UniCredit Comments to the Discussion Paper “Should goodwill still not be amortized?”

Do you agree that there should be a requirement to recognise goodwill as an asset and amortise it over subsequent periods? If so, do you support amortisation because:

(a) goodwill existing at acquisition date is consumed and replaced with internally generated goodwill over time, thus it should be allocated to subsequent periods as part of the cost of acquiring an entity;

(b) an impairment-only model is not sufficiently reliable due to the large use of assumptions in the impairment test (future cash flows, terminal growth rate and discount rate); or

(c) amortisation of goodwill, in addition to the impairment test, achieves an appropriate cost-benefit balance.

We support the amortization and impairment model for goodwill that requires to amortize it over a certain period while testing it for impairment whenever there is evidence that an impairment may have occurred (Trigger event).

We support it because:

- goodwill acquired in a business combination is replaced over time with internally generated goodwill arising from the business actions that the new management has taken; and
- even though it has been stated that amortization is inappropriate due to the subjectivity in determining the correct useful life, this subjectivity is not higher than the subjectivity embedded in performing the impairment test. With specific reference to this it shall be noted that when the acquirer purchases a company it pays an extra price (goodwill) over the fair value of the net assets of the acquiree as it expects to receive over a certain time horizon an extra earning. The time horizon that has been used to determine the price paid and that is the basis for the decision to purchase, might be used as useful life for goodwill amortization.this option would reduce the risk of prociclicality in recognizing any impairment loss during negative economic cycles and as a consequence would reduce the volatility of financial results due to non recurring items (as seen during the recent financial crisis).

Assuming that there was a requirement to amortise goodwill, do you think that the IASB should:

(a) indicate what the amortisation period should be?

(b) indicate a maximum amortisation period?

(c) provide guidance on how entities should assess the amortisation period (for instance, by referring to the expected payback period or the useful life of the primary asset)?

(d) allow entities to elect the amortisation period that they consider appropriate?

As already stated in our reply to the first question when the acquirer purchases a company it pay an extra price over the fair value of the net assets of the acquiree as it expects to receive over a certain time horizon an extra earnings. The time horizon that has been used to determine the price paid and that is the basis for the decision to purchase, might be used as useful life for goodwill amortization.

For this reasons we support option d.

Also we note that neither IAS 16 nor IAS 38 provides specific guidance on determination of useful life of tangible or intangible assets. We fail to see the reason why goodwill should be treated differently.

The DP suggests the need for improved guidance in a number of areas in IAS 36. Do you think that the IASB should improve and/or provide additional guidance in relation to:

- **(a) the methods to determine the recoverable amount of the goodwill;**
- **(b) the application of the value-in-use method;**
- **(c) the identification of cash-generating units and allocation of goodwill to each unit; and**
- **(d) the choice of the discount rate.**

If not, please indicate why. Please state any specific suggestions for improvements if you have.

We think that current IAS 36 guidance is enough detailed to provide meaningful result as demonstrated by recent goodwill impairment recognized by major financial institutions that have pursued an external growth track.

We also note that:

1) Any impairment test model for goodwill shall always depend on entity's internal assumption on future profitability. It is therefore important the guidance provided allows to represent actual management expectations. We fear that introduction of further guidance might determine inability to perform a calculation that is expressive of how the entity actually intend to achieve such value. In particular we don't support the suggestion, that seems to be implied in par. 115 that recoverable amount needs to be fair value because, for quoted entities, this amount is affected by short term market expectations and therefore may fail to correctly represent the actual value of a company.
2) With introduction of amortization, the relevance of goodwill impairment test might be moderated. Therefore we don't see reason to introduce further guidance.
3) Generally standard setting is moving toward a principle – based approach.

The DP suggests a number of possible new disclosures about impairment testing for goodwill. Do you think that the IASB should consider improving requirements to:

- **(e) assist users in understanding the robustness of the modelling and the entity's current assumptions;**
- **(f) provide confirmation of the 'reasonableness' of the entity's past assumptions; and**
- **(g) assist users in predicting future impairment.**

In our opinion current disclosure requirements, if correctly applied are sufficient to give the users of financial statements enough information on the model applied, reasonableness of inputs and output as well as the likelihood of future impairment.

IAS 38 requires that intangible assets with indefinite useful lives are not amortised but tested for impairment at least annually. Assuming that there was a requirement to amortise the goodwill, do you think that the same requirement should be extended to other intangible assets with indefinite useful lives? In addition, assuming that there was a requirement to amortise goodwill, do you think that the current requirements of identifying intangible assets separately from goodwill should be reconsidered? If so, how?

With the possible exception of trademarks and similar assets, and in this case as long as the acquirer continues to invest in them for an indefinite period of time in order to "regenerate" their value, we support the arguments in favor of subsuming in goodwill all the intangible assets typically recognized in a business combination (customer relationships, core deposits etc.) as:

- The calculation of their fair value in a business combination is highly subjective and it is accomplished only for accounting reasons
- These assets have usually a definite useful life as the entity expects a returns from them over a specific period of time
- In case amortization of goodwill is introduced we fail to see any benefits in recognizing them separately from goodwill.
- In conclusion yes, the amortization should be extended to other intantigles and separation of intangible from goodwill should reflect the way management to recover the value of such intangibles. If for internal reporting cash flows from a given CGU are not monitored and allocated separately to goodwill and intangibles, an accounting separation would be arbitrary and would not reflect

internal business model (therefore the information produced would not be meaningful**).**