or reorganizing a business following the disposal

Differences between FV and VIU

Characteristics	Fair Value less Costs of Disposal (FVLCD) – IFRS 13	Value in Use (VIU) IAS 36
Basis	Hypothetical buyer – market participants' perspective.	Entity-specific.
Valuation technique	Market approach Income approach	Income approach
Asset use	considers highest and best use of a nonfinancial asset (which may be different from actual use by the entity, although the entity's current use of a non-financial asset may be assumed to be the highest and best use unless there is evidence to the contrary).	Current use based on management's best estimate.
Future Restructuring and Enhancements	May be included.	Excluded (unless already committed).
Lease liability	Deduct from carrying value. Inherently included in FVLCD calculations (via discounted cash flows).	Deduct from carrying value. Deduct from VIU.
Discount rate	Post-tax weighted average cost of capital (WACC) considering market participants' view.	Pre-tax rate that reflects current market assessments of time value of money and risks specific to the asset.

Recognition of impairment

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Reduce goodwill

Reduce other assets pro rata

Do not reduce an individual asset below greater of:

Recoverable amount, and zero

Allocate to other assets instead

IASB Discussion Paper

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Key highlights:

- **Relief from the annual impairment test** – impairment testing of goodwill will be required only when there is a triggering event
- **VIU calculation** – Removing the restriction that excludes future restructuring and asset enhancements (unless committed); and permit the use of post-tax cash flows and post-tax discount rates
- **Presentation of total equity excluding goodwill** – Present as a free-standing amount in the balance sheet

Government Grants

- CEWS

Government grant - CEWS

Issue

The Canada Emergency Wage Subsidy (CEWS) program was extended, and a "clawback" provision was introduced to repay part of the subsidy.

Key points

- Employers that are public corporations will be required to repay a part of their wage subsidy claims for a qualifying period that begins after June 5, 2021, to the extent the compensation paid to certain executives (referred to as "executive remuneration") in 2021 exceeds that paid in 2019.
- Potential Clawbacks may also result from any dividend payments and share repurchases.

Entities should only recognize CEWS as income for periods after June 5, 2021, only where they expect not to be subject to the clawback provisions relating to executive remuneration. .

IAS 2

- Costs necessary to sell inventories

Costs necessary to sell inventories

Issue

The Committee received a request about the cost an entity includes in the "estimated costs necessary to make the sale" when determining the net realizable value (NRV) of inventories

Does an entity include all costs necessary to make the sale, or only those that are incremental to the sale?

Key points

IAS 2 does not identify which specific costs are 'necessary to make the sale' of inventories, nor does it refer to 'incremental' costs in this context.

Given the narrowness of the definition of incremental costs, the Committee concluded that, when determining the net realisable value of inventories, an entity estimates the costs necessary to make the sale in the ordinary course of business.

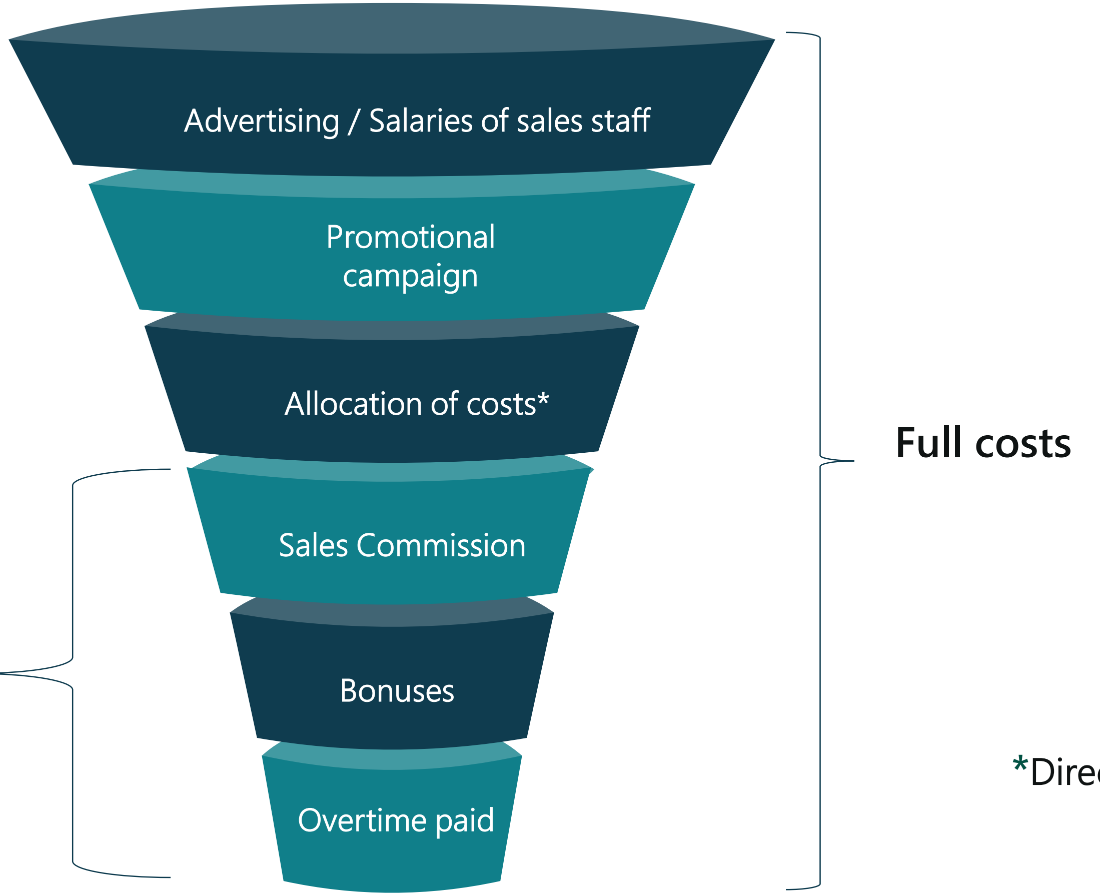
The costs necessary to make the sale are not limited to incremental selling costs under IAS 2.

Judgement is used to determine which costs are necessary to make the sale considering an entity's specific facts and circumstances, including the nature of the inventories.

At its June 2021 meeting, the Committee decided not to add a standard-setting project to the work plan in response to a submission on IAS 2 *Inventories*. The Committee instead decided to finalize an agenda decision that would include material explaining how the applicable principles and requirements in IFRS Standards apply to the fact pattern described in the submission.

Incremental cost approach no longer permitted

IFRIC Update June 2021



Incremental costs
Costs that would not be incurred unless a transaction goes ahead

*Directly related to contract activities

New Standards

- Issued, but not yet effective
- IAS 16
- IAS 1

New Standards Issued But Not Yet Effective

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Property, Plant and Equipment: Proceeds before Intended Use

(Amendments to IAS 16)

Effective Date: January 1, 2022

- Proceeds from selling items produced before intended use should be included in profit or loss rather than offset against the cost of the asset as previously required by IAS 16, *Property, Plant and Equipment*.

Classification of Liabilities as Current or Non-current

(Amendments to IAS 1)

Effective Date: January 1, 2024

- Future covenant testing would not affect classification of a liability as current or non-current.
- Present such 'non-current liabilities subject to conditions in the next 12 months' separately in the Balance Sheet.
- Additional disclosures needed.

Key Audit Matters (KAMs)

Agenda

- Effective Date
- What is a KAM?
- KAMs Requirements
- Trends in KAMs Topics
- Lessons Learned

Effective date of KAMs

Type of Entity		Effective for audits of FS for FS periods ending on/or after
Entities “when the auditor otherwise decides to communicate KAMs”, or “required by law or regulations”		December 15, 2018
TSX-listed entities other than those required to comply with National Instrument 81-106, *Investment Fund Continuous Disclosure* (NI 81-106)		December 15, 2020
Entities listed on exchanges other than the TSX (NEO, CSE and TSX-V), excluding listed entities required to comply with NI 81-106		December 15, 2022

What is a KAM?

The most significant change to the auditor's report is the addition of the *Key Audit Matters* (KAMs) section.

Key Audit Matters (KAMs)

KAMs as defined by Canadian Auditing Standards (CAS) 701 Communicating Key Audit Matters in the Independent Auditor's Report –

Those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance.

What are the requirements of KAMs?

The auditor's report is required to:	Identify each KAM;
	Describe the primary reason(s) the auditor designated it as a KAM;
	Describe how each matter was addressed in the audit; and
	Make reference to the relevant financial statement accounts or disclosures.

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Example of a KAM – Impairment

Impairment Analysis of Goodwill and Indefinite Life Intangible Assets

Key Audit Matter Description

We draw attention to Note 15 to the consolidated financial statements. The Company has recorded goodwill and indefinite life intangible assets of $36,445,000 and $1,115,000 respectively as of December 31, 2020. The Company performs impairment testing for goodwill and indefinite life intangible assets on an annual basis or more frequently when there is an indication of impairment. An impairment is recognized if the carrying amount of an asset, or its cash generating unit (CGU), exceeds its estimated recoverable amount. The recoverable amount of an asset is the greater of its value-in-use and its fair value less costs of disposal. In determining the estimated recoverable amounts using a discounted cash flow model, the Company's significant assumptions include future cash flows based on expected operating results, long-term growth rates and the discount rate.

We considered this a key audit matter due to the significant judgment made by management in estimating the recoverable amounts for goodwill and indefinite life intangible assets and a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating audit evidence relating to management's estimates. This resulted in an increased extent of audit effort, including the involvement of internal valuation specialists.

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Example of a KAM – Impairment

Impairment Analysis of Goodwill and Indefinite Life Intangible Assets cont'd

Audit Response

We responded to this matter by performing procedures over the impairment of goodwill and indefinite life intangible assets. Our audit work in relation to this included, but was not restricted to, the following:

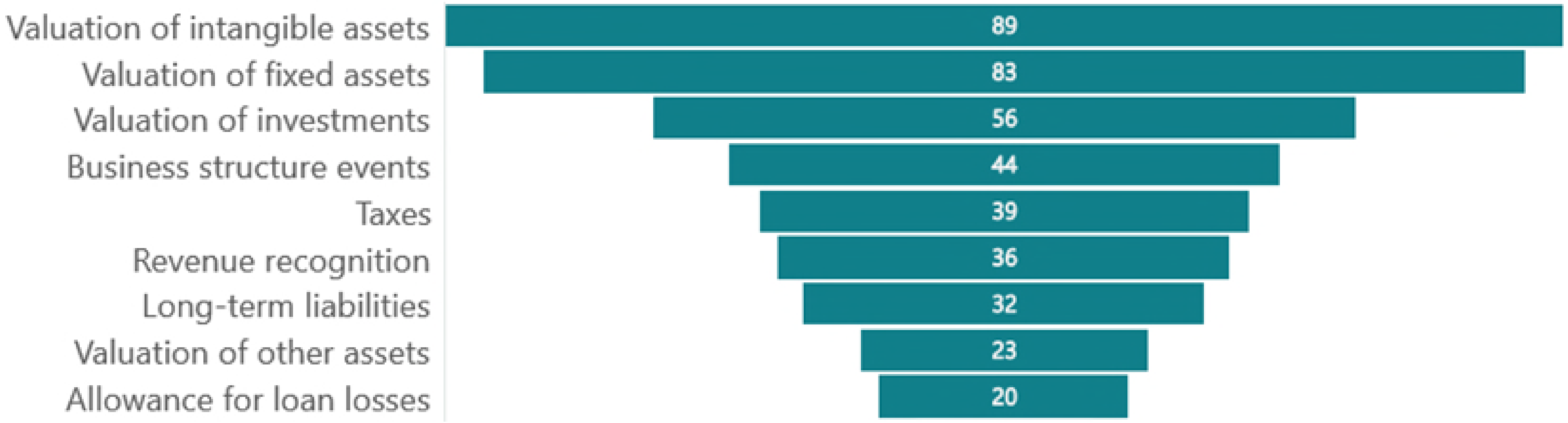
- Tested management's key assumptions, including a 'retrospective review' to compare management's assumptions in prior year expected future cash flows to the actual results to assess the Company's budgeting process.
- Evaluated the reasonableness of key assumptions in the impairment model, including future cash flows based on expected operating results, long-term growth rates and the discount rate.
- Tested the mathematical accuracy of management's impairment model and supporting calculations.
- With the assistance of internal valuation specialists, we evaluated the reasonableness of the Company's impairment model, which included:
    - Evaluating the reasonableness of the discount rates by comparing the Company's weighted average cost of capital against publicly available market data; and
    - Developing a range of independent estimates and comparing those to the discount rate selected by management.

Types of KAM

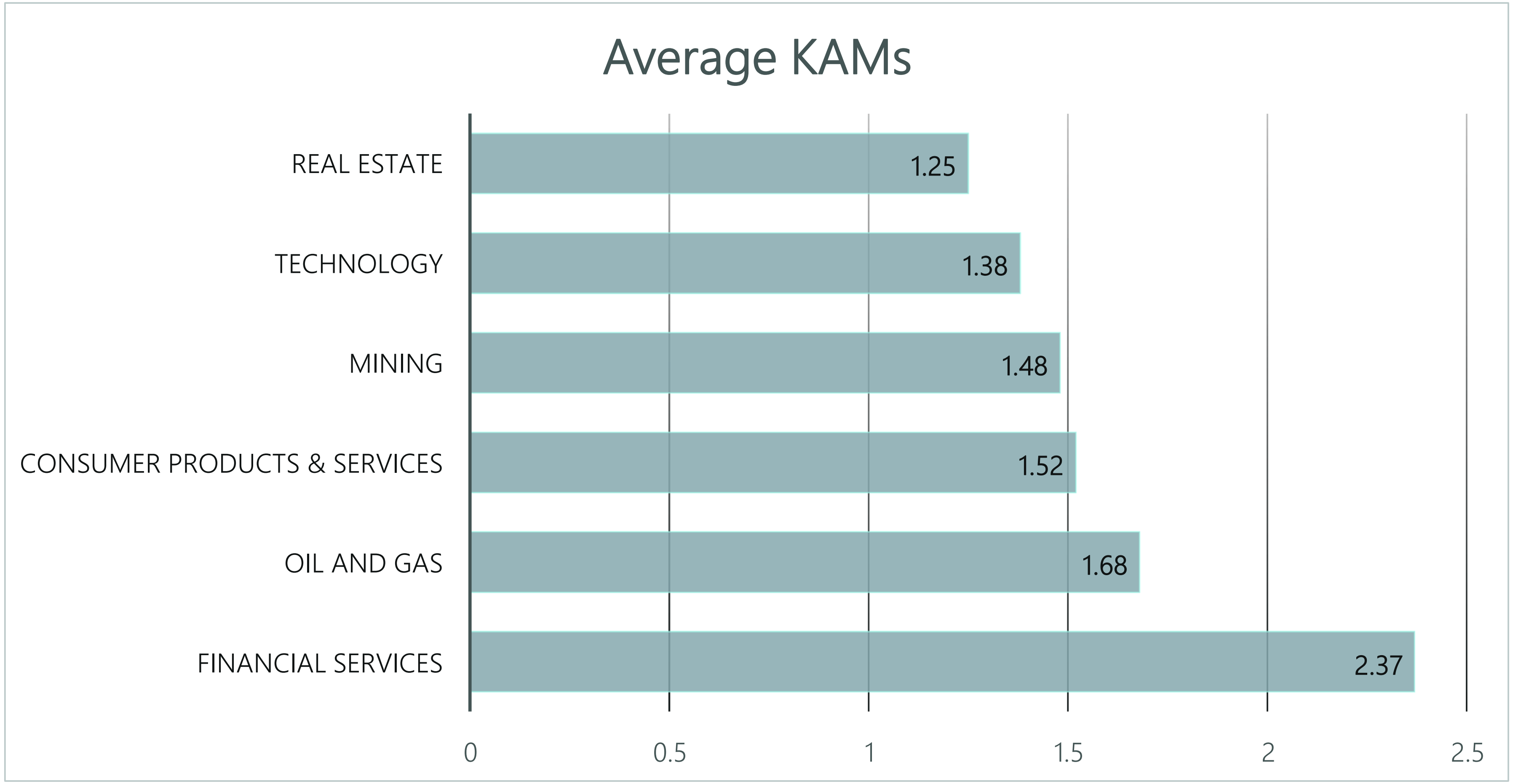
KAMs will generally include matters such as:

- Significant management estimates;
- Areas of high audit risk;
- Areas involving a high degree of estimation uncertainty;
- Significant unusual transactions; and
- Significant changes in the financial statements.

Trends in KAMs Topics



KAMs by Industry



Lessons Learned to Date

- Deciding what was a KAM required significant judgment and was specific to the circumstances of each audit.
- Communicating KAMs that are easily understood by a broad readership can be challenging.
- Sharing draft KAMs with management, audit committees, and legal counsel provided an opportunity to set expectations about KAMs and to reach a common understanding about applying the standard's requirements and how the implementation process and timing may work.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