October 7, 2019

Technical Director
File Reference No. 2019-720
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Invitation to Comment - Identifiable Intangible Assets and Subsequent Accounting for Goodwill

Dear Technical Director:

We appreciate the opportunity to respond to the FASB’s Invitation to Comment (“ITC”), Identifiable Intangible Assets and Subsequent Accounting for Goodwill. We continue to support the Board’s efforts to improve accounting standards to provide greater transparency in financial reporting and address the needs of users of financial statements, while also considering cost-effective solutions that maintain or improve decision usefulness and reduce administrative and other burdens on reporting companies.

About CIT

CIT is a leading national bank focused on empowering businesses and personal savers with the financial agility to navigate their goals. CIT Group Inc. (NYSE: CIT) is a financial holding company with over a century of experience, approximately $50 billion in assets as of June 30, 2019, and operates a principal bank subsidiary, CIT Bank, N.A. (Member FDIC, Equal Housing Lender). The company’s commercial banking segment includes commercial financing, real estate financing, equipment financing, factoring and railcar financing. CIT’s consumer banking segment includes its national online bank, CIT Bank, and a Southern California branch bank, OneWest Bank.

Response and Comments

We have not responded to each of the ITC questions individually, but rather have provided our thoughts in summary form with respect to ITC Section 1: Whether to Change the Subsequent Accounting for Goodwill as we consider this the key area that should be studied and addressed by the Board.

I. Summary Comments

We believe that goodwill provides decision useful information as of the acquisition date, as it reflects the premium the acquirer has paid in excess of the fair value of identifiable assets acquired and the liabilities assumed, including recognition of intangible assets, such as a brand name or customer relationships, which the acquiree had not recognized in its financial statements because these intangible assets were internally generated.

However, we also believe that the usefulness of Goodwill is significantly reduced over time as the acquiror completes its integration of the acquiree and as management focuses on the combined operations when assessing company performance and making business decisions and allocating resources. We believe that, over time, Goodwill effectively becomes disassociated with the acquisition and effectively associated with continuing operations of the combined entity. With no impairment,
goodwill will remain on the books of the combined entity indefinitely even though the synergies of the combined entity have been absorbed over time.

We also agree with the concepts noted in paragraph BC15 of ASU 2014-02, Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill. “PCC” in the ASU 2014-02 excerpts below refers to the Private Company Council.

- “Some PCC members supported the amortization model because, in their view, goodwill should be expensed to achieve an allocation of its cost to future operations. Those members noted that acquired goodwill is an asset that is consumed and replaced with internally generated goodwill. Therefore, acquired goodwill should be amortized, and the internally generated goodwill that is replacing it should not be recognized as an asset (because goodwill generally cannot be recognized as an asset outside a business combination).”

- “One PCC member noted that amortizing goodwill “levels the playing field” among those entities that grow through acquisitions and those that grow organically, because those that grow organically are not able to capitalize the expenses that generate goodwill. Accordingly, those PCC members voted for the amortization model because, in their view, amortization (with impairment tests, if necessary) is a better representation of the underlying economics of goodwill than the current impairment-only model.”

As additional background information; Goodwill, Intangibles, Goodwill impairment and Intangible amortization are adjusted for in certain financial measures disclosed in CIT’s financial statements including those measures listed below. If Goodwill amortization was recorded as discussed in our comments in a memo section below, we would also adjust these financial measures for Goodwill amortization consistent with intangible amortization adjustments; and the amount of Goodwill adjustment for financial measures below would reduce over time as the balance amortizes.

- Common Equity Tier 1 ("CET1") is a regulatory capital measure as defined in the capital adequacy guidelines issued by the Federal Reserve. As required by the bank regulators, Goodwill and intangible assets, along with other items per the guidelines, are deducted from common stockholders' equity when determining CET1.

- Goodwill and intangible assets are deducted from common stockholders’ equity when calculating Tangible Book Value("TBV") and Tangible common equity which are measures commonly used by analysts and other financial institutions. Tangible common equity is used to calculate return on tangible common equity (“ROTCE”) and TBV is used to calculate TBV per share.

- Goodwill impairment charges are deducted from CIT’s non-GAAP reporting of Net income excluding noteworthy items and Income from continuing operations excluding noteworthy items.

- Intangible amortization is deducted from CIT’s non-GAAP reporting of Operating expenses excluding intangible asset amortization and is excluded from CIT’s calculation of Net Efficiency Ratio excluding noteworthy items.
II. Goodwill Amortization

We believe acquired goodwill has a finite life and does not continue to provide benefits indefinitely. Rather, its value is gradually replaced by goodwill that is internally generated by the combined entity. As the usefulness of Goodwill and its linkage to the acquisition activity is reduced over time, we believe that amortization of goodwill is appropriate. We also believe that straight-line amortization would be appropriate as determination of a specific usage pattern for goodwill would be subjective and could not be readily determined. The straight-line method also eliminates an administrative burden of calculating and supporting a complex amortization pattern.

Determination of an appropriate amortization period is subjective, and we believe the Board should consider providing options to reporting entities including a simple and cost-effective amortization option. A useful framework to consider is the FASB and the PCC guidance of ASU 2014-02 which provides an optional simplified goodwill alternative allowing a private company to amortize goodwill on a straight-line basis over a default period or over an alternate period if the company demonstrates that another useful life is more appropriate. This PCC guidance was intended to reduce the cost and complexity associated with the goodwill accounting.

When evaluating amortization periods, we believe that in addition to providing a suggested default period of years that an entity could elect, the Board should allow for an amortization period based on management's estimate of the period over which the acquired goodwill will benefit the combined entity. This proposal would require study and outreach by the Board and may result in an amortization default period that differs from the 10-year default period provided by the PCC guidance. As the goodwill guidance impacts reporting entities in a wide range of different industries which will have different estimates of the benefit period for goodwill, we also recommend that the guidance not prescribe a maximum number of amortization years.

Goodwill amortization is a non-cash charge and reporting entities would likely report non-GAAP measures excluding goodwill amortization to provide additional information and insight regarding operating results and financial position of the business. One example of a measure used by some companies is EBITDA which excludes goodwill amortization.

III. Impairment testing

We support goodwill impairment testing in addition to goodwill amortization. When required, impairment charges and related disclosures provide very important and useful information to users of the financial statements regarding impairment events and reduction in value. If the goodwill balance is amortized and reduced over time, the likelihood of large impairment charges will lessen, and the evaluation of goodwill impairment will be less difficult to perform.

We also believe that entities should only be required to assess goodwill for impairment when a triggering event or change in circumstance occurs indicating goodwill may be impaired. Consistent with the PCC guidance of ASU 2014-02, when a triggering event occurs, the entity should have the option to first assess qualitative factors to determine whether the quantitative impairment test is necessary. If that qualitative assessment indicates that it is more likely than not that goodwill is impaired, the entity would be required to perform the quantitative test to compare the fair value of the reporting unit with the carrying amount, including goodwill, of the reporting unit. If the qualitative assessment indicates that it is not more likely than not that goodwill is impaired, further testing is unnecessary.
If you have questions about our comments or wish to discuss the matters addressed in this letter, please contact Edward K. Sperling, Executive Vice President & Corporate Controller, at 973-740-5329 (Edward.Sperling@cit.com), or Victor Cecco, Director, Accounting Policies, at 973-597-2148 (Victor.Cecco@cit.com).

Sincerely,

Edward K. Sperling
Executive Vice President & Corporate Controller CIT Group Inc.