Impairment of investments in associates
Key reminders for year end

Existing economic conditions and uncertainty increase the risk of investors having to recognize an impairment loss for interests held in associates and joint ventures accounted for by the equity method. In this memorandum, we provide key reminders for complying with requirements in IAS 28, Investments in Associates, at year end.¹

1. Apply IAS 39, Financial Instruments: Recognition and Measurement, to identify whether an interest in an associate is impaired. The impairment guidance in IAS 39 applies not only to net investments in associates, such as equity investments, but also to any loans, trade receivables and other financial assets in the associate the investor might hold and account for separately.

2. Consider whether objective evidence of impairment exists. Examples of such evidence include the following:
   - For net investment in associates accounted for by the equity method:
     - A significant or prolonged decline the fair value of the interest.
     - Significant adverse changes in the technological, market, economic, or legal environment in which the investee operates.
     - Structural changes in the industry in which the investee operates.
     - Changes in the level of demand for goods or services sold by the investee resulting from changing consumer tastes or product obsolescence.
     - Changes in the political or legal environment affecting the investee’s business.
     - Changes in the investee’s financial condition.

¹. This memorandum does not address recognition of impairment in the associate’s underlying long-lived assets and the impact of such impairment losses on the application of the equity method.

Look to IAS 39 to determine whether impairment testing is necessary.
For other interests (e.g. loans or receivables) not part of the net investment:

- Significant financial difficulty of the investee.
- The investee’s liquidity.
- Solvency, business or other financial risk exposures.
- Levels of and trends in delinquencies for similar financial assets.
- National and local economic trends and conditions.
- The fair value of collateral and guarantees.
- Default or other breaches of covenants.
- Granting of concessions due to investee’s financial condition.
- It becomes probable the investee will enter into bankruptcy.

3. Assess net investments not classified as held for sale or distribution to owners for impairment by comparing the carrying amount to its recoverable amount. If recoverable amount is lower, recognize a loss for the difference. The recoverable amount of net investment is the higher of its value in use and fair value less cost to sell, determined in accordance with IAS 36, Impairment of Assets. In determining value in use, an entity estimates either: (a) its share of the present value of the estimated future cash flows expected to be generated by the associate and proceeds on disposal, or (b) the present value of estimated future cash flows expected to arise from dividends to be received and proceeds on disposal. Any impairment loss is recognized by writing down the investment. The write down is not allocated to any asset, including goodwill, which forms part of the investment.

Net investments classified as held for sale or distribution to its owners should be measured at the lower of its carrying amount at the classification date and its fair value less costs to sell.

4. If objective evidence of impairment exists for a trade receivable, loan or other financial interest in an associate that is not a net investment, recognize and measure the loss in accordance with IAS 39. IAS 39 requires recognition of a loss for such interests whenever objective evidence of impairment exists. The measurement of the loss will vary according to the classification of the instrument. For assets carried at amortized cost (e.g. loans and receivables), the loss will be the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the asset’s original effective interest rate. For assets classified as available for sale, the loss should be measured based on the fair value of the asset.

5. Assess whether impairment determinations qualify as critical accounting judgments or estimates for which disclosure is necessary under paragraphs 122 and 125 of IAS 1, Presentation of Financial Statements. If so, disclosure about the basis for the judgments and other information such as sensitivity analysis is necessary.

For net investments, objective evidence of impairment does not automatically result in an impairment loss.