October 1, 2019

Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT  06856-5116

File Reference: No. 2019-720: Invitation to Comment, Identifiable Intangible Assets and Subsequent Accounting for Goodwill

We appreciate the opportunity to respond to the FASB’s invitation to comment (ITC) “Identifiable Intangible Assets and Subsequent Accounting for Goodwill”. Regions Financial Corporation (“Regions”), with approximately $128 billion in assets\(^1\), provides traditional commercial, retail and mortgage banking services, as well as other financial services in the fields of asset management, wealth management, securities brokerage, trust services, merger and acquisition advisory services and other specialty financing. We serve customers across the South, Midwest and Texas, and through our subsidiary, Regions Bank, operate approximately 1,500 banking outlets.

In order to fully consider the topics addressed within the ITC and assess how the questions asked could impact our company, we discussed the ITC with business leadership responsible for the accounting for goodwill impairment as well as potentially impacted areas (e.g., Corporate Tax, Treasury, and External Reporting). We also participated in conference calls discussing the proposal with the American Bankers Association (“ABA”) as well as with our external auditor.

Overall, we support the efforts of the Financial Accounting Standards Board (the “Board” or “FASB”) to simplify the accounting for goodwill impairment by permitting or requiring an entity to make a day one write-off of goodwill through surplus/additional paid in capital (“APIC”). If a write-off approach is supported, we believe the guidance should be applied retrospectively as a cumulative effect adjustment to the opening balance of surplus/APIC in the year of adoption. We note this ITC does not consider this alternative but believe a re-visiting of this approach is warranted.

While not our preferred accounting treatment, we would also support the simplification of goodwill accounting by permitting or requiring the amortization of goodwill. If amortization is supported, we believe the amortization of goodwill should be applied retrospectively as a cumulative effect adjustment to the opening balance of surplus/APIC in the year of adoption with any remaining goodwill or future goodwill additions amortized straight-line through surplus/APIC as well. Compared to the current goodwill impairment model, we believe that an impairment test should only be performed upon identifying a triggering event. Any identified impairment should be recognized as a reduction of surplus/APIC.

We also believe that intangible assets should be evaluated under a principles based approach, with recognition and amortization of assets that are able to generate cash flows. All other intangible assets should be subsumed into goodwill and treated as a day one write-off or amortized within surplus/APIC. If

\(^1\) Goodwill comprises $4.8 billion (approximately 4%) of Regions’ $128 billion in assets.
either of these simplification efforts are supported, we do not believe entities need much time to apply the amendments, and early adoption should be permitted.

We believe the recognition and subsequent accounting discussed above is a more meaningful way to account for goodwill and intangible assets after an acquisition, as the current accounting for goodwill provides limited benefits for investor decision making and other users of financial statements, including stock analysts and banking regulators, who generally disregard goodwill and intangible assets in their analysis of a company’s financial condition and operating performance. Also, this approach is more consistent with the way our management, board of directors and the investment community base their evaluation of our company’s operating performance (utilizing return on tangible common equity, which excludes goodwill). Further, we believe that, if amortization is supported, amortization through the income statement could discourage merger and acquisition activity due to the potential negative impact on earnings per share. It is because of the factors discussed above that we believe if amortization is supported that it should be recognized on a straight-line basis within surplus/APIC and not be recognized through expense as to avoid presenting a view of a company’s income statement that will be continually adjusted to remove goodwill amortization by analysts and other users of the financial statements. We believe these changes would provide a significant benefit for preparers without adding additional complexity to a preparer’s income statement while maintaining the usefulness of information provided to users of our financial statements.

Please refer to Appendix A for answers to specific questions put forth by the Board in the ITC.

We appreciate the opportunity to comment on this exposure draft, and we thank you for considering our views. If you have any questions about our comments or wish to discuss this matter further, please contact me at (205) 326-4972.

Sincerely,

Brad Kimbrough
Executive Vice President, Controller and
Chief Accounting Officer
Appendix A
Questions for Respondents

Section 1: Whether to Change the Subsequent Accounting for Goodwill

Question 1: What is goodwill, or in your experience what does goodwill mainly represent?

We believe goodwill represents the premium paid above the price supported by the assets acquired. In our view, this does not represent a probable future economic benefit, but is a deployment of capital. The acquiring entity will use the acquired identifiable assets with the company’s existing assets for future benefit in excess of the fair value of the identified assets.

Question 2: Do the benefits of the information provided by the current goodwill impairment model justify the cost of providing that information? Please explain why or why not in the context of costs and benefits.

No, we do not believe the information provided by the current goodwill impairment model justifies the cost of providing that information. The existing goodwill impairment model imposes significant costs on financial statement preparers. For a quantitative analysis of impairment, entities spend time developing and processing internal models to perform the goodwill impairment test and the impairment test is subject to heavy internal and external audit.

The goodwill impairment model provides limited benefits for investors and other users of financial statements, including stock analysts and banking regulators, who generally adjust their analysis for goodwill and related impairment. For this reason, we believe that goodwill should be written off through surplus/APIC on day one.

Question 3: On a cost-benefit basis, relative to the current impairment-only model, do you support (or oppose) goodwill amortization with impairment testing? Please explain why in your response.

As stated above, and throughout our comment letter, we believe that goodwill should be written off on day one through surplus/APIC. However, we would also, on a cost-benefit basis, support the straight-line amortization of goodwill through surplus/APIC with impairment testing upon identifying a triggering event. We do not believe that the current goodwill impairment model provides meaningful benefits to justify the cost borne by financial statement preparers.

Question 4: If the Board were to decide to amortize goodwill, which amortization period characteristics would you support? Please include all that apply in your response and explain why you did not select certain characteristics.

a. A default period
b. A cap (or maximum) on the amortization period
c. A floor (or minimum) on the amortization period
d. Justification of an alternative amortization period other than a default period
e. Amortization based on the useful life of the primarily identifiable asset acquired
f. Amortization based on the weighted-average useful lives of identifiable asset(s) acquired
g. Management’s reasonable estimate (based on expected synergies or cash flows as a result of the business combination, the useful life of acquired processes, or other management judgments)

If the board were to permit or require goodwill amortization, we believe the Board should allow management the option to elect a useful life on the date of acquisition as long as it is reasonable and supportable (option g). We believe there are numerous data points used in business valuation methodology to support an amortization period representing substantially all of the discounted cash flows used by management to ultimately determine the purchase price of a target acquisition. We believe this option for useful life determination would be more indicative of the expectation of market participants and also provide meaningful information to financial statement users.
We did not select option a, b, c, d, e, or f as these amortization periods may not reflect the economic characteristics of the goodwill arising from a transaction. Further, we believe that these amortization periods do not provide meaningful information compared to option g.

**Question 5:** Do your views on amortization versus impairment of goodwill depend on the amortization method and/or period? Please indicate yes or no and explain.

No. While we have stated our preferred amortization period, we believe that any form of amortization provides benefits that significantly outweigh the cost of the current goodwill impairment model.

**Question 6:** Regarding the goodwill amortization period, would equity investors receive decision-useful information when an entity justifies an amortization period other than a default period? If so, does the benefit of this information justify the cost (whether operational or other types of costs)? Please explain.

As stated above, we believe that equity investors would receive decision-useful information if an entity justifies an amortization period other than a default period. We do not believe there would be significant incremental costs in providing this information, as management must make a similar assessment when supporting the purchase price paid for the target.

**Question 7:** Do the amendments in Update 2017-04 (eliminating Step 2 of the goodwill impairment test) reduce the cost to perform the goodwill impairment test? Do the amendments in Update 2017-04 reduce the usefulness of financial reporting information for users? Please explain.

While we have not yet adopted Update 2017-04, we do not believe the Update results in cost savings to perform the goodwill impairment test. As we have not had to perform Step 2 procedures for several years, the amendment results in insignificant cost savings for Regions as qualitative and Step 1 procedures are time intensive and heavily audited by external and internal auditors. Additionally, if Regions were to recognize a goodwill impairment solely based on a one-step impairment process, management’s judgment and assumptions used within the goodwill impairment process will be under additional scrutiny from external auditors and would result in additional time spent on the subsequent accounting for Step 1.

Further, we believe that the Update could reduce the usefulness of financial reporting information. Using only Step 1 to calculate impairment could result in a less precise amount of impairment, which would reduce the usefulness of the impairment for financial statement users.

**Question 8:** Do the amendments in update 2011-08 (qualitative screen) reduce the cost to perform the goodwill impairment test? Do the amendments in Update 2011-08 reduce the usefulness of financial reporting information for users? Please explain and describe any improvements you would recommend to the qualitative screen.

We believe that the amendments in 2011-08 can reduce the cost to perform the goodwill impairment test. For companies that have not yet utilized the qualitative screen, there are costs associated with implementing that process. For companies that utilize the qualitative screen, there are some cost savings, however, the qualitative screen is still time intensive, adds a subjective component to the test, and is heavily audited by external and internal auditors. Further, we do not believe that the amendments in 2011-08 reduce the usefulness of financial reporting information for users.

**Question 9:** Relative to the current impairment model, how much do you support (or oppose) removing the requirement to assess goodwill (qualitatively or quantitatively) for impairment at least annually? Please explain why in your response?

If goodwill were taken as a day one write-off to surplus/APIC, there would be no need to assess for impairment on an annual basis. If amortization is supported, we believe that an impairment test should only be required if triggering events or circumstances indicate that impairment may exist. Therefore, we are supportive of removing the requirement to assess goodwill annually.
**Question 10:** Relative to the current impairment model, how much do you support (or oppose) providing an option to test goodwill at the entity level (or at a level other than the reporting unit)? Please explain why in your response.

We support the option to test goodwill at the entity level. Testing at the entity level would reduce some of the cost borne by financial statement preparers. However, any impairment test would still be time intensive and subject to heavy audit by external and internal auditors.

**Question 11:** What other changes to the impairment test could the Board consider? Please be as specific as possible.

No other changes suggested.

**Question 12:** The possible approaches to subsequent accounting for goodwill include (a) an impairment-only model, (b) an amortization model combined with an impairment test, or (c) an amortization-only model. In addition, the impairment test employed in an alternative (a) or (b) could be simplified or retained as is. Please indicate whether you support the following alternatives by answering "yes" or "no" to the questions in the table below. Please explain your response.

<table>
<thead>
<tr>
<th>Approach</th>
<th>Do you support the indicated model? (Yes/No)</th>
<th>Do you support requiring an impairment assessment only upon a triggering event? (Yes/No)</th>
<th>Do you support allowing testing at the entity level or a level other than the reporting unit? (Yes/No)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impairment only</td>
<td>No.</td>
<td>No.</td>
<td>No.</td>
</tr>
<tr>
<td>Amortization with impairment</td>
<td>No.</td>
<td>Yes. While we believe that the most appropriate treatment for goodwill is a day one write-off to surplus/APIC, we would also support this treatment of subsequent accounting for goodwill. If amortization is supported, we believe this treatment provides the most benefit to financial statement users while significantly reducing the cost borne by financial statement preparers. Under an amortization model, the risk of recognizing an impairment charge is lower, and impairment should only be assessed if triggering events and circumstances are identified.</td>
<td>Yes. While this is not our preferred method of subsequent accounting for goodwill, we would support amortization with impairment testing at the entity level. This treatment only slightly reduces the cost borne by financial statement providers. Further, as the risk of impairment is lowered through amortization, a full impairment test at the entity level may not be necessary if there are no triggering events.</td>
</tr>
<tr>
<td>Amortization only</td>
<td>Yes. As stated above, this is not our preferred method of subsequent accounting for goodwill, but we would support an amortization only approach.</td>
<td>Not applicable</td>
<td>Not applicable</td>
</tr>
</tbody>
</table>
Section 2: Whether to Modify the Recognition of Intangible Assets in a Business Combination

Question 13: Please describe what, if any, cost savings would be achieved if certain recognized intangible assets (for example, noncompete agreements or certain customer-related intangible assets) were subsumed into goodwill and amortized. Please be as specific as possible. For example, include specific purchase price allocation of subsequent accounting cost savings. Please list any additional intangible items the Board should consider subsuming into goodwill.

If certain recognized intangible assets were subsumed into goodwill and included in the day one write off to surplus/APIC (or amortized, if supported), the company would recognize minor cost savings. The company incurs costs related to internal time, external consulting, and audit (internal and external) related to recognizing identified intangible assets. We estimate these costs to be a relatively small portion of the purchase price allocated to identified intangible assets. These costs would be reduced if recognized intangible assets were subsumed into goodwill.

Question 14: Please describe what, if any, decision-useful information would be lost if certain recognized intangible assets (for example, noncompete agreements or certain customer-related intangible assets) were subsumed into goodwill and amortized. Please be as specific as possible. For example, include specific analyses you perform that no longer would be possible.

We do not believe that subsuming intangible assets into goodwill would reduce decision-useful information. Inherently, management considers the presence of these items when evaluating a target for acquisition. After the initial purchase accounting, management does not regularly utilize information on recognized intangible assets in specific analyses or other management reporting.

Question 15: How reliable is the measurement of certain recognized intangible assets (for example, noncompete agreements or certain customer-related intangible assets)?

While the recognition of intangible assets is subject to judgement, we believe that recognized intangible asset measurement is somewhat reliable. Many entities spend considerable internal time and often consult external valuation specialists to ensure that the valuation is reliable.

Question 16: To gauge the market activity, are you aware of instances in which any recognized intangible assets are sold outside a business acquisition? If so, how often does this occur? Please explain.

In our industry, recognized intangible assets are rarely sold outside of a business acquisition.

Question 17: Of the possible approaches presented, which would you support on a cost-benefit basis? Please rank the approaches (1 representing your most preferable approach) and explain why you may not have selected certain approaches.

a. Approach 1: Extend the Private Company Alternative to subsume certain CRIIs and all NCAs into Goodwill
b. Approach 2: Apply a principles-based criterion for intangible assets
c. Approach 3: Subsume all intangible assets into Goodwill
d. Approach 4: Do not amend the existing guidance

We would support approach 1, 2, and 3 on a cost-benefit basis and would rank them as follows:

1. Approach 2: We believe that a principles-based approach that allows entities to separately recognize intangible items that are capable of generating cash flows independent of a business and subsuming all others into goodwill is the most appropriate way to recognize and subsequently account for intangible assets. Items that have a distinct set of cash flows clearly meet the definition of an asset and should be recognized separately. We believe that the separation of intangible assets capable of generating independent cash flows provides meaningful information for financial
statement users. The costs associated with making these judgements is mitigated as these cash flows are considered as a part of determining the purchase price of the target.

2. Approach 3: Subsuming all intangible assets into goodwill would result in significant cost savings for financial statement preparers.

3. Approach 1: We would also support extending the Private Company Alternative to subsume certain CRIs and all NCAs into goodwill. We believe keeping other intangible assets distinct which would not be distinct under approach 2 does not provide meaningful information for investors, but does provide smaller cost savings for financial statement preparers.

We did not select approach 4 as we believe other options provide a better cost-benefit approach to accounting for intangible assets.

**Question 18:** As it relates to Approach 2 (a principles-based criterion), please comment on the operability of recognizing intangible assets based, in part, on assessing whether they meet the asset definition.

We believe that there are no operational hurdles to applying approach 2. As discussed above, many of the intangible assets recognized under approach 2 are contemplated as a part of the cash flow analysis used to value and determine a purchase price of the target. While the intangible asset measurement will still require financial statement preparers to incur costs, we do not believe this puts an undue burden on financial statement preparers.

**Question 19:** Approaches 1-3 assume that subsuming additional items into goodwill would necessitate the amortization of goodwill. Do you agree or disagree? Please explain why.

We do not agree that approaches 1-3 necessitate the amortization of goodwill. We believe intangibles could also be subsumed into goodwill and included in a day one write-off to surplus/APIC. We do believe if the items are not separately identifiable, or in the case of approach 2 are not capable of generating cash flows, it implies the item is more akin to goodwill, which we believe should be taken as a day one write off to surplus/APIC. As stated in our comment letter, we would also support amortization through surplus/APIC.

**Section 3: Whether to Add or Change Disclosures about Goodwill and Intangible Assets**

**Question 20:** What is your assessment of the *incremental costs and benefits* of disclosing the facts and circumstances that led to impairment testing that have not led to goodwill impairment loss?

We believe that many of the facts and circumstances that may lead to impairment testing are disclosed within the MD&A section of an entity’s filing. Disclosing these facts and circumstances elsewhere does not provide an incremental benefit for financial statement users.

**Question 21:** What other, operable ideas about new or enhanced disclosures would you suggest the Board consider related to goodwill?

We do not see a need for new or enhanced disclosures related to goodwill.

**Question 22:** What is your assessment of the incremental costs and benefits of disclosing quantitative and qualitative information about the agreements underpinning material intangible items in (a) the period of the acquisition and (b) any changes to those agreements for several years post-acquisition? Please explain.

We believe there are significant costs associated with disclosing quantitative and qualitative information about the agreements underpinning material intangible items in both the period of acquisition and if any changes are subsequently made to those agreements. These disclosures would be subject to additional internal costs from financial statement preparers and legal counsel. Additionally, they would also be subject to audit from both internal and external auditors.
Regions does not believe there is a demand for more information from our financial statement users. We do not believe the benefit would exceed the costs to implement.

**Question 23:** Are there other changes (deletions and/or additions) to the current disclosure requirements for goodwill or intangible items that the Board should consider? Please be as specific as possible and explain why.

No, we do not believe there are any other changes needed for the goodwill and intangible disclosures.

**Section 4: Comparability and Scope**

**Question 24:** Under current GAAP, to what extent does noncomparability in the accounting for goodwill and certain recognized intangible assets between PBEs and private business entities and not-for-profit entities reduce the usefulness of financial reporting information? Please explain your response.

We believe that goodwill amortization through the Income Statement would hinder comparability among entities. If subsequent goodwill accounting continues to impact the Income Statement, analysts would likely adjust their analysis of company performance and entities will likely include amortization expense as an adjusted item on the income statement, creating additional non-gaap measures.

**Question 25:** Please describe the implications on costs and benefits of providing PBEs with an option on how to account for goodwill and intangible assets and the option for the method and frequency of impairment testing (described previously in Sections 1 and 2).

We do not foresee cost and benefit issues affecting comparability if PBEs are permitted an option on how to account for goodwill and intangible assets and with options for the method and frequency of impairment testing. As discussed above, most financial statement users adjust goodwill and certain recognized intangible assets out of their analysis and, therefore, would not be impacted by allowing PBEs options on the accounting for this topic.

**Question 26:** To what extent does noncomparability in the accounting for goodwill and certain recognized intangible assets between PBEs reporting under GAAP and PBEs reporting under IFRS reduce the usefulness of financial reporting information? Please explain your response.

We do not believe that the differences in accounting under GAAP and IFRS reduce the usefulness of financial reporting information. As discussed above, most financial statement users adjust goodwill and certain recognized intangible assets out of their analysis.

**Question 27:** Please indicate the sources of comparability that are most important to you regarding goodwill and intangible assets. Please select all that apply and explain why comparability is not important to you in certain cases.

- a. Comparability among all entities reporting under GAAP (one requirement for PBEs, private business entities, and not-for-profit entities)
- b. Comparability among all PBEs reporting under GAAP
- c. Comparability among all private business entities and all not-for-profit entities reporting under GAAP
- d. Comparability among all PBEs reporting under GAAP and PBEs reporting under IFRS

The most important source of comparability to Regions is the comparability among all PBEs reporting under GAAP. All of our peers meet the definition of a PBE, and having comparability among this group is desired. However, as discussed above, we generally do not believe comparability presents an issue regarding the accounting for goodwill and intangible assets.
Other Topics for Consideration

**Question 28:** Do you have any comments related to the Other Topics for Consideration Section or other general comments?

As discussed in our comment letter and above, we recognize that the immediate write-off of goodwill was excluded for consideration in this ITC. However, we believe that the contemplated goodwill models do not fit the banking industry and that a direct write-off to equity should be considered.

Next Steps

**Question 29:** Would you be interested and able to participate in the roundtable?

Yes, we would be interested and able to participate in the roundtable.