

December 2014

2014 Canadian Goodwill Impairment Study

Introduction

In February 2013, Duff & Phelps launched its inaugural study of goodwill impairments recognized by Canadian publicly-traded companies reporting under International Financial Reporting Standards (“IFRS”). This was followed by a second edition published in December 2013. Now in its third edition, the *2014 Canadian Goodwill Impairment Study* (“2014 Study”) continues to examine general goodwill impairment trends across industries for Canadian companies traded on the Toronto Stock Exchange.

The 2014 Study encompasses financial results for the 2009 through 2013 calendar years. This period includes

the 2011 transition from Pre-changeover Generally Accepted Accounting Principles (Pre-changeover GAAP) to IFRS.

The 2014 Study also continues to include an annual survey of financial executives of Canadian companies, focusing on the challenges faced when performing goodwill impairment tests in accordance with IAS 36 *Impairment of Assets*.

The 2014 Survey was conducted in association with Mergermarket, leveraging its database of contacts at Canadian companies reporting under IFRS. Meanwhile, the 2012 and 2013 Surveys incorporated the perspectives

of members of Financial Executives International Canada (FEI Canada) regarding goodwill impairments and their impairment testing process.

Continuing a feature from last year’s edition, the 2014 Survey includes a comparison of selected key survey findings contained in our sister publications addressing goodwill impairment trends in the U.S. and Europe.

Lastly, the 2014 Study summarizes some of the latest developments in the standard setting and regulatory arena that could have a significant impact on the future accounting for goodwill in accordance with IFRS.

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Introduction (continued)

Purpose of the 2014 Study

- To report and examine the general and industry trends of goodwill and goodwill impairment of Canadian publicly-traded companies.
- To report the 2014 results of Duff & Phelps' annual goodwill impairment survey of Canadian financial executives, conducted in partnership with Mergermarket (the "2014 Survey").

Scope of the 2014 Study

Similar to the previous editions, the 2014 Study focuses on goodwill impairments recorded by Canadian-based companies traded on the Toronto Stock Exchange (TSX), reporting under IFRS.

In addition to company annual reports, the primary source of data for the 2014 Study was Standard & Poor's (S&P) Capital IQ™ database. The procedures described in Appendix 1 *2014 Study: Company Base Set Selection* were undertaken to arrive at the final data set, which was used to calculate all ratios and summary statistics throughout the 2014 Study.

IFRS Non-Adopters

While Canadian accounting rules allow certain entity types to defer IFRS adoption or to report under U.S. GAAP,¹ the reality is that there are relatively few Canadian publicly-traded companies that have not adopted IFRS. As displayed in Figure 1, of the 2013 universe of **675** Canadian-based publicly-traded companies meeting the 2014 Study criteria, there were **625** reporting under IFRS.

Figure 1: Accounting Standards Used by Canadian Companies Over Time 2009–2013

	2009	2010	2011	2012	2013
U.S. GAAP	19	22 ▲	36 ▲	54 ▲	50 ▼
IFRS	4	15 ▲	621 ▲	616 ▼	625 ▲
Canada GAAP	650	636 ▼	16 ▼	1 ▼	0 ▼
Total	673	673	673	671	675

Figure 2: IFRS Non-Adopters' Goodwill Impairment (GWI) as a Percentage of Total Goodwill Impairment (as originally reported under Pre-changeover GAAP) 2009–2013

	2009	2010	2011	2012	2013
(IFRS Non-Adopters' GWI)/ (IFRS Non-Adopters' GWI + IFRS Adopters' GWI) x100%	7.4%	0.3%	3.2%	8.4%	0.7%

Notwithstanding the focus of the 2014 Study on IFRS adopters, goodwill impairment amounts reported by all 675 companies (including the IFRS non-adopters) were also examined in aggregate. The magnitude of goodwill impairments recognized by IFRS non-adopters relative to the overall amount reported by the 675 companies is summarized in Figure 2.

Goodwill impairments recorded by IFRS non-adopters in 2013 were quite small, comprising only 0.7% of total goodwill impairments. This is in contrast with calendar year 2012, in which Blackberry Limited – a U.S. GAAP filer – impaired all of its goodwill of \$681 million (US\$690 million), driving the share of IFRS non-adopters' goodwill impairment losses to 8.4% of the aggregate amount.² Absent this loss, the proportion of

IFRS non-adopters' goodwill impairment would have been a negligible 0.6% of total 2012 impairments, more in line with the level seen in 2013.

The remainder of this report will focus exclusively on IFRS adopters.

1. For a description on the types of entities required to adopt IFRS, refer to Appendix 1.

2. Figures in this report are stated in Canadian dollars. The symbols '\$' and 'CAD' are used interchangeably. To the extent amounts are shown in U.S. dollars, the symbol 'US\$' is used.

Highlights of the 2014 Study

The graphic below captures the evolution of goodwill impairments from 2009 through 2013 for Canadian-based publicly-traded companies adopting IFRS subsequent to 2010. The graphic also depicts the impact of the transition from prior Canadian (or Pre-changeover) GAAP to IFRS and its effect on goodwill impairments (“GWIs”). For a better understanding of the impact of IFRS adoption on 2010 reported GWIs, refer to Appendix 2 *Quantifying the Impact of IFRS Adoption – Flashback*.

The \$8.9 billion of goodwill impaired by Canadian publicly-traded companies reporting under IFRS in calendar year 2013 represented a 12.7% increase from the \$7.9 billion amount seen in 2012. The aggregate number of impairment events stayed flat at 52 from 2012 to 2013. However, approximately 60% (\$5.3 billion of the \$8.9 billion) of the total GWIs was accounted for by the top three impairment events.

The predominance of a few large impairment events, while still very significant, is declining from what was observed in the 2013 and 2012 Studies, when the top three impairment events accounted for respectively 76% and 81% of the aggregate impairments.

The Canadian goodwill impairment landscape for the past several years has told a story of a few large-cap companies dominating the aggregate universe of annual impairments. Nevertheless, steep declines in commodity prices during 2013 impacted the Canadian market significantly because of its large concentration of companies within the Materials industry, which includes metals and mining companies.

For context, while the S&P/TSX Composite index (considered the headline index for the Canadian equity market) rose by approximately 10%, the sub-index S&P/TSX Composite Materials plunged 31% in 2013.

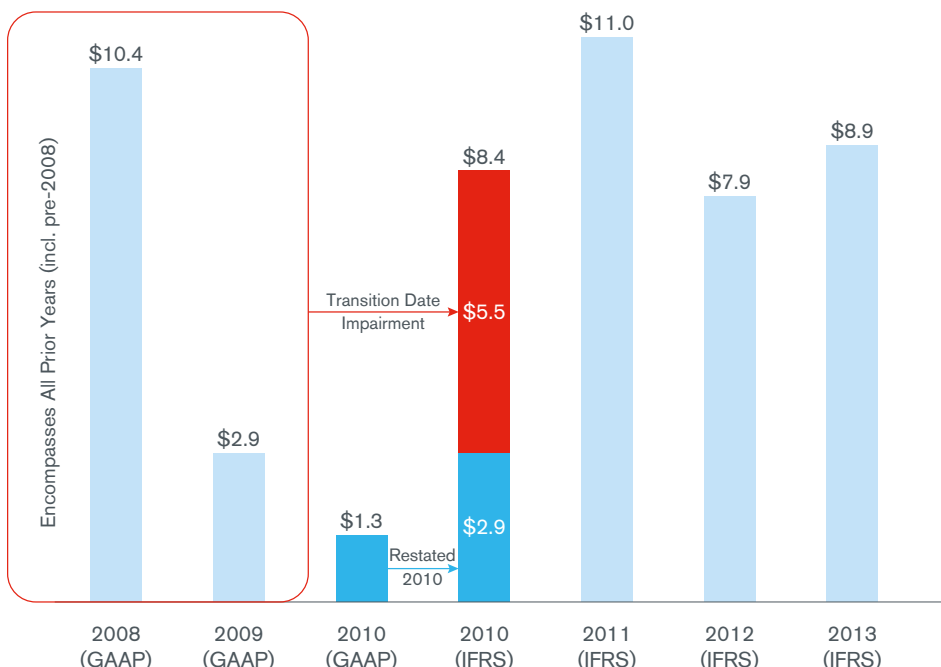
Not surprisingly, the Materials industry impaired the highest amount of goodwill at \$6.0 billion in 2013, almost doubling the 2012 level of \$3.2 billion. Materials accounted for just over two-thirds of the total GWI amounts in 2013. The largest impairment event of the year (\$3.1 billion) also occurred within Materials.

The Energy industry impaired the second highest amount of goodwill at \$1.6 billion, and had the largest year-over-year increase in relative terms, more than tripling the prior year’s GWI amount. Together, Materials and Energy recorded approximately 86% of the aggregate GWI amount in 2013. Also noteworthy is the 79% decline in the total amount of GWI recorded by Consumer Discretionary to \$0.7 billion in 2013 (from \$3.3 billion in 2012, which was largely attributable to its most sizable impairment of \$2.9 billion).

Overall, the proportion of companies recording a GWI in 2013 stayed relatively flat at 8%, similar to 2012. Focusing strictly on those companies that carry goodwill on their balance sheets, the proportion of companies recording a GWI increased slightly from 19% to 20% from 2012 to 2013. However, Materials continued a notable upward trend since 2010, with 53% of its companies with goodwill recognizing a GWI in 2013, the highest level observed in any industry in the 2009-2013 period.

Notably, Materials also showed the highest loss intensity measure (defined as goodwill impairment-to-goodwill) at 31% in 2013, jumping from 14% in the prior year. In contrast, half of the 10 industries saw a negligible proportion of the overall goodwill carried on their books being impaired in 2013, with the overall industry average at approximately 6%.

Goodwill Impairments, Canadian Companies reporting under IFRS (in CAD \$billion)



Definitions: GAAP = reported under Pre-changeover GAAP; IFRS = reported under IFRS

Highlights of the 2014 Survey

The 2014 Survey captured responses to a survey conducted in the fall of 2014 by Mergermarket, leveraging its database of contacts at Canadian companies reporting under IFRS. The survey focused on top-of-mind issues for Canadian financial executives regarding goodwill impairments and the impairment testing process under IFRS. The following are some highlights of the 2014 Survey:

- Almost three-quarters (72%) of respondents said their company recognized a goodwill impairment in fiscal year 2013, with the majority (53%) citing an overall market downturn as the primary reason for impairment. This is in stark contrast with the overall results for publicly traded companies on the Toronto Stock Exchange. Of those that carry goodwill and reported under IFRS, only 20% recorded goodwill impairments in 2013. This difference is most likely attributed to the mix of respondents in the 2014 Survey.
- The majority of respondents (56%) shared that developing cash flow projections is the most significant challenge they face related to goodwill impairment testing.
- The prevailing proportion of respondents (56%) estimate both *value in use* and *fair value less costs of disposal* when estimating the recoverable amount of cash-generating units.
- Of those respondents that relied on value in use in their impairment testing, 64% attributed the excess of value in use over fair value less costs of disposal to the expectation of achieving synergies not available to market participants.
- Of the respondents that reconciled the aggregate recoverable amount (on a net asset basis) to their company's market capitalization, 60% observed a difference (i.e., implied control premium) of less than 10%.
- Over half of respondents (54%) used the same discount rate for all cash-generating units. However, 78% of these respondents also adjusted discount rates for risks specific to each cash-generating unit such as size and country risk. Overall, 42% of total respondents make adjustments for size, while almost a third adjust for country risk.
- The greater proportion of respondents (60%) found that their impairment process had changed as a result of implementing IFRS 13. Almost half of the respondents cited determining market participant assumptions as the greatest challenge when applying IFRS 13 in their goodwill impairment testing.

Latest Developments Impacting Goodwill Accounting

Post-Implementation Review of IFRS 3

In July 2013, the IASB commenced work on the Post-implementation Review (“PiR”) of IFRS 3 *Business Combinations*. In January 2014, the IASB issued a public consultation document requesting comments on certain aspects of IFRS 3. Notably, in addition to questions about various aspects of the current accounting model for business combinations and intangibles, this document included questions on the accounting treatment of goodwill and asked constituents about their views on:

- The usefulness of the information obtained through the annual goodwill impairment test;
- Whether improvements were needed regarding the information provided by the impairment test; and
- The main implementation, auditing or enforcement challenges related to testing goodwill for impairment.

The comment period ended on May 30, 2014 and the IASB staff are still in the process of analyzing all the feedback received from a variety of constituents. In fact, this PiR elicited a significant number of comments from a wide range of stakeholders.

In the balance is not only the future direction of goodwill accounting under IFRS, but also a potential impact on other financial reporting standards, such as U.S. GAAP. Specifically, the Financial Accounting Standards Board (“FASB”), responsible for developing U.S. GAAP, has indicated that it will be considering

the results of the IASB’s PiR of IFRS 3 before revisiting the accounting for goodwill by publicly-traded companies following U.S. GAAP.

Feedback on the IFRS 3 PiR

The information being considered falls into two categories:

- Academic literature review
- Comment letters feedback

In a staff paper presented at the September 2014 IASB meeting (Agenda Paper 12G), the IASB staff provided an overview of the academic literature relevant to the IFRS 3 PiR.³ According to Agenda Paper 12G, academic research shows that goodwill impairment expense under IFRS 3 and IAS 36 is “value relevant”, which is consistent with impairments providing useful information for investors. This agenda paper acknowledges that impairment testing under IAS 36 involves management’s judgments and estimates. In that regard, some studies raised questions about the timeliness of recognition of impairments, particularly around 2008-2009, concluding that the timeliness of impairment recognition varies between countries. Specifically, companies in countries characterized as having less stringent accounting practices or general legal enforcement were more likely to be less timely in recognizing impairments. Finally, research showed that IFRS 3 and IAS 36 disclosures have improved, but questions were raised about the boilerplate nature of the disclosures.

In a separate paper presented at the same September 2014 IASB meeting (Agenda Paper 12F), the IASB staff prepared a summary of comment letters and other information received in response to the IFRS 3 PiR.⁴

With regard to goodwill impairment, some respondents supported the current requirements for the subsequent measurement of goodwill including non-amortization of goodwill. These constituents think that the information provided by the goodwill impairment test is useful, because it has a confirmatory value, even though impairment losses are often recognized with a lag.

Some other users expressed the desire to return to a goodwill amortization model, with some suggesting a combined amortization and impairment testing approach.

Next Steps

The staff concluded Agenda Paper 12F by stating that sufficient information had been received to prepare a Feedback Statement, including staff recommendations on areas for which agenda proposals should be prepared. The staff’s intent was to bring these to the IASB for discussion at a subsequent meeting.

3. “Agenda Paper 12G: Post-implementation review: IFRS 3 Business Combinations – Academic literature review” can be found at: <http://www.ifrs.org/Meetings/MeetingDocs/IASB/2014/September/AP12G-PIR%20IFRS%203.pdf>.

4. “Agenda Paper 12F: Post-implementation review: IFRS 3 Business Combinations – Summary of comments received” can be found at: <http://www.ifrs.org/Meetings/MeetingDocs/IASB/2014/September/AP12F-IFRS%20C%20Issues-PIR%20IFRS%203.pdf>.

Overview of IAS 36 Requirements

Recognizing Goodwill

Goodwill is defined in IFRS 3 *Business Combinations* as “an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized.” Internally generated goodwill cannot be recognized. In a business combination, goodwill is measured as follows:⁵

Purchase price for acquired equity interest	
+	
Amount of any non-controlling interest in the acquiree ⁶	
+	
Fair value of any previously held equity interest in the acquiree	
-	
Fair value of the acquiree's identifiable net assets acquired	
=	
Goodwill	

Allocating Goodwill to Cash-Generating Units

Goodwill acquired in a business combination is allocated at the acquisition date to an entity's cash-generating units that are expected to benefit from the synergies of the combination. Goodwill is allocated at the lowest level within the entity at which goodwill is monitored for internal management purposes. A cash-generating unit cannot be larger than an operating segment as defined in IFRS 8 *Operating Segments*.

Recognizing a Goodwill Impairment Loss

According to IAS 36 *Impairment of Assets*, goodwill is impaired if the recoverable amount of a cash-generating unit is less than its carrying amount. The recoverable amount of a cash-generating unit is the higher of its: (i) fair value less costs of disposal (previously referred to as “fair value less costs to sell”) and (ii) value in use.⁷ IFRS 13 *Fair Value Measurement* provides guidance for measuring fair value and IAS 36 provides guidance for measuring value in use.

Any impairment loss is allocated first to reduce the carrying amount of goodwill to zero. Any remaining impairment loss is allocated to the other assets of the cash-generating unit on a pro-rata basis. Once a goodwill impairment has been recognized it cannot be reversed.

Timing of Goodwill Impairment Tests

Goodwill must be tested for impairment at least annually, or more frequently if there are indicators that it may be impaired. Factors indicating that a cash-generating unit may be impaired include, for example:

- Significant adverse changes have occurred during the period in the technological, market, economic or legal environment that have an effect on the entity, indicating that economic performance is or will be worse than expected.
- Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to decrease the asset's recoverable amount materially.
- The carrying amount of the net assets of the entity is greater than its market capitalization.

The annual goodwill impairment test for a cash-generating unit to which goodwill has been allocated can be performed at any point throughout the annual period. However, the test must be performed at the same time each year.



Although not a sole or definitive indicator of impairment, a company's market capitalization should not be ignored during a goodwill impairment test. Understanding the dynamics of market-to-book ratios is informative, but the fact that an individual company has a ratio below 1.0 does not by default result in failing an impairment test. Cash-generating unit structures, their respective performance and where the goodwill resides are a few of the critical factors that must be considered in the impairment testing process.

5. Goodwill is calculated as a residual and is subject to a number of accounting adjustments such as the recognition of deferred tax liabilities.

6. Non-controlling interests in the acquiree can be measured at fair value or at the proportionate share of the acquiree's identifiable net assets.

7. From a practical standpoint, it is not necessary to determine both an asset's or cash-generating unit's fair value less costs of disposal and its value in use. If either of these amounts exceeds the carrying amount, the entity may conclude that the asset is not impaired.

Survey Results

Introduction

The 2014 Survey was carried out by Mergermarket in the fall of 2014 through telephone interviews with 50 Canadian financial executives across a variety of industries regarding their experiences in applying the IAS 36 goodwill impairment test in 2013. Appendix 3 *2014 Survey Methodology* shows the composition of respondents by industry. Respondents provided insight into specific impairment trends emerging in Canada in 2013. All respondents are anonymous and results are presented in aggregate.

It should be noted that the composition of respondents to the survey from year-to-year is different, by design. Furthermore, the 2013 Survey was conducted by the Canadian Financial Executives Research Foundation (CFERF) reaching out to members of FEI Canada, whereas the 2014 Survey was conducted by Mergermarket, leveraging its own database of contacts. To be able to perform a fully consistent comparison, the 2014 Survey would have to focus on exactly the same participants as those in the 2013 Survey.

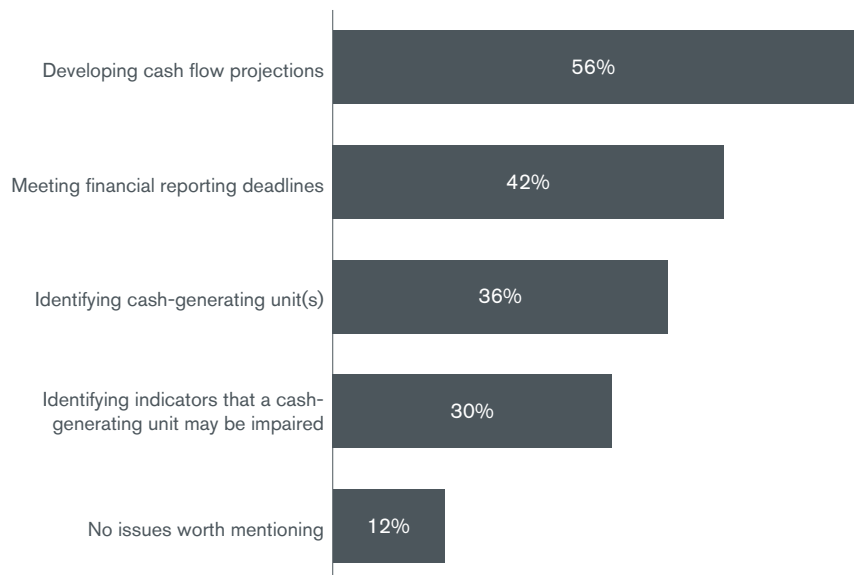
Mergermarket conducted the survey outreach on a broad industry basis, where respondents could elect whether or not to participate. The results indicate that there was a greater propensity for companies participating in the 2014 Survey to have reported a goodwill impairment (72%) in 2013, relative to companies publicly traded on the Toronto Stock Exchange (20% for those that carry goodwill).

Top challenges in goodwill impairment

More than half of respondents (56%) said that projecting cash flow is one of the most significant challenges related to goodwill impairment testing. This was the most-acknowledged challenge, followed by meeting financial reporting deadlines (42%). Identifying cash-generating units was seen as an issue by 36% of respondents, while just 30% felt that identifying indicators that a cash-generating unit may be impaired was a significant issue. Twelve percent felt there were no issues worth mentioning.

Question 1: In general, what are your most significant challenges related to goodwill impairment testing?

N=50



Note: Respondents were allowed to select more than one response.

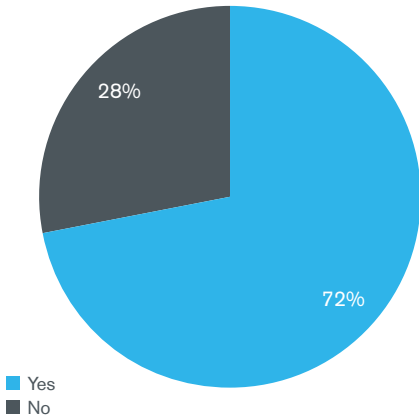


Fifty-seven percent of respondents to Duff & Phelps' 2014 European Survey (of companies reporting under IFRS) considered the development of financial projections to be the most significant challenge.

Survey Results

Question 2: Did your company recognize an impairment of goodwill in fiscal year 2013?

N=50

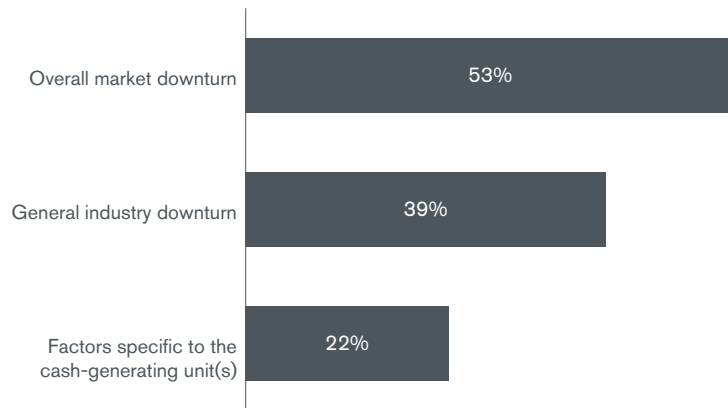


Seventy-two percent of respondents recognized a goodwill impairment in 2013

Almost three-quarters (72%) of respondents to the 2014 Survey said their company recognized a goodwill impairment in fiscal year 2013. This is in stark contrast with the overall results for companies traded on the Toronto Stock Exchange that carried goodwill, with only 20% recording goodwill impairments in 2013. This difference is most likely attributed to the mix of respondents in the 2014 Survey. See Appendix 3 for the composition of survey respondents by industry.

Question 3: What was the reason for the impairment?

N=36



Note: Respondents were allowed to select more than one response.

Overall market downturn main reason for impairment

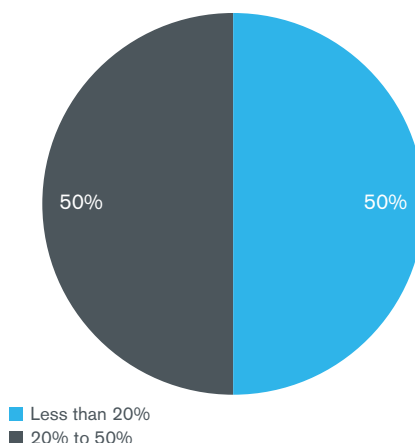
Most respondents pointed to factors outside of their business as the reason for impairment. Over half (53%) cited the overall market downturn as a reason, while 39% pointed to a general industry downturn. Only 22% believed that factors specific to the cash-generating unit(s) was the primary reason for the impairment of goodwill.



The majority of respondents to the Duff & Phelps' 2014 U.S. Survey (of companies reporting under U.S. GAAP) identified factors specific to the reporting unit(s) as the leading cause of impairment*.

Question 4: What was the percentage write-down from its carrying amount?

N=36



Respondents divided on write-downs

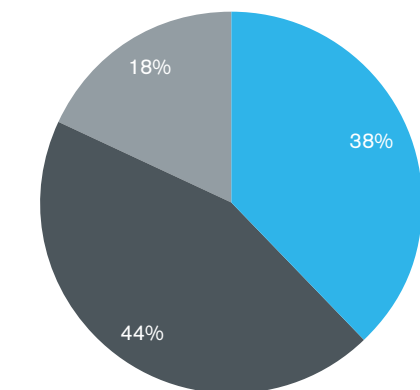
Respondents were evenly split on the magnitude of write-downs. Half of respondents experienced write-downs of less than 20%, while the other half reported write-downs of 20% to 50% of the carrying amount of goodwill.

*The blue call-out boxes interspersed throughout The 2014 Survey highlight key survey findings from Duff & Phelps' sister publications addressing goodwill impairment trends in the U.S. and Europe.

Survey Results

Question 5: How many cash-generating units do you have as of the most recent reporting period?

N=50



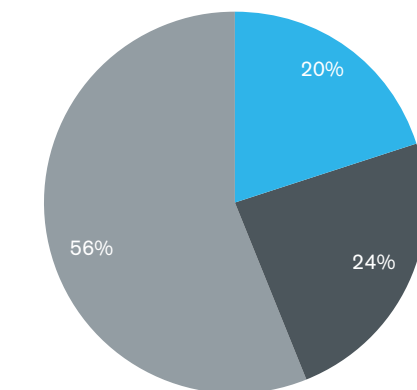
- 2 to 5
- 6 to 10
- More than 10

Most companies have six to ten cash-generating units

Thirty-eight percent of respondents overall had between two and five cash-generating units, while 44% had between six and ten. Just under a fifth (18%) of all respondents had more than 10 cash-generating units.

Question 6: When determining the recoverable amount of a cash-generating unit, do you estimate:

N=50



- Value in use
- Fair value less costs of disposal
- Both

When determining recoverable amount of a cash-generating unit, most respondents estimate both value in use and fair value less costs of disposal

The majority of respondents (56%) estimate both fair value less costs of disposal and value in use when determining the recoverable amount of a cash-generating unit. Twenty percent determine the recoverable amount by just estimating value in use, while 24% do so by just estimating fair value less costs of disposal.

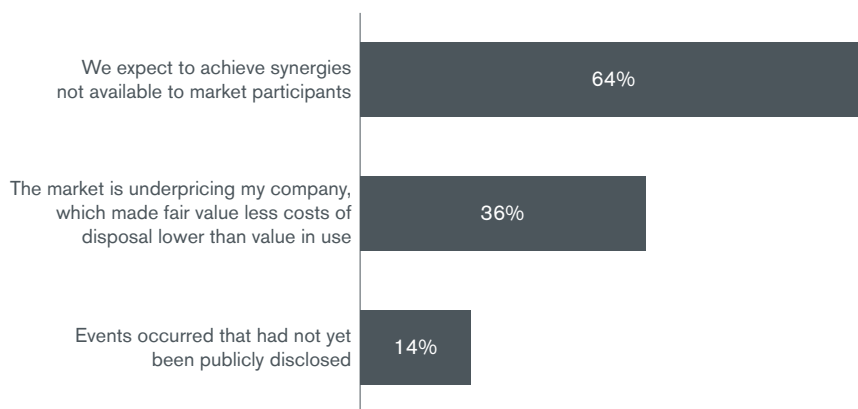


The majority (56%) of 2014 European Survey respondents also use both methods (*value in use* and *fair value less costs of disposal*) in concluding on the recoverable amount.

Survey Results

Question 7: If in your latest analysis the recoverable amount of a cash-generating unit was based on value in use, what factor(s) led to value in use being higher than fair value less costs of disposal?

N=28



Note: Respondents were allowed to select more than one response.

Respondents using value in use as the recoverable amount typically expect to achieve synergies not available to market participants

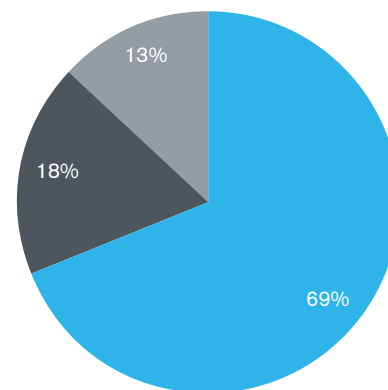
Of those respondents that relied on value in use as the basis for the recoverable amount, 64% attributed the excess of value in use over fair value less costs of disposal to the expectation of achieving synergies not available to market participants. Just over a third of respondents (36%) pointed to market underpricing causing fair value less costs of disposal to be lower than value in use, while 14% said the reason was due to events not yet publicly disclosed.



More than half (53%) of 2014 European Survey respondents who observed that *value in use* exceeded *fair value less costs of disposal* said they expected to realize synergies not available to market participants.

Question 8: When estimating value in use in your latest analysis, what was your terminal year growth assumption?

N=38



- Long-term growth rate was based on long-term inflation rate
- Long-term growth rate was zero or negative
- Used an exit multiple to estimate the terminal value

The majority of respondents use long-term inflation rates when estimating value in use

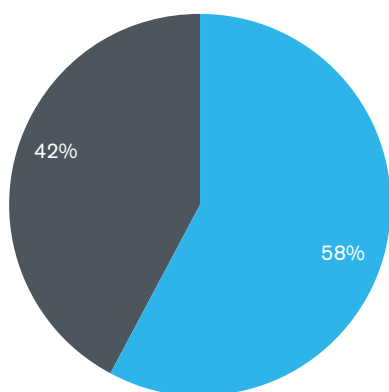
When estimating value in use, respondents' terminal year growth assumptions are most likely to be based on the premise that long-term inflation rates will dictate long-term growth rates. Sixty-nine percent of respondents used this assumption, while 18% estimated value in use on the basis that the long-term growth rate was zero or negative.



Fifty-nine percent of 2014 European Survey respondents base long-term growth rates on long-term inflation rates.

Survey Results

Question 9: When estimating value in use, do you perform the analysis on a post-tax basis and back solve for the pre-tax discount rate, or do you independently estimate a pre-tax discount rate and apply that to projected pre-tax cash flows?
N=36

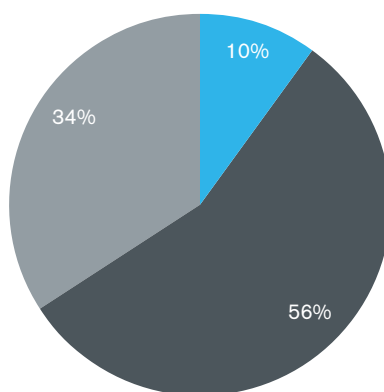


- Post-tax basis and back solve for the pre-tax discount rate
- Pre-tax discount rate and apply that to projected pre-tax cash flows

Fifty-eight percent of respondents estimating value in use perform analysis on post-tax basis and back solve for the pre-tax discount rate

Consistent with guidance in IAS 36, the majority of respondents (58%) conduct the value in use analysis on a post-tax basis and back solve for the pre-tax discount rate. The remaining 42% independently estimate a pre-tax discount rate and apply that to projected pre-tax cash flows.

Question 10: In your latest goodwill impairment analysis, what was the after-tax weighted average cost of capital (WACC) for your company?
N=50

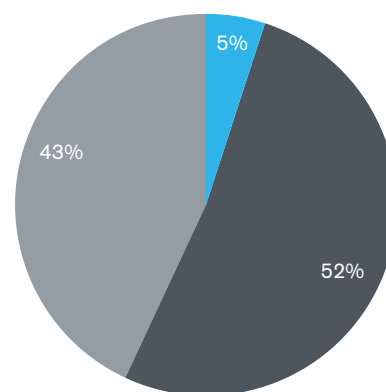


- 5% to 8%
- 8.1% to 11%
- 11.1% to 14%

More than half of respondents indicated their company's after-tax WACC fell between 8.1% and 11%

The majority of respondents (56%) indicated that their company's after-tax weighted average cost of capital ("WACC") was between 8.1% and 11% in their most recent goodwill impairment analysis. An additional 34% said their WACC was between 11.1% and 14%, while 10% said their WACC was between 5% and 8%.

Question 11: When estimating value in use in your latest analysis, what was the weighted average pre-tax discount rate used?
N=37



- 5% to 8%
- 8.1% to 11%
- 11.1% to 14%

Fifty-two percent of respondents estimating value in use apply a pre-tax discount rate between 8.1% and 11%

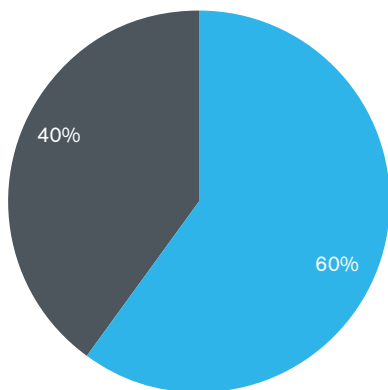
The weighted-average pre-tax discount rate utilized to estimate value in use generally fell between 8.1% and 14%. The majority (52%) or respondents said their weighted-average pre-tax discount rate was in the 8.1% to 11% range. Forty-three percent stated their weighted-average pre-tax discount rate was between 11.1% and 14%, while a negligible 5% said it was between 5% and 8%.



About two-thirds (68%) of respondents to the 2014 European Survey prefer to perform the *value in use* analysis on a post-tax basis and back solve for the pre-tax discount rate.

Survey Results

Question 12: When estimating fair value less costs of disposal, did your impairment testing process change as a result of implementing IFRS 13?
N=40



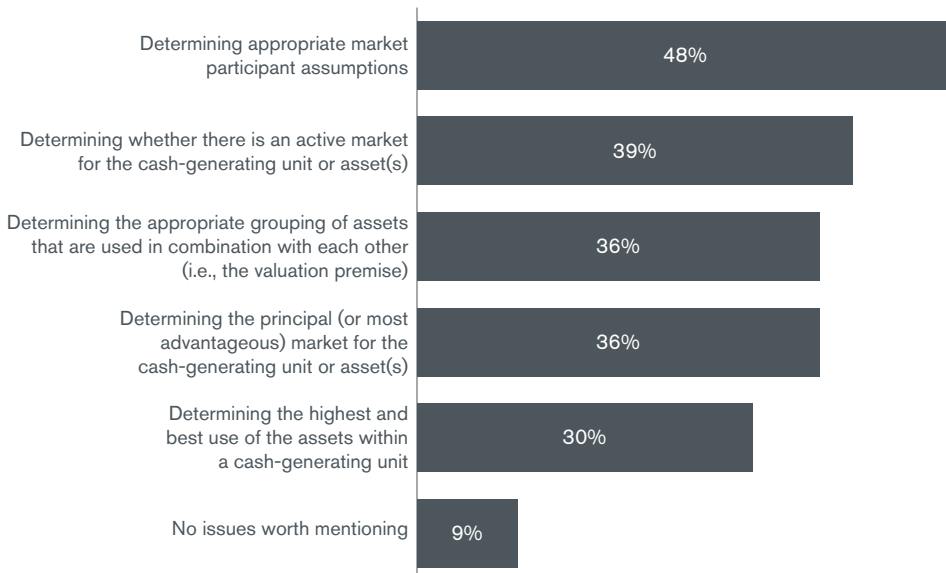
■ Yes
 ■ No

The majority claim impairment testing process changed as a result of implementing IFRS 13. Approximately 60% of respondents found that their impairment testing process changed as a result of implementing IFRS 13.



Just over two-thirds (69%) of 2014 European Survey respondents shared that IFRS 13 had impacted their impairment testing process.

Question 13: What were your greatest challenges as a result of applying IFRS 13 when testing goodwill and other (non-financial) assets for impairment?
N=33



Note: Respondents were allowed to select more than one response.

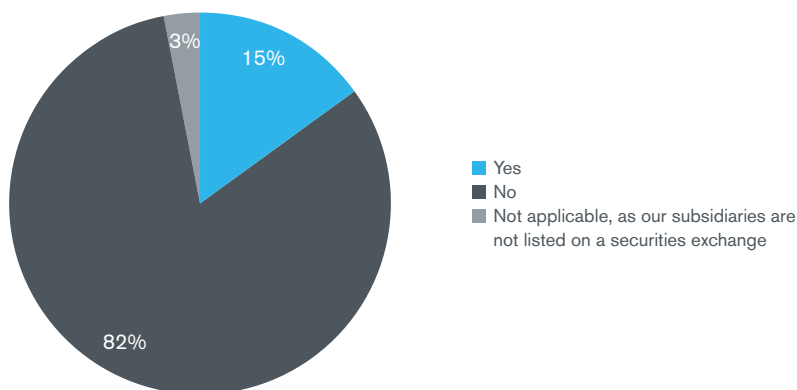
Determining appropriate market participant assumptions cited as greatest challenge resulting from applying IFRS 13

Determining appropriate market participant assumptions was the most-frequently highlighted issue by respondents (48%) when it came to testing goodwill and non-financial assets for impairment. Following close behind were determining whether there is an active market for the cash-generating unit or asset(s) (39%), determining the appropriate grouping of assets that are used in combination with each other (36%), and determining the principal market for the cash-generating units or asset(s) (36%).

Survey Results

Question 14: The IASB has tentatively decided (subject to a public consultation) that if a subsidiary is listed and its shares are actively traded, the fair value less costs of disposal of this cash-generating unit would be determined using the product of the quoted share price times the number of shares held by the parent (PxQ). Do you expect this to affect how you measure fair value less costs to sell when testing for goodwill impairment?

N=40



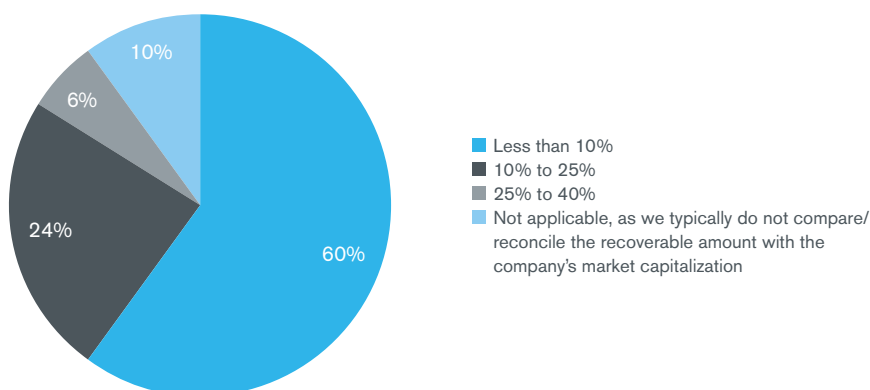
A vast majority do not expect IASB's proposal on unit of account to create a shift in how fair value is calculated for publicly traded cash-generating units

Only a small percentage of respondents (15%) expect the IASB's decision on the unit of account when testing publicly-traded cash-generating units for impairment to cause a change in how fair value less costs of disposal is measured.

Less than a third (29%) of respondents to the 2014 European Survey believe that testing goodwill for impairment will be affected by the tentative IASB decisions on the use of PxQ when testing publicly-traded subsidiaries for impairment.

Question 15: If you compared or reconciled the aggregate recoverable amount (on a net asset basis) with the company's market capitalization in your latest analysis, what was the implied difference (i.e., implied control premium) between the aggregate recoverable amount and your company's market capitalization?

N=50



Sixty percent report control premiums of less than 10%

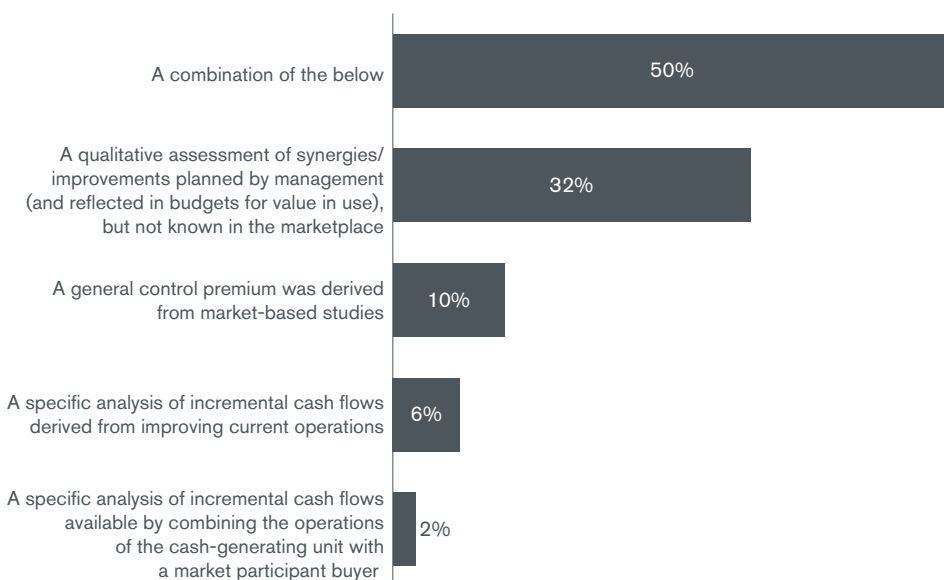
The majority of respondents (60%) said that the implied difference between the aggregate recoverable amount and their firm's market capitalization (i.e., implied control premium) is less than 10%. Close to a fourth of respondents (24%) reported an implied control premium of 10% to 25% while only 6% of respondents noted a difference of 25% to 40%.

The majority of respondents (51%) in the 2014 U.S. Survey used control premiums between 10% and 25%. In contrast, the majority (53%) of the 2014 European Survey respondents observed an implied control premium of less than 10%.

Survey Results


Question 16: Which approach was used to support that difference?

N=50



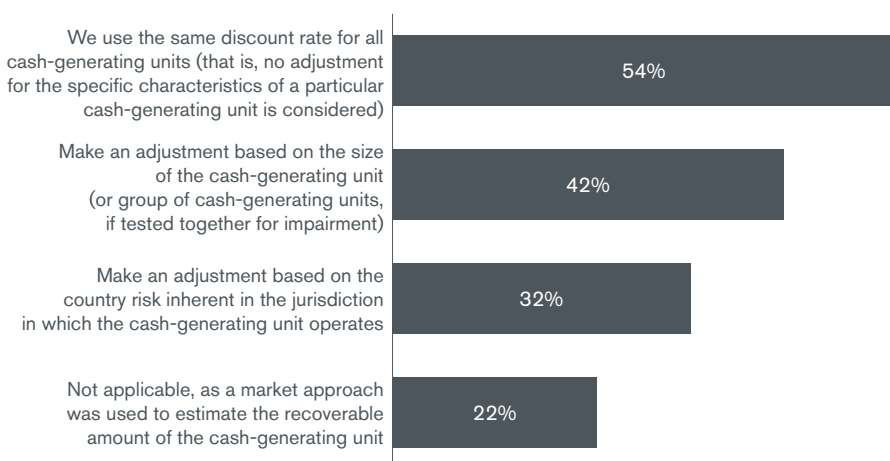
Fifty percent of respondents use a blend of analytical methods and data to support difference between aggregate recoverable amount and market capitalization

Among respondents that are reconciling the recoverable amount of cash-generating units with their firm’s market capitalization, half said they made use of a combination of qualitative and quantitative methods and data to support the difference between the two.

 The majority of respondents (50%) to the 2014 European Survey use a combination of quantitative methods and qualitative considerations to support implied control premiums.


Question 17: How do you incorporate the specific characteristics of a cash-generating unit when determining the discount rate to apply in the Discounted Cash Flow method?

N=50



The majority use the same discount rate for all cash-generating units

Over half of respondents use the same discount rate for all cash-generating units. Forty-two percent of respondents make an adjustment based on the size of the cash-generating unit, while close to a third of respondents (32%) adjust for country risk inherent in the jurisdiction where the cash-generating unit operates. Twenty-two percent of respondents used a market approach and did not consider discount rates and related adjustments.

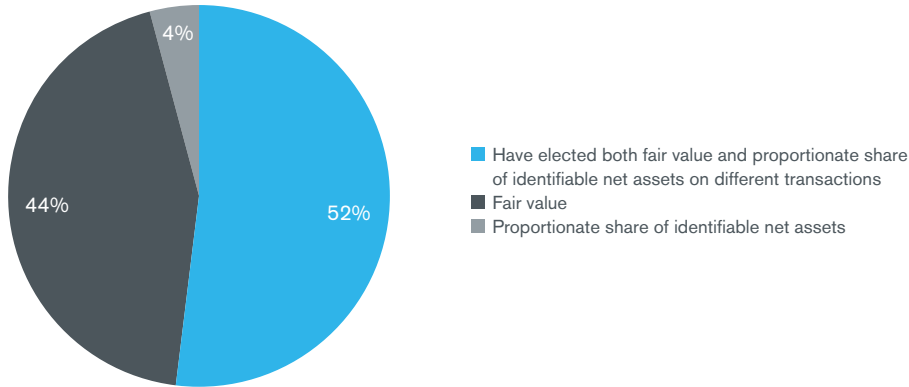
 Just over half (51%) of respondents to the 2014 European Survey applied the same discount rate to all cash-generating units.

Note: Respondents were allowed to select more than one response.

Survey Results

Question 18: How do you measure non-controlling interests in a business combination?

N=50



The majority measure non-controlling interests by electing fair value and proportionate share of identifiable net assets on different transactions

To measure non-controlling interests, over half of respondents (52%) have chosen to use either a proportionate share of identifiable net assets or fair value on a transaction-by-transaction basis. Over 40% of respondents opted exclusively for fair value as a measurement basis when recognizing non-controlling interests in a business combination.

Summary Statistics by Industry

(Table 1)

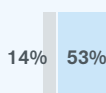
Table 1 summarizes the annual amount of GWI and number of GWI events by industry. The table also provides the proportion of companies within each industry that carry goodwill, and which of those recorded a GWI over the period between 2009 and 2013.⁸ This format allows for a ready comparison of data across industries over time.

Industries are listed in descending order of their total GWI amounts for 2013. For example Materials tops the list with its \$6.0 billion aggregate impairment.

Additionally, the graphs on the right in Table 1 provide for a quick comparison of (i) the preponderance of companies with goodwill within each industry; and (ii) the proportion of those companies that have recorded a GWI. For example:



14% of Materials companies carried goodwill in 2013.



53% of those companies recorded a goodwill impairment in 2013.

Goodwill Impairments

The *first row* in Table 1 for each industry presents the annual dollar amounts of GWI (in millions), immediately followed by the number of impairment events (shown in parentheses).⁹

The statistics presented are based on financial statements filed under Pre-changeover GAAP for 2009,

and under IFRS for 2010 through 2013. For presentation purposes, we have combined both the actual 2010 GWI restated under IFRS (\$2.9 billion) and the IFRS transition date GWI (\$5.5 billion), for a total 2010 GWI of \$8.4 billion. For a description of how these figures were derived, refer to Appendix 2.

Aggregate GWI recorded by Canadian public companies reporting under IFRS declined by a significant 28% in 2012 vs. 2011. Consumer Discretionary was the industry with the largest aggregate amount of GWI in both 2011 and 2012, recognizing \$6.3 billion (58% of the total) and \$3.3 billion of GWI (41% of the total), respectively.

Overall, 2013 saw a 12.7% increase in the aggregate amount of GWI, which went from \$7.9 billion in 2012 to \$8.9 billion in 2013. The aggregate number of impairment events stayed flat at 52 in both 2012 and 2013. Hence, the overall average impairment amount rose at the same rate as the total GWIs between 2012 and 2013.

In general, 2013 was characterized by a dichotomy in terms of industry performance. While 6 out of 10 industries saw dramatic (in-excess of 50%) declines in aggregate GWI, three industries – Materials, Energy, and Industrials – showed a sizeable increase in their respective GWI amounts.

The Materials industry had the largest aggregate GWI amount in 2013 at \$6.0 billion, almost doubling the 2012 level. It also accounted for 68% of the total GWIs in 2013 and sustained the largest impairment event of the year (\$3.1 billion).

Percent of Companies that Recorded a GWI

The *second row* in Table 1 indicates the portion of all companies within each industry that recorded a GWI. In 2013, Utilities had the largest percentage of companies that impaired goodwill (18.2%) followed by Consumer Discretionary (15.8%) and Industrials (13.0%). The average percentage across all industries remained relatively constant at 8.3%, compared to 8.4% in 2012.

Percent of Companies with Goodwill

The *third row* in Table 1 provides the proportion of companies with goodwill within each industry. Over the 2009-2013 period, 100% of Telecommunication Services companies carried goodwill on their balance sheets, while Materials had the lowest proportion (13.8% on average). Overall, 42.4% of the companies carried some amount of goodwill on their 2013 balance sheets; this metric has remained relatively stable over the past five years.

Percent with Goodwill Recording a GWI

The *fourth row* in table 1 indicates the percentage of companies with goodwill that recorded a GWI. This differs from the second row where the percentages are based on all companies and are not limited to those with goodwill.

Materials continued a notable upward trend since 2010, with 53.3% of companies with goodwill recognizing a GWI, the highest level observed in any industry in the 2009-2013 period. Healthcare followed in second place at 28.6%, but saw a steep drop from its 2012 level of 50.0%. Overall, industry average impairment percentages ranged from 11.9% to 19.6% of companies with goodwill during the 5-year period.

8. The information covering the period between 2009 and 2012 was carried forward from the 2013 Study.

9. The number of events is broadly defined in this study: it captures whether or not a company has recorded goodwill impairments in any given year (i.e., a binary "yes" or "no" decision). Thus, while a company could have recorded multiple goodwill impairments during a calendar year, it will still be considered a single event for purposes of this study.

2013 Goodwill Impairment

(Table 1)

	2009 (GAAP)	2010 (IFRS)	2011 (IFRS)	2012 (IFRS)	2013 (IFRS)	Companies with GW	Percent Recording GWI
<p>Goodwill Impairments: \$millions (number of events)</p> <p>Percent of Total Companies that Recorded GWI</p> <p>Percent of Companies with Goodwill</p> <p>Percent of Companies with Goodwill that Recorded a GWI</p>							
(Companies)							
Materials	52.6 (3)	3.4 (1)	3,022.7 (3)	3,214.0 (5)	5,991.5 (16)	14%	53%
	1.5%	0.5%	1.5%	2.5%	7.4%		
(216)	13.2%	13.2%	13.7%	15.2%	13.9%		
	11.5%	3.8%	11.1%	16.1%	53.3%		
Energy	95.1 (5)	1,870.0 (16)	121.8 (7)	474.4 (8)	1,625.1 (6)	38%	14%
	4.2%	13.6%	5.9%	6.8%	5.3%		
(113)	39.0%	41.5%	40.7%	38.5%	38.1%		
	10.9%	32.7%	14.6%	17.8%	14.0%		
Consumer Discretionary	1,293.3 (7)	27.4 (3)	6,257.8 (9)	3,272.8 (12)	672.8 (9)	74%	21%
	10.6%	4.5%	13.6%	20.7%	15.8%		
(57)	65.2%	68.2%	65.2%	70.7%	73.7%		
	16.3%	6.7%	20.9%	29.3%	21.4%		
Industrials	311.0 (7)	85.1 (5)	554.0 (6)	356.9 (7)	514.6 (10)	69%	19%
	10.0%	7.1%	8.6%	9.5%	13.0%		
(77)	70.0%	68.6%	71.4%	71.6%	68.8%		
	14.3%	10.4%	12.0%	13.2%	18.9%		
Healthcare	53.6 (2)	34.1 (2)	55.6 (3)	45.1 (5)	48.3 (2)	23%	29%
	5.7%	5.7%	8.6%	13.5%	6.7%		
(30)	25.7%	28.6%	25.7%	27.0%	23.3%		
	22.2%	20.0%	33.3%	50.0%	28.6%		
Financials	1,077.3 (2)	6,187.0 (5)	972.0 (2)	243.5 (5)	11.0 (1)	54%	4%
	3.9%	9.8%	3.9%	11.4%	2.1%		
(48)	54.9%	54.9%	56.9%	56.8%	54.2%		
	7.1%	17.9%	6.9%	20.0%	3.8%		
Utilities	0.0 (0)	58.3 (2)	7.7 (1)	19.3 (1)	6.8 (2)	91%	20%
	0.0%	20.0%	10.0%	10.0%	18.2%		
(11)	60.0%	70.0%	80.0%	90.0%	90.9%		
	0.0%	28.6%	12.5%	11.1%	20.0%		
Information Technology	25.5 (2)	1.6 (1)	4.6 (1)	40.0 (5)	5.5 (4)	68%	15%
	5.3%	2.6%	2.6%	12.8%	10.0%		
(40)	76.3%	78.9%	78.9%	82.1%	67.5%		
	6.9%	3.3%	3.3%	15.6%	14.8%		
Consumer Staples	85.1 (4)	135.8 (3)	8.6 (2)	170.9 (3)	2.8 (2)	76%	11%
	13.8%	10.3%	6.9%	11.5%	8.0%		
(25)	86.2%	82.8%	86.2%	84.6%	76.0%		
	16.0%	12.5%	8.0%	13.6%	10.5%		
Telecomm. Services	0.0 (0)	14.1 (1)	36.0 (2)	67.0 (1)	0.0 (0)	100%	0%
	0.0%	14.3%	28.6%	14.3%	0.0%		
(8)	100.0%	100.0%	100.0%	100.0%	100.0%		
	0.0%	14.3%	28.6%	14.3%	0.0%		
Total*	2,993.4 (32)	8,416.8 (39)	11,040.8 (36)	7,903.9 (52)	8,878.5 (52)	42%	20%
	5.2%	6.3%	5.8%	8.4%	8.3%		
(625)	43.2%	44.1%	44.4%	44.6%	42.4%		
	11.9%	14.2%	13.0%	18.9%	19.6%		
Average (Median) Impairment	94 (21)	216 (14)	307 (23)	152 (15)	171 (36)		

*Amounts shown are aggregates. Differences due to rounding.

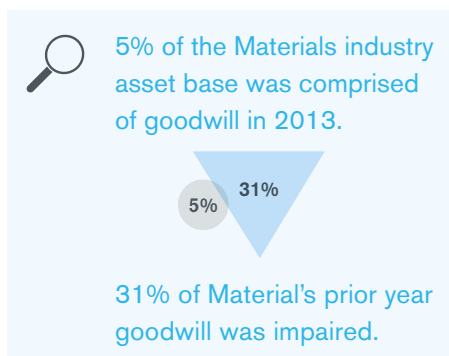
Summary Statistics by Industry

(Table 2)

Table 1 captured the total amount of GWI and the frequency of events by industry. In Table 2 the focus shifts to the respective industries' (i) proportion of goodwill relative to the overall asset base (goodwill intensity); (ii) magnitude of annual impairment relative to the carrying amount of goodwill; and (iii) magnitude of such impairment in relation to total assets (the last two being measures of loss intensity). Goodwill intensity, defined here as goodwill as a percentage of total assets (GW/TA), measures the proportion of an industry's total assets represented by goodwill. Since goodwill arises as a result of a business combination, goodwill intensity is greater in industry sectors with significant M&A activity.

The first loss intensity measure, goodwill impairment to goodwill (GWI/GW), indicates the magnitude of goodwill impairments. In other words, it measures the proportion of an industry's goodwill that is impaired each year.

The goodwill intensity and the first loss intensity measure are captured visually for 2013 in the graphs on the far right of Table 2. For example:



Finally, goodwill impairments to total assets (GWI/TA), the second loss intensity measure, quantifies the percent of an industry's total asset base that was impaired.

		Intensity Measure	How?	Why?
Goodwill Intensity	Extent to which an industry's asset base includes goodwill	GW/TA	Goodwill as a percentage of total assets, measured at year end	Indicates how significant an industry's goodwill is in relation to total assets.
Loss Intensity (1)	Extent to which an industry's goodwill is affected by impairment	GWI/GW	Goodwill impairments (total) as a percentage of the prior year's total goodwill	Indicates how impairments impacted each industry's goodwill.
Loss Intensity (2)	Extent to which an industry's asset base is affected by impairment	GWI/TA	Goodwill impairments (total) as a percentage of the prior year's total assets	Indicates how impairments impacted each industry's total assets.

Goodwill Intensity

The *first row* in Table 2 illustrates goodwill intensity (GW/TA) reported over time for each industry, with 2013 being highlighted in the gray circle of the graphic displayed on the far right.

Aggregate goodwill as a percentage of total assets for Canadian public companies (across all industries) ranged between approximately 3% to 4% over the 2009-2013 period. However, this ratio can vary significantly across industries; for example in 2013 it ranged from 1.1% for Financials to 37.9% for Information Technology.

The Information Technology and Consumer Discretionary industries continued to exhibit the highest goodwill intensity during the 5-year period. Although goodwill intensity has been fairly stable, certain industries have shown a recent downward trend, with Materials and Healthcare showing a steady decline since 2010.

Goodwill Impairment to Goodwill

The *second row* in Table 2 presents the first measure of loss intensity (GWI/GW) recognized for each industry over the 5-year period, with 2013 metrics prominently displayed in the triangle portion of the graphic located on the far right.

In the post-IFRS adoption years, half of the 10 industries saw a negligible proportion of the overall goodwill carried on their books being impaired. The GWI/GW ratio for the other five industries has fluctuated over the years, with no discernible pattern. Notably, Materials showed the highest GWI/GW loss measure at 30.5% in 2013, jumping from 14.3% in the prior year. As shown in Table 1, Materials also had the largest increase in aggregate GWI amount, nearly doubling from \$3.2 billion in 2012 to \$6.0 billion in 2013.

Goodwill Impairments to Total Assets

The second measure of loss intensity is presented in the *third row* in Table 2 for each industry. Goodwill impairment charges had a relatively small impact on a company's total asset base. Consumer Discretionary, followed by Healthcare and Materials, were the only industries with GWI/TA ratios exceeding 1% in any given year during the 2009-2013 period.

2013 Goodwill Impairment (Table 2)

	2009 (GAAP)	2010 (IFRS)	2011 (IFRS)	2012 (IFRS)	2013 (IFRS)	
	Goodwill Intensity (GW/TA) Loss Intensity (1) (GWI/GW) Loss Intensity (2) (GWI/TA)					
(Companies)						
Materials (216)	7.2% 0.4% 0.0%	8.6% 0.0% 0.0%	8.4% 16.5% 1.4%	6.7% 14.3% 1.2%	4.8% 30.5% 2.0%	
Energy (113)	4.6% 0.7% 0.0%	4.6% 14.9% 0.7%	3.6% 0.9% 0.0%	3.4% 4.5% 0.2%	3.4% 11.4% 0.4%	
Consumer Discretionary (57)	31.1% 3.2% 1.1%	30.4% 0.1% 0.0%	26.2% 17.8% 5.4%	24.6% 10.9% 2.9%	26.1% 2.4% 0.6%	
Industrials (77)	9.5% 4.1% 0.4%	10.0% 1.1% 0.1%	9.5% 6.7% 0.7%	9.8% 4.7% 0.4%	8.9% 5.5% 0.6%	
Healthcare (30)	13.8% 10.7% 1.8%	13.9% 8.4% 1.2%	12.7% 13.4% 1.9%	8.8% 9.5% 0.9%	7.7% 11.1% 1.0%	
Financials (48)	1.9% 1.7% 0.0%	1.7% 9.8% 0.2%	1.4% 1.6% 0.0%	1.1% 0.5% 0.0%	1.1% 0.02% 0.0%	
Utilities (11)	2.2% 0.0% 0.0%	2.7% 7.7% 0.2%	2.8% 0.8% 0.0%	4.1% 1.4% 0.1%	3.8% 0.5% 0.0%	
Information Technology (40)	22.9% 0.9% 0.2%	23.9% 1.0% 0.0%	24.9% 0.1% 0.0%	36.9% 1.1% 0.3%	37.9% 0.1% 0.0%	
Consumer Staples (25)	15.4% 0.8% 0.1%	15.3% 1.2% 0.2%	14.5% 0.1% 0.0%	16.0% 1.5% 0.3%	15.9% 0.03% 0.0%	
Telecomm. Services (8)	17.3% 0.0% 0.0%	17.3% 0.1% 0.0%	19.1% 0.2% 0.0%	18.4% 0.4% 0.1%	18.4% - -	
Total* (625)	3.8% 1.8% 0.1%	3.7% 5.2% 0.2%	3.1% 6.6% 0.2%	2.7% 5.1% 0.2%	2.7% 5.5% 0.2%	

*Amounts shown are aggregates. Differences due to rounding.

Industry Spotlights

In contrast to Tables 1 and 2, the Industry Spotlights provide a summary of the 2013 statistics for the respective industries.

We selected five Industry Spotlights for the 2014 Study: (i) Energy; (ii) Materials; (iii) Consumer Discretionary; (iv) Financials; and (v) Information Technology. We also present a 2013 Composite Industry Spotlight for all the companies included in the 2014 Study. Each Spotlight displays a variety of data as well as the top three companies that recognized the highest amount of goodwill impairment for the year.

Highlights

The three largest impairment events of the year were in the Materials and Energy industries. Approximately 60% (\$5.3 billion of the \$8.9 billion) of the total GWIs was accounted for by the top three impairment events.

Market-to-Book Value

While not a sole or definitive indicator of impairment, a company's market capitalization should not be ignored during a goodwill impairment test.

Understanding the dynamics of market-to-book ratios is informative, but the fact that an individual company has a ratio below 1.0 does not by default result in a goodwill impairment. Cash-generating unit structures, their respective performance, and where the goodwill resides are a few of the critical factors that must be considered in the impairment testing process.

Nevertheless, companies with a low market-to-book ratio would be at a greater risk of impairment. Overall, almost 40% of Canadian public companies reporting under IFRS had a market-to-book ratio lower than 1.0 in 2013. (See Composite Industry Spotlight).

Guide

The guide below provides a brief description of the components of the Industry Spotlights.

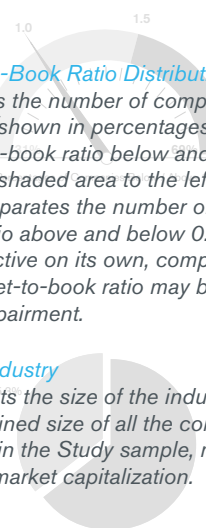
Goodwill Trends

Provides goodwill amounts at the beginning and end of a 5-year period, as well as the aggregate goodwill additions and impairments over that period.



Market-to-Book Ratio Distribution

Highlights the number of companies in the industry (shown in percentages terms) with a market-to-book ratio below and above 1.0. The blue shaded area to the left of the needle further separates the number of companies with a ratio above and below 0.5. Although not predictive on its own, companies with a low market-to-book ratio may be at a greater risk of impairment.



Size of Industry

Represents the size of the industry relative to the combined size of all the companies included in the Study sample, measured in terms of market capitalization.

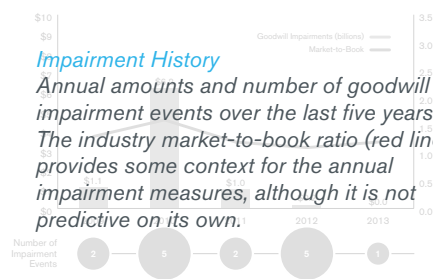


Top 3 Industry Goodwill Impairments

Highlights the concentration of the top 3 impairments recorded in the industry in 2013.

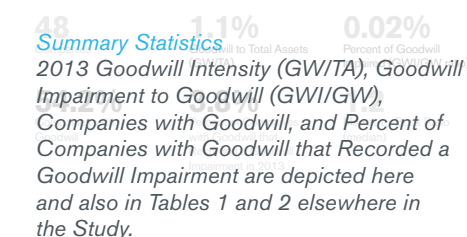
Impairment History

Annual amounts and number of goodwill impairment events over the last five years. The industry market-to-book ratio (red line) provides some context for the annual impairment measures, although it is not predictive on its own.



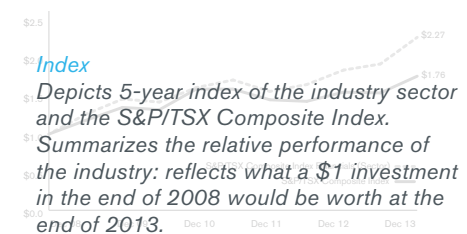
Summary Statistics

2013 Goodwill Intensity (GW/TA), Goodwill Impairment to Goodwill (GWI/GW), Companies with Goodwill, and Percent of Companies with Goodwill that Recorded a Goodwill Impairment are depicted here and also in Tables 1 and 2 elsewhere in the Study.



Index

Depicts 5-year index of the industry sector and the S&P/TSX Composite Index. Summarizes the relative performance of the industry: reflects what a \$1 investment in the end of 2008 would be worth at the end of 2013.

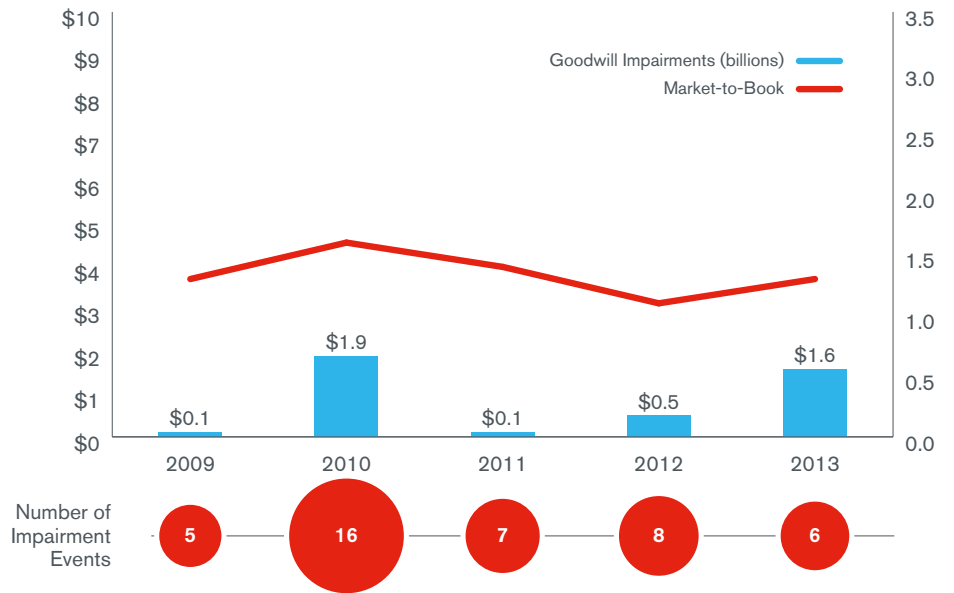
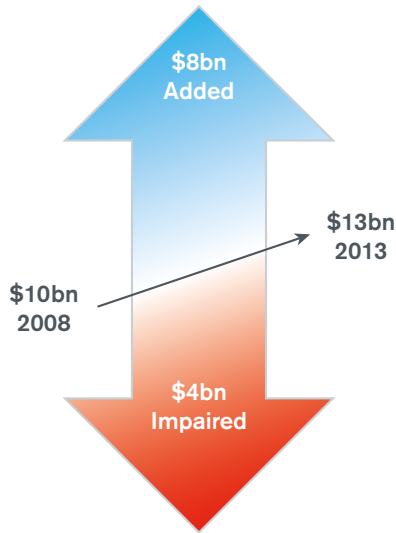


2013 Industry Spotlight

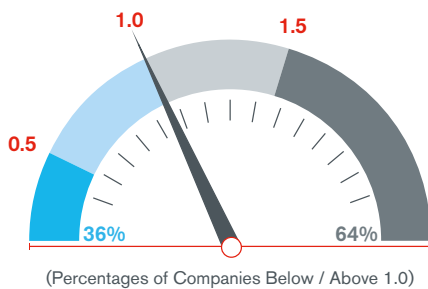
Energy

GICS Code 10

Goodwill Trends 2008–2013



Market-to-Book Ratio Distribution (Based on Number of Companies)



113
Companies

3.4%
Goodwill to Total Assets (GW/TA)

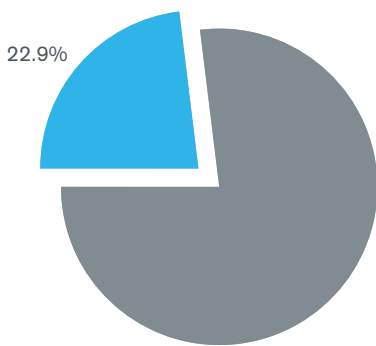
11.4%
Percent of Goodwill Impaired (GWI/GW ratio)

38.1%
Companies with Goodwill

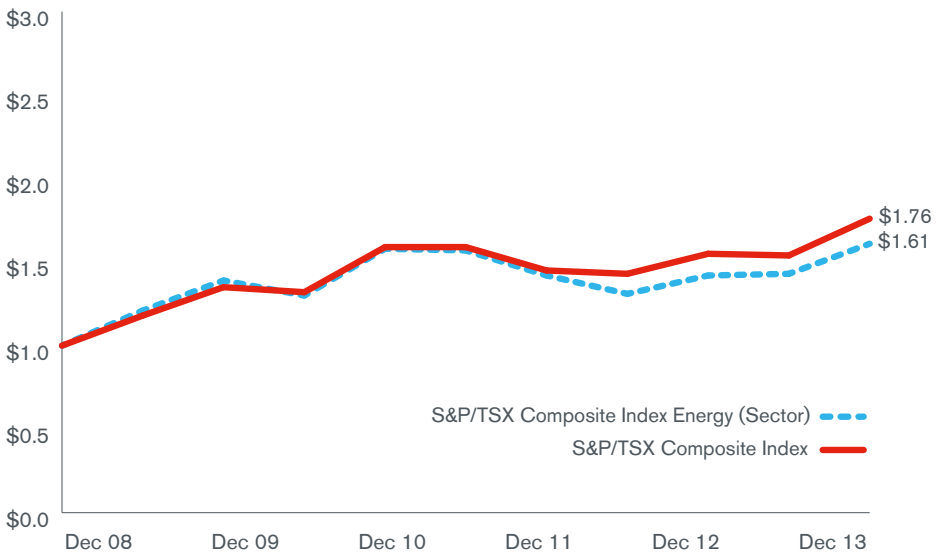
14.0%
Percent of Companies with Goodwill that Recorded a Goodwill Impairment in 2013

1.3
Market-to-Book Ratio (median)

Size of Industry (Relative to Study's Total Market Cap)



Index (Year End 2008 = \$1)



Top 3 Industry Goodwill Impairments (in \$millions)

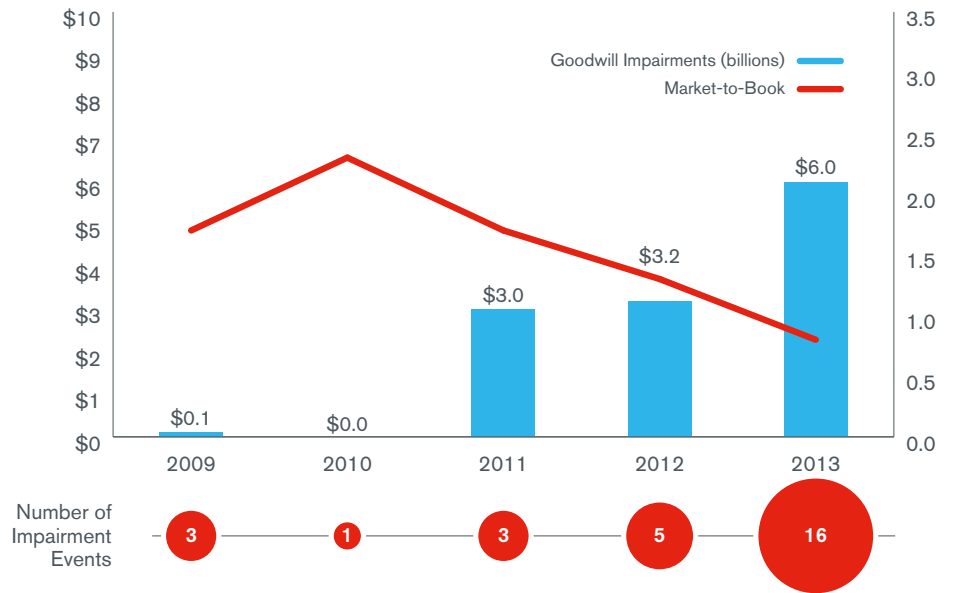
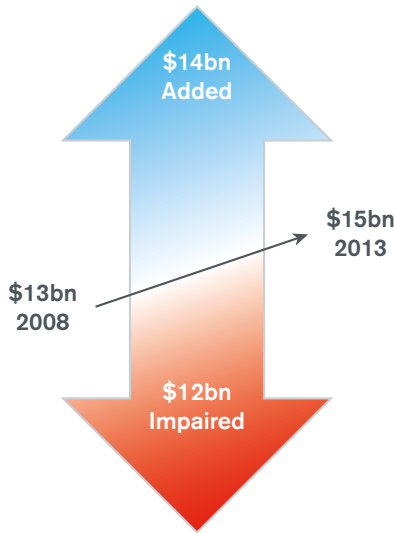
Lightstream Resources Ltd. (TSX:LTS)	\$1,342
Talisman Energy Inc. (TSX:TLM)	\$197
Penn West Petroleum Ltd. (TSX:PWT)	\$48

2013 Industry Spotlight

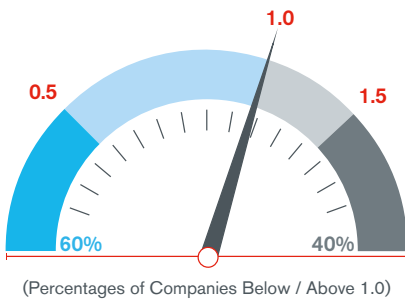
Materials

GICS Code 15

Goodwill Trends 2008–2013



Market-to-Book Ratio Distribution (Based on Number of Companies)



216
Companies

4.8%
Goodwill to Total Assets (GW/TA)

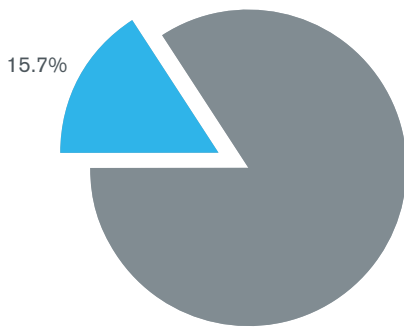
30.5%
Percent of Goodwill Impaired (GWI/GW ratio)

13.9%
Companies with Goodwill

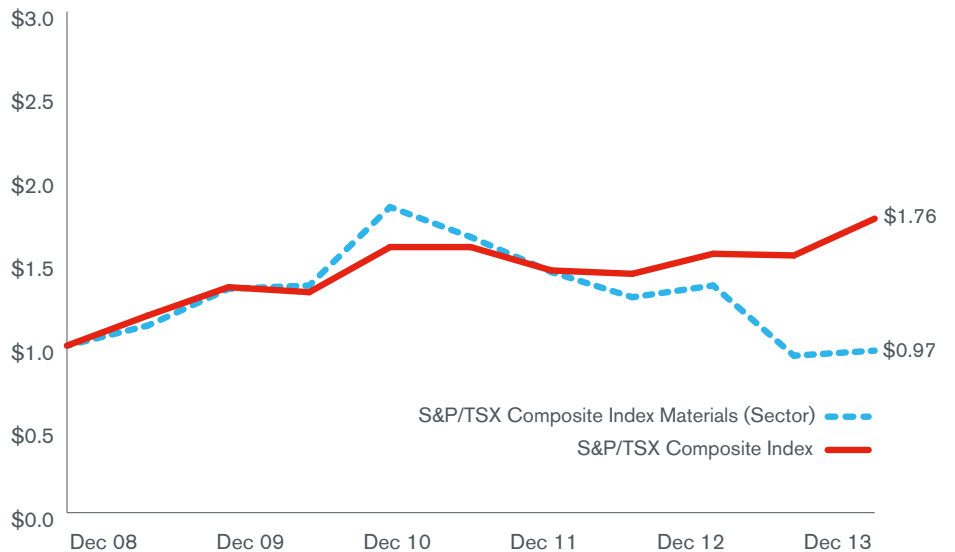
53.3%
Percent of Companies with Goodwill that Recorded a Goodwill Impairment in 2013

0.8
Market-to-Book Ratio (median)

Size of Industry (Relative to Study's Total Market Cap)



Index (Year End 2008 = \$1)



Top 3 Industry Goodwill Impairments (in \$millions)

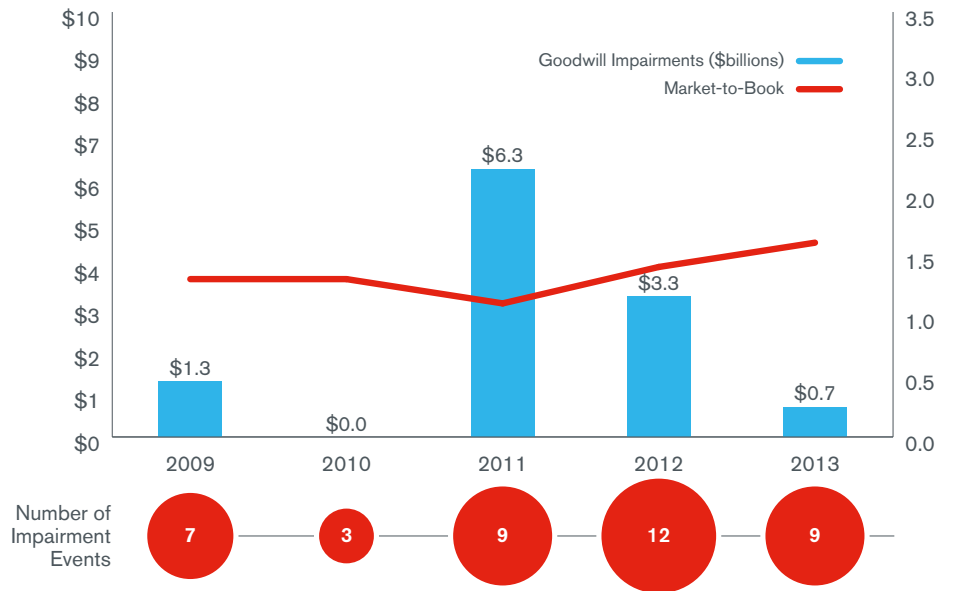
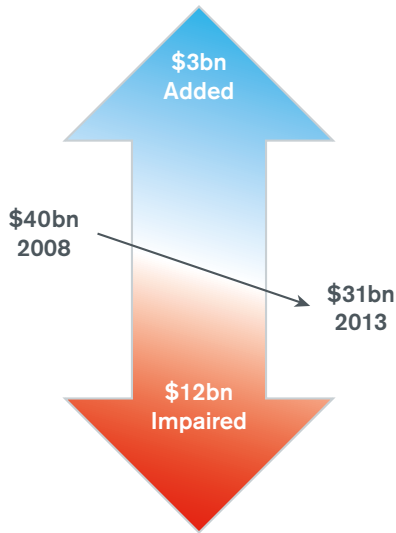
Barrick Gold Corporation (TSX:ABX)	\$3,091
Kinross Gold Corporation (TSX:K)	\$880
Eldorado Gold Corp. (TSX:ELD)	\$333

2013 Industry Spotlight

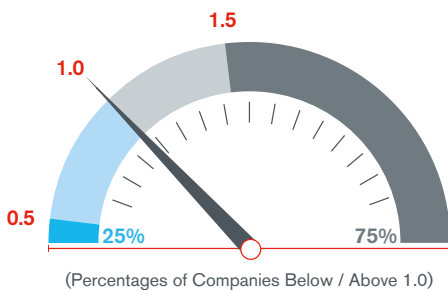
Consumer Discretionary

GICS Code 25

Goodwill Trends 2008–2013



Market-to-Book Ratio Distribution (Based on Number of Companies)



57
Companies

26.1%
Goodwill to Total Assets (GW/TA)

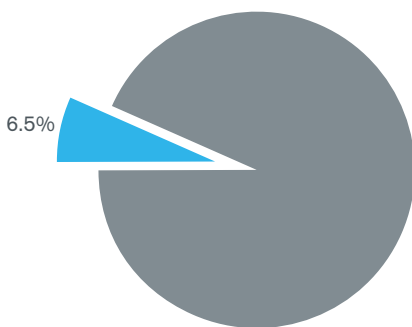
2.4%
Percent of Goodwill Impaired (GWI/GW ratio)

73.7%
Companies with Goodwill

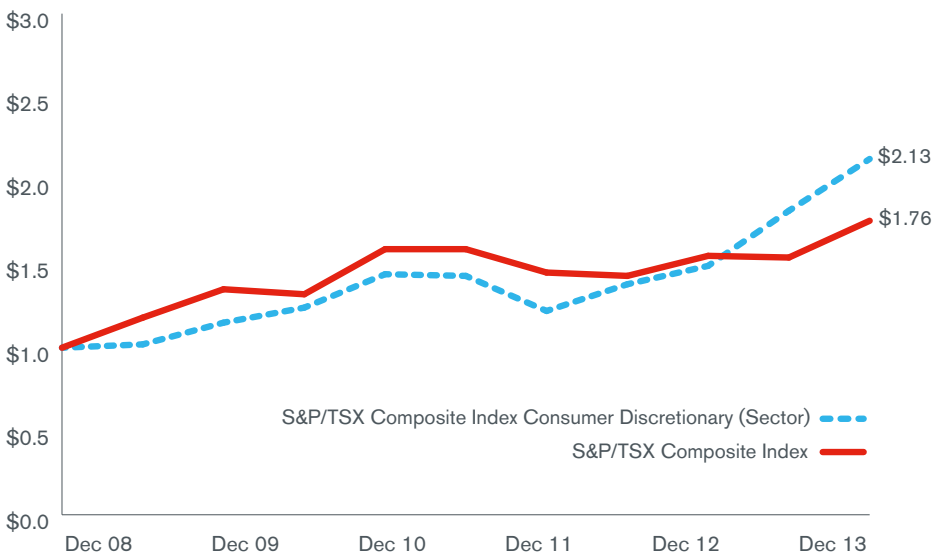
21.4%
Percent of Companies with Goodwill that Recorded a Goodwill Impairment in 2013

1.6
Market-to-Book Ratio (median)

Size of Industry (Relative to Study's Total Market Cap)



Index (Year End 2008 = \$1)



Top 3 Industry Goodwill Impairments (in \$millions)

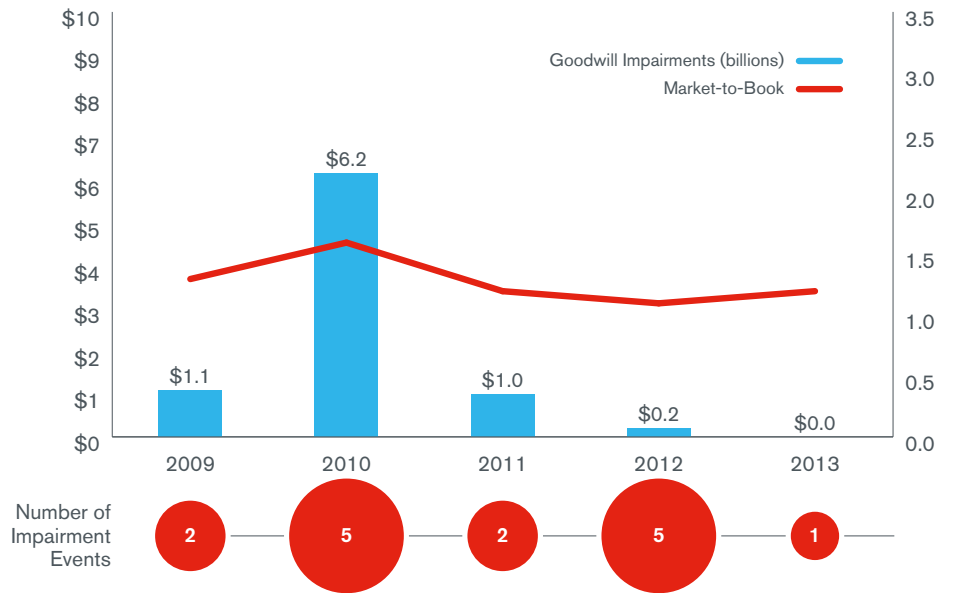
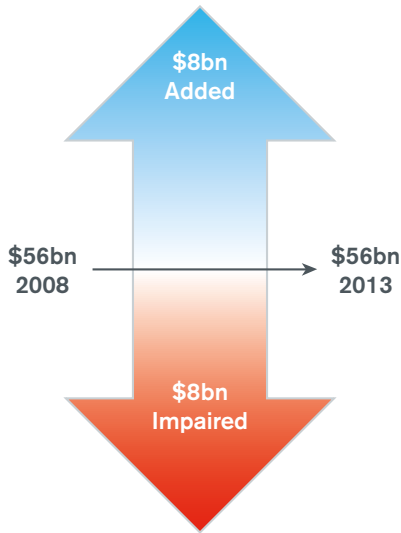
Quebecor Inc. (TSX:QBR.B)	\$250
Rona Inc. (TSX:RON)	\$111
Mood Media Corporation (TSX:MM)	\$80

2013 Industry Spotlight

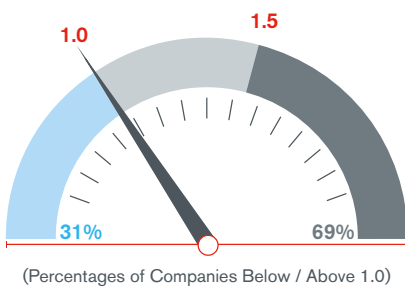
Financials

GICS Code 40

Goodwill Trends 2008–2013



Market-to-Book Ratio Distribution (Based on Number of Companies)



48
Companies

1.1%
Goodwill to Total Assets (GW/TA)

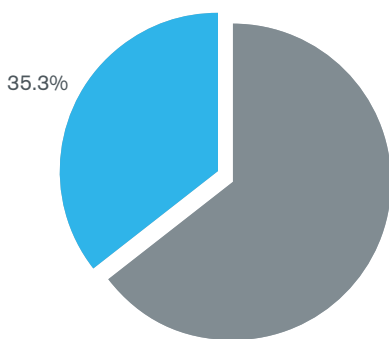
0.02%
Percent of Goodwill Impaired (GWI/GW ratio)

54.2%
Companies with Goodwill

3.8%
Percent of Companies with Goodwill that Recorded a Goodwill Impairment in 2013

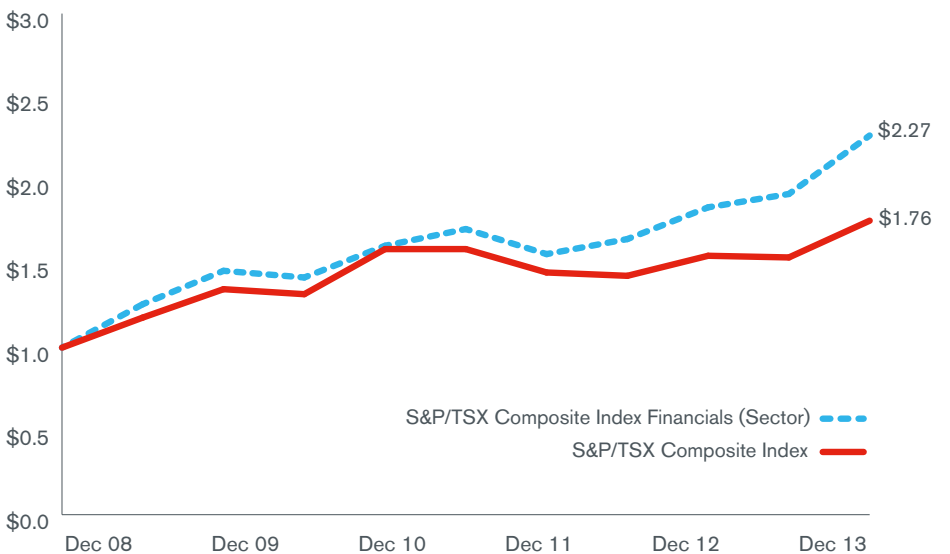
1.2
Market-to-Book Ratio (median)

Size of Industry (Relative to Study's Total Market Cap)



Top Industry Goodwill Impairment (in \$ millions)
Power Corporation of Canada (TSX:POW)\$11

Index (Year End 2008 = \$1)

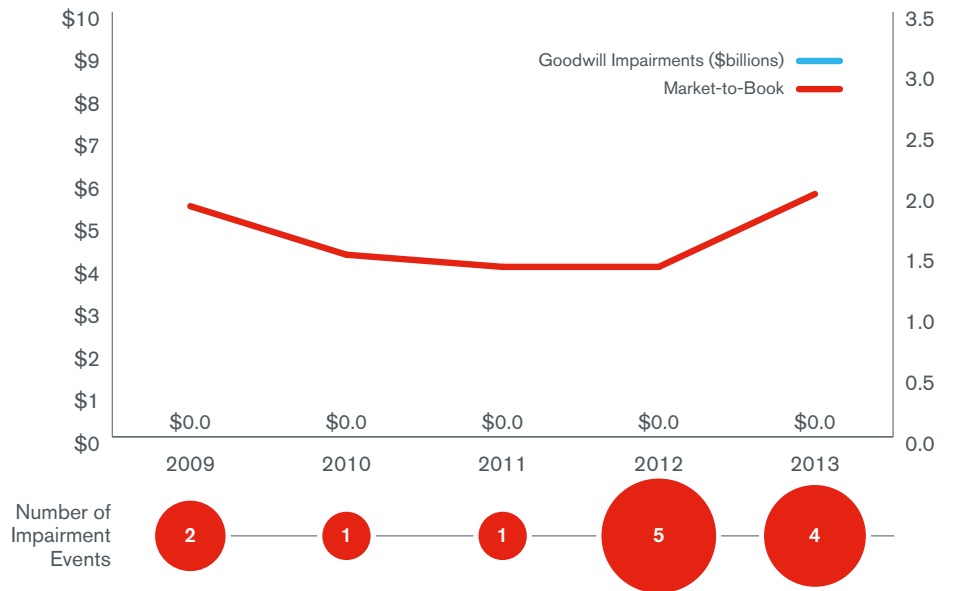
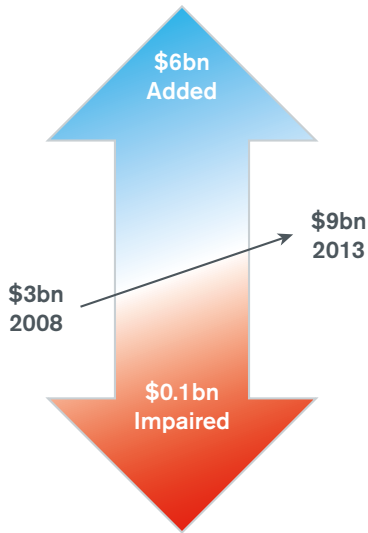


2013 Industry Spotlight

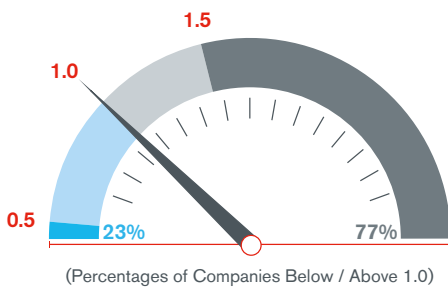
Information Technology

GICS Code 45

Goodwill Trends 2008–2013



Market-to-Book Ratio Distribution (Based on Number of Companies)



40
Companies

37.9%
Goodwill to Total Assets (GW/TA)

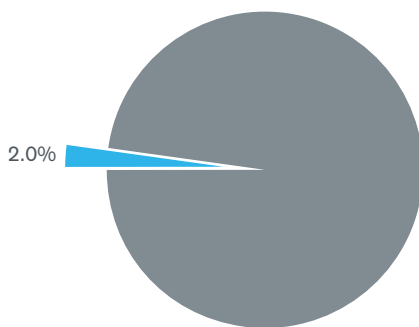
0.1%
Percent of Goodwill Impaired (GWI/GW ratio)

67.5%
Companies with Goodwill

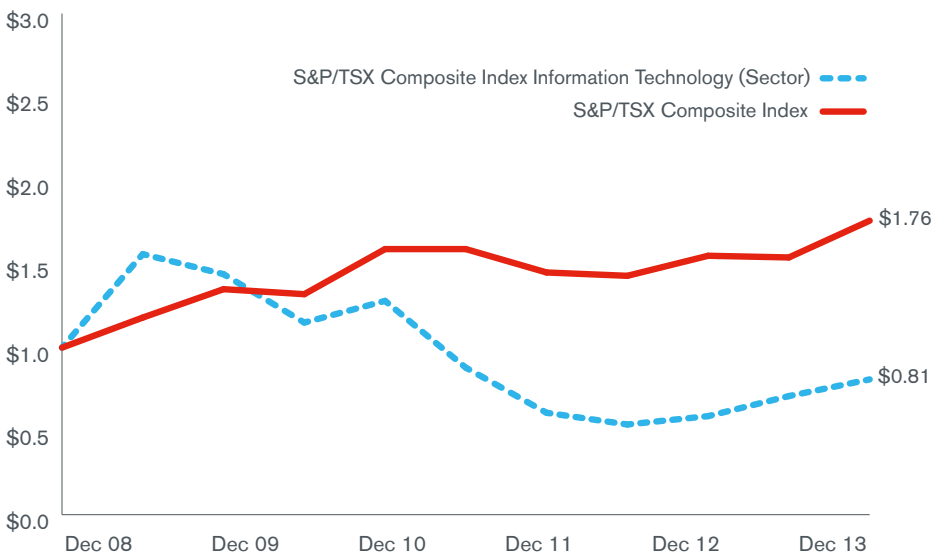
14.8%
Percent of Companies with Goodwill that Recorded a Goodwill Impairment in 2013

2.0
Market-to-Book Ratio (median)

Size of Industry (Relative to Study's Total Market Cap)



Index (Year End 2008 = \$1)

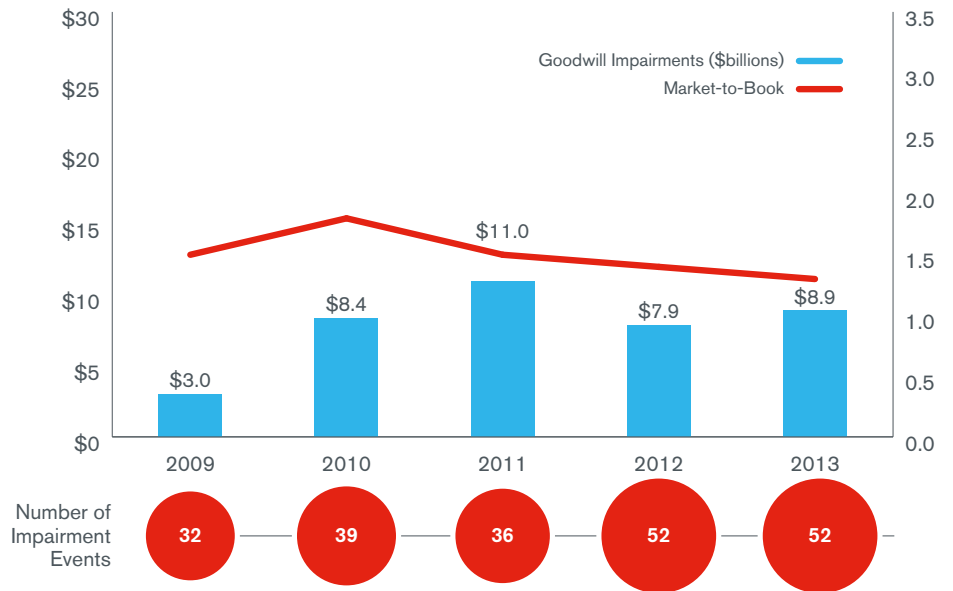
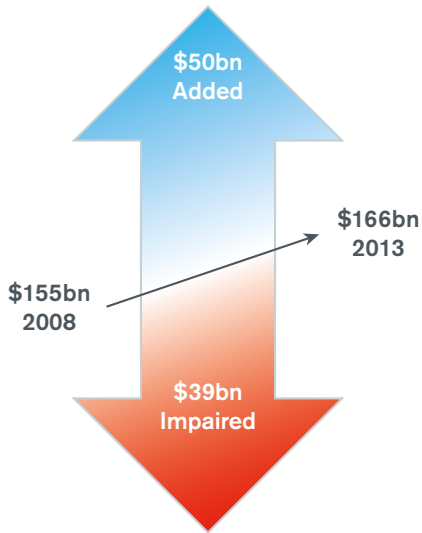


Top 3 Industry Goodwill Impairments (in \$millions)

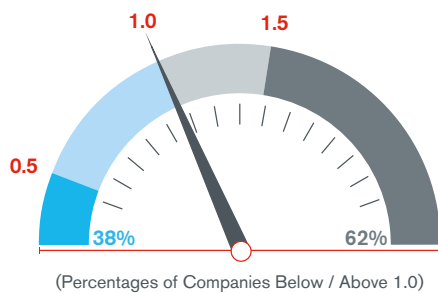
COM DEV International Ltd. (TSX:CDV)	\$2
Pure Technologies Ltd. (TSX:PUR)	\$2
Firan Technology Group Corporation (TSX:FTG)	\$1

2013 Composite Industry Spotlight

Goodwill Trends 2008–2013



Market-to-Book Ratio Distribution (Based on Number of Companies)



625
Companies

2.7%
Goodwill to Total Assets (GW/TA)

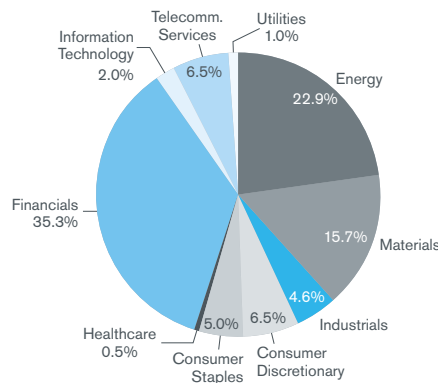
5.5%
Percent of Goodwill Impaired (GWI/GW ratio)

42.4%
Companies with Goodwill

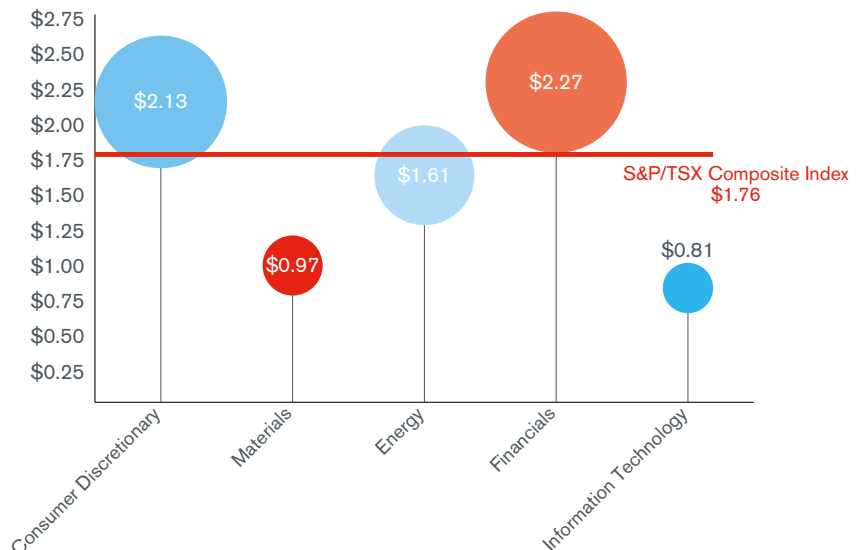
19.6%
Percent of Companies with Goodwill that Recorded a Goodwill Impairment in 2013

1.3
Market-to-Book Ratio (median)

Size of Industry (Relative to Study's Total Market Cap)



Cumulative 5-year Terminal Index Value by Industry from 2009 to 2013 Index (Year End 2008 = \$1)



Top 3 Industry Goodwill Impairments (in \$millions)

- Barrick Gold Corporation (TSX:ABX)\$3,091
- Lightstream Resources Ltd. (TSX:LTS)\$1,342
- Kinross Gold Corporation (TSX:K)\$880

Goodwill Impairments by Industry Group

Calendar Year 2013

List of Industries by Industry Group, as defined by Global Industry Classification Standard (GICS)

GICS Code	GICS Industry Group Name	Number Co.'s	% of Co.'s with GW	GW/TA	GWI/GW	% of Co.'s with GW that Recorded GWI	Goodwill Impairment (in \$millions)	Market-to-Book Ratio*
							\$1,625 (industry group total)	
1010	Energy	113	38%	3.4%	11.4%	14.0%	\$1,625	1.3
							\$5,992 (industry group total)	
1510	Materials	216	14%	4.8%	30.5%	53.3%	\$5,992	0.8
							\$515 (industry group total)	
2010	Capital Goods	49	61%	7.9%	2.0%	13.3%	\$116	1.8
2020	Commercial & Professional Services	15	73%	20.0%	19.0%	45.5%	\$376	2.5
2030	Transportation	13	92%	7.7%	1.5%	8.3%	\$24	2.3
							\$673 (industry group total)	
2510	Automobiles & Components	4	25%	0.5%	–	–	–	1.3
2520	Consumer Durables & Apparel	6	50%	15.2%	–	–	–	1.7
2530	Consumer Services	12	67%	6.4%	–	–	–	1.9
2540	Media	18	94%	35.9%	2.1%	41.2%	\$556	1.8
2550	Retailing	17	76%	6.6%	9.2%	15.4%	\$117	1.6
							\$3 (industry group total)	
3010	Food & Staples Retailing	9	100%	14.0%	–	–	–	2.1
3020	Food, Beverage & Tobacco	14	64%	22.6%	0.1%	22.2%	\$3	2.0
3030	Household & Personal Products	2	50%	37.1%	–	–	–	3.0
							\$48 (industry group total)	
3510	Health Care Equipment & Services	10	40%	9.6%	12.4%	50.0%	\$48	4.1
3520	Pharmaceuticals, Biotechnology & Life Sciences	20	15%	3.0%	–	–	–	4.0

Goodwill Impairments by Industry Group

Calendar Year 2013

List of Industries by Industry Group, as defined by Global Industry Classification Standard (GICS)

GICS Code	GICS Industry Group Name	Number Co.'s	% of Co.'s with GW	GW/TA	GWI/GW	% of Co.'s with GW that Recorded GWI	Goodwill Impairment (in \$millions)	Market-to-Book Ratio*
							\$11 (industry group total)	
Financials								
4010	Banks	15	73%	1.0%	–	–	–	2.0
4020	Diversified Financials	10	50%	7.4%	–	–	–	1.2
4030	Insurance	9	89%	1.6%	0.1%	12.5%	\$11	1.5
4040	Real Estate	14	14%	1.0%	–	–	–	0.9
							\$5 (industry group total)	
Information Technology								
4510	Software & Services	21	76%	48.1%	–	–	\$0	2.8
4520	Technology Hardware & Equipment	19	58%	4.2%	2.3%	27.3%	\$5	1.2
							\$0 (industry group total)	
Telecommunication Services								
5010	Telecommunication Services	8	100%	18.4%	–	–	–	2.0
							\$7 (industry group total)	
Utilities								
5510	Utilities	11	91%	3.8%	0.5%	20.0%	\$7	1.1

Appendix 1

2014 Study: Company Base Set Selection

In addition to company annual reports, the primary source of data for the 2014 Study was Standard & Poor's (S&P) Capital IQ™ database. This database was screened to isolate the companies that had characteristics consistent with the purpose of this study, as described below. Canadian-based companies that traded on the Toronto Stock Exchange (TSX) as of July 16, 2014 were the starting point for the data set. The following additional procedures were applied to arrive at the data set:

- Exchange traded funds (ETFs) and income funds were excluded leaving 873 Canadian-based, Canadian-traded companies.
- From this subset, companies that did not have a Global Industry Classification Standard (GICS) designation, and companies that did not have returns data and market capitalization data over the 2009-2013 period were excluded.
- The data set was then assessed to identify any company with a controlling interest in any other company within the data set, because in such cases the controlling investor (the parent) would have consolidated the underlying entity's (the subsidiary's) financial results. To avoid double-counting the parent's and the subsidiary's reported financial information, we excluded the financial results of any subsidiary companies that met this criterion. These initial screens resulted in a universe of **675** Canadian-based publicly-traded companies. This universe included companies reporting under a mix of different accounting standards.

- The sample universe was further restricted to include only those companies that adopted IFRS as of the 2013 calendar year, resulting in a base set of **625** companies (refer back to Figure 1).
- Calendar years (rather than "most recent fiscal years") were used in all cases in order to examine impairment values during a specific period of time, regardless of company-specific choices of fiscal years.
- Regardless of fiscal year-end choices, for simplicity and comparability reasons, goodwill impairments (and other financial metrics) of entities reporting in U.S. dollars were translated into Canadian dollars using the spot foreign exchange rate as of December 31 of the applicable year.

The information covering the period between 2009 and 2012 was carried forward from prior studies.

IFRS Background & Impact on Data Set

In 2006, Canada's Accounting Standards Board (AcSB) announced its intention to adopt IFRS for publicly accountable enterprises. Reporting under IFRS for these entities has been mandatory since January 1, 2011.

Certain entities were granted optional deferral periods, allowing them to adopt IFRS at a later date. Specifically:

- **Entities With Rate-Regulated Activities**
In February 2013, the AcSB extended the existing deferral of the mandatory IFRS changeover date for entities with

qualifying rate-regulated activities by an additional year. Such entities had the option to defer their changeover to IFRS to January 1, 2015.¹⁰

- **Investment Entities**

The AcSB had previously provided investment companies and segregated accounts of life insurance enterprises the option to defer the IFRS changeover date, pending the completion of IASB's project on consolidation requirements of qualifying investment entities.¹¹ In December 2012, the AcSB confirmed mandatory adoption was required for annual periods beginning on or after January 1, 2014, with earlier application permitted.¹²

Furthermore, private enterprises can elect to apply IFRS. While private companies may generally prefer to adopt the less complex rules under Part II of the *CPA Canada Handbook – Accounting*, some of the Canadian private companies participating in the 2013 Survey had indeed adopted IFRS.

Finally, it is noted that in 2008, the Canadian Securities Administrators (CSA) issued a notice allowing Canadian issuers who are also U.S. Securities and Exchange Commission (SEC) issuers to continue to use the option to report under U.S. GAAP as permitted under National Instrument 52-107.

10. In January 2014, the IASB issued IFRS 14 *Regulatory Deferral Accounts*. This interim standard permits entities that are first-time adopters of IFRS to continue to recognize regulatory deferral accounts in accordance with their previous GAAP when adopting IFRS. The new standard is intended to be an interim solution while the broader IASB project on rate-regulated activities is developed. IFRS 14 is effective for annual reporting periods beginning on or after January 1, 2016, with early application permitted.

11. In October 2012, the IASB published *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27), providing an exception to the consolidation requirements in IFRS 10 *Consolidated Financial Statements* for investment entities. In place of consolidation, the amendments require an investment entity to measure any investments in other entities it controls at fair value.

12. In January 2013, the related amendments to IFRS 10, IFRS 12, and IAS 27 were incorporated into Part I of the *CPA Canada Handbook – Accounting*, with mandatory application for annual periods beginning on or after January 1, 2014 and earlier application permitted.

Appendix 2

Quantifying the Impact of IFRS Adoption – Flashback

In February 2013, Duff & Phelps, in partnership with the Canadian Financial Executives Research Foundation (CFERF), released its inaugural 2012 Study which undertook a detailed analysis of publicly-traded Canadian company disclosures regarding the transition from prior Canadian (or Pre-changeover) GAAP to IFRS and its effect on goodwill impairments. Mandatory IFRS adoption was required for fiscal years commencing on or after January 1, 2011 for most publicly accountable enterprises, or PAEs, with certain entities being granted optional deferrals (see Appendix 1 for more detail on which entities were mandated to adopt IFRS).

IFRS Adoption Recap

IFRS 1 requires first-time adopters to present full comparative financial information for the year preceding the adoption and an opening balance sheet

at the date of transition to IFRS. This “transition date” was January 1, 2010 for Canadian calendar year-end companies.

In general, IFRS 1 calls for full retrospective application of IFRS standards. In theory, this would mean that all past business combinations occurring prior to the transition date would have to be restated under IFRS.

However, IFRS offers an optional exemption to this requirement. If a company opts out, then goodwill balances must be tested for impairment at the transition date. In addition, in most cases the company must recognize any resulting transition-related impairment loss in retained earnings.

Highlights of the 2012 Study

2010 provided a great opportunity to measure the impact of IFRS adoption

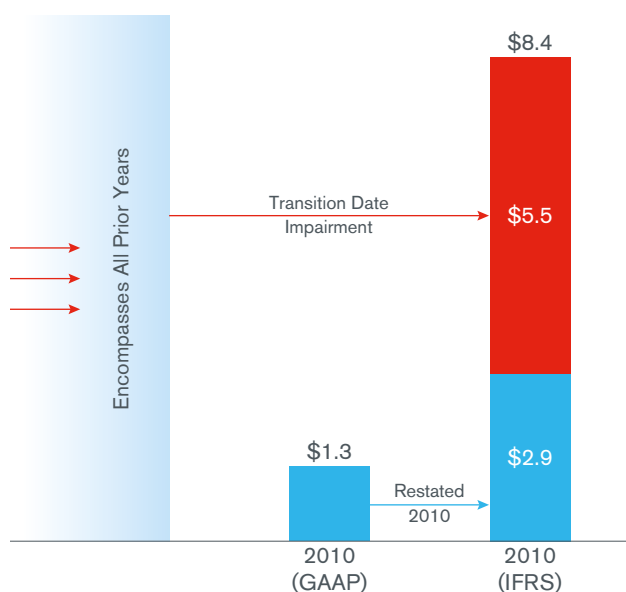
on goodwill. For comparison purposes, goodwill impairment was presented under both sets of accounting rules for 2010:

- i. As originally reported under Pre-changeover GAAP; and
- ii. As restated under IFRS.

As a result of IFRS adoption, calendar 2010 GWI increased from \$1.3 billion as originally reported under Pre-changeover GAAP to \$2.9 billion as restated under IFRS (see graph below).

In addition, under the optional exemption related to IFRS adoption, an incremental \$5.5 billion of cumulative “transition date” goodwill impairment was recognized in the opening balance sheet. This amount approximates the cumulative impairment that would have been recognized under IFRS, had companies restated their prior business combinations.

Impact of IFRS Adoption on Goodwill of Canadian Public Companies (in CAD \$billion)



Definitions: GAAP = reported under Pre-changeover GAAP; IFRS = reported under IFRS

Further information on the impact of IFRS adoption can be found in our 2012 Study available at <http://www.duffandphelps.com/expertise/Pages/GoodwillImpairment.aspx>.

Appendix 3

2014 Survey Methodology

In the fall of 2014, Mergermarket interviewed 50 Canadian financial executives across a variety of industries regarding their experiences during 2013 in testing goodwill for impairment in accordance with IAS 36. All interviews were conducted by telephone and are reported anonymously with the results presented in aggregate. Some totals in the survey graphs may not add to 100% due to rounding. The following shows the composition of respondents by industry:

Industry Breakdown – Respondents

Industry	% Respondents
Materials	20
Financials	20
Energy	14
Consumer Discretionary	12
Utilities	10
Industrials	8
Telecommunication Services	8
Information Technology	4
Healthcare	2
Consumer Staples	2

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