October 7, 2019

Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116
Attention: Mr. Shayne Kuhaneck, Technical Director

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

Dear Mr. Kuhaneck:

Comerica Incorporated (“Comerica” or “we”) appreciates the opportunity to comment on the Financial Accounting Standards Board’s (the “Board”) Invitation to Comment, Identifiable Intangible Assets and Subsequent Accounting for Goodwill, issued on July 9, 2019 (The “Invitation to Comment”). Comerica is a financial services company headquartered in Dallas, Texas. As of June 30, 2019, we were among the top 50 largest U.S. banking companies, with total assets of approximately $73 billion, total loans of approximately $52 billion, and total shareholders’ equity of approximately $7 billion. As of the same date, Comerica reported approximately $635 million in goodwill.

Comerica appreciates the Board’s efforts to continuously improve accounting standards and supports the current project to explore ways to refine the goodwill accounting model and the financial information it provides. We are pleased to provide our thoughts in the form of general observations previously submitted on this matter as well as commentary in response to specific questions included in this Invitation to Comment. We encourage the Board to pursue improvements to the current model that will decrease unnecessary costs of preparing financial information without compromising the benefits to users of that information.

General observations on the current model

The Harvard Business Review article, “What’s the True Value of an Acquisition?” provides a good overview of pricing for acquisitions and how acquirers determine the value of a target and the control premium they are willing to pay. The article highlights the difference between the view investors, markets

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1 General observations from our comment letter to a 2016 goodwill exposure draft issued (file reference no. 2016-230).
2 https://hbr.org/1999/07/are-you-paying-too-much-for-that-acquisition
and management teams have of an acquisition compared to the accounting representation of the transaction. The difference is not just in how the value of the transaction is initially measured, but also in when the perceived benefit of the transaction is achieved. We cite this article because it is consistent with our experience from our last acquisition, including how management analyzed the transaction and the questions we received from our investors.

Under normal circumstances, the purchase price of an acquisition will nearly always be higher than the intrinsic value of the target company. Accounting guidance views an acquisition as the purchase of assets and assumption of liabilities with determinable fair values on the date of the acquisition. The difference between the transaction price and the fair value of the acquired assets and assumed liabilities is recorded as goodwill. Conversely, management teams, investors and analysts focus on the underlying business, related cost savings, revenue opportunities, overall synergies and economic impact of the transaction. As stated in the article, “acquirers generally base their calculations on five types of synergies: cost savings, revenue enhancements, process improvements, financial engineering, and tax benefits.” The value of the target reflected in the control premium is based on the overall value paid for these synergies as opposed to a static fair value of the balance sheet on the date of acquisition.

Similarly, to compare the price of the transaction to other acquisitions in the market, most stakeholders gravitate to the price paid as a percentage of tangible book value. While this is a point-in-time measure, it is based on the acquiree’s tangible book value, not fair value assigned by the acquirer, illustrating that key stakeholders do not incorporate goodwill when comparing market transactions. In fact, during its discussions on this topic, the Board noted that goodwill is often disregarded by financial statement users.

Further, in our experience, the success of an acquisition depends upon how long it takes for the acquisition to become accretive to earnings per share; that is, the time it takes for additional income generated by the acquisition to outpace the dilutive effect of shares (or other value) issued as part of the transaction. Deals that become accretive within 3 years are generally viewed favorably when compared to deals that require more time to do so. Goodwill may continue to be viewed as an indefinite-lived intangible for accounting purposes long after the benefits of the transaction are fully reflected in the earnings power and stock price of the acquirer.

**Stakeholders’ view of subsequent measurement**

Not only do analysts and other stakeholders not find the goodwill measurement useful at acquisition, it is not essential to their view of ongoing valuations of companies. This fact has been noted in the Board’s deliberations. Analysts and other stakeholders evaluate entities using discounted cash flows, earnings multiples or residual income models that do not incorporate goodwill. Additionally, bank regulators do not assign much value to goodwill, requiring it to be subtracted from a bank’s regulatory capital and capital adequacy calculations. Regulatory capital ratios, which are key indicators of an institution’s financial health, disregard it. This is further evidence that key stakeholders do not place importance on goodwill in their assessment of value and financial health.

**Accounting model inconsistencies**

We observe certain inconsistencies with the current accounting model that may contribute to its lack of usefulness to users of financial information. For example, most assets acquired in a business combination have finite lives and are derecognized as they are consumed by the acquirer. However, goodwill, a residual asset whose initial value is derived from the fair value of all other assets, can only be derecognized through
impairment of the entire reporting unit. As a result, goodwill often continues to be recognized on the balance sheet well after the acquired assets that originated its value have been consumed. As the target is fully integrated into the acquirer over time, it becomes difficult for stakeholders to ascertain how the remaining goodwill on the balance sheet will generate value for the entity.

Certain aspects of the current model may delay the timing of impairment recognition because impairment from unsuccessful acquisitions may be disguised by more successful ones or strong general financial performance of the acquirer. This is because the basis for measurement of goodwill changes from the acquisition date (where it is based on the fair value of the acquired assets related to the transaction price) to subsequent impairment analyses (where measurement is based on total economics of the reporting unit). Given the change in the unit of account to measure goodwill from the target to the reporting unit, a subsequent impairment of goodwill may not accurately measure the success or failure of an acquisition, or whether or not the value paid for the acquisition was appropriate. Lastly, the change in the unit of account also results in a possible recognition lag that may be a contributor to the perception by stakeholders that impairment is not a leading indicator of financial difficulties, but instead is a lagging confirmation of issues already perceived by the market.

One final accounting model inconsistency that exists today is the difference between the treatment of goodwill post acquisition by private companies and public companies. Under the previously issued Accounting Standards Update (ASU) Nos. 2014-02, Accounting for Goodwill, and 2019-06, Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities, private companies and not-for-profit entities may elect to both amortize goodwill and apply a simplified goodwill impairment test. We understand the need the Board and the Private Company Council were addressing in issuing these updates and are supportive of the outcome for these companies. We hope the Board will entertain a similar approach for public entities.

Limitations and challenges of a quantitative analysis

Evaluating goodwill for impairment is a complex exercise involving numerous assumptions with high degrees of estimation uncertainty that require extensive analysis, review and documentation. Fundamental assumptions to any valuation require a significant amount of judgment that can produce vastly different results. For example, the income approach (also referred to as the discounted cash flow model) uses long-term forecasts that include an estimation of value into perpetuity. These forecasts rely on underlying economic assumptions projected far into the future (often five years or longer), reducing their reliability. The interest rate environment is a prime example. Interest rates were at historic lows during the latest recession. However, it is likely that most valuation models over that time incorporated some estimate for a rate increase in their forecasted periods. Additionally, there was a dramatic shift in forward rate curves late in 2018 and early 2019 that would have been difficult to project in earlier forecasts. This illustrates how unreliable long-term economic projections are. Yet, management teams are asked to make these estimates at least annually to defend an accounting measurement that, for the most part, appears to be overlooked. On other topics, such as impairment of financial instruments under ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, the Board has acknowledged that there is a limit to the timeframe over which entities can produce “reasonable and supportable” forecasts and made provisions for the uncertainty in the estimate accordingly.

The market approach is also subject to significant judgement that can impact the outcome of a valuation. Typically, the market approach requires the use of comparable measurements to peer or guideline
companies within the industry. Many companies are diversified in their business lines and finding a company comparable to a single reporting unit is challenging. For example, finding a company that specializes exclusively in wealth management, retail banking or commercial banking can be difficult.

With the background of perceived minimal use of goodwill by key stakeholders and inconsistencies within the model, we struggle to understand the burden placed upon preparers such as Comerica to periodically evaluate long-tenured or long-dated goodwill for impairment. In all, performing a quantitative goodwill impairment analysis is an exercise that spans over several weeks and requires resources from Finance, Treasury, Accounting, Forecasting, Economics and Corporate Valuation. Additionally, our auditors are heavily involved in the process, increasing the cost of our audits. Local audit engagement teams must often involve valuation experts, further increasing the cost and time consumed by the exercise. Hence, it is discouraging, if not frustrating, to think that the only users who are interested in the goodwill process are accountants. In light of this, we urge the Board to simplify the accounting model with the goal of a better alignment between accounting requirements and the needs of users of the financial statements.

Specific observations on the Invitation to Comment

We would like to offer the following specific observations to some of the questions included in the Invitation to Comment:

- We would be supportive of a model in which goodwill is amortized over time in conjunction with periodic impairment testing. This would alleviate many of the accounting inconsistencies inherent in the existing framework, recognizing that the accretive value of acquisitions typically has a finite life and providing a systematic methodology for de-recognizing goodwill over time. Simplifying the model would lower the amount of effort and cost necessary under the current model and mitigate the inherent flaws of relying on the current annual impairment analysis. Amortizing goodwill would also more closely align GAAP to bank regulatory capital guidance, which disregards goodwill in the calculation of regulatory capital ratios.

- We would support the amortization of goodwill over a default period while also allowing issuers to utilize a different period if the alternative is supportable and justifiable. This allows for a set standard across all preparers and users, which promotes comparability and simplifies a potentially complex estimate, but also allows for flexibility in specific circumstances that merit an alternate period. Companies that choose to employ a different period should disclose the facts and circumstances supporting their amortization period, including the expected timeframe to realize the full benefits of the transaction.

- We are appreciative of the Board’s amendment in Update 2011-08 to allow a qualitative screening and believe it has reduced the cost and time it takes to perform the goodwill impairment test, especially when reporting units display strong financial health. Should the Board favor a model where goodwill is amortized while also tested periodically for impairment, we would support removing the requirement to assess goodwill for impairment annually and are in favor of impairment testing based on triggering events. This would be consistent with other areas of GAAP, including guidance over fixed assets.

- We would support the option to test goodwill at the entity level in certain cases. Some entities function as one unit where their segments share resources and depend on synergies to maximize performance. Often, when these entities make acquisitions it is for the benefit of all segments, regardless of how much goodwill is allocated to each. In such instances, assessing goodwill at the
entity level would be the best representation of how the business functions, as opposed to relying on complex transfer pricing assumptions to bifurcate a synergistic whole into separate parts. An entity-level approach could simplify efforts and reduce audit costs. For other conglomerate entities that own different businesses with no obvious synergies it may not be appropriate to test for goodwill impairment at the entity level.

- Comerica is aware that other preparers would be supportive of recording goodwill directly into equity at the acquisition date. This, they argue, would be consistent with how analysts view goodwill in their valuations and would align GAAP with regulatory capital treatment for banks. While we would be open to considering this approach, we believe significant outreach and research by the Board and preparers need to take place. It would be important to know how this treatment would affect mergers and acquisitions activity.

The below table, as included within the Invitation to Comment, summarizes Comerica’s view and support of the proposed changes to the subsequent accounting of goodwill.

<table>
<thead>
<tr>
<th>Do you support the indicated Model?</th>
<th>Do you Support Requiring an Impairment Assessment Only upon a Triggering Event?</th>
<th>Do you support allowing testing at the Entity Level or a Level Other than the Reporting unit?</th>
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<tbody>
<tr>
<td>Impairment Only</td>
<td>NO</td>
<td>FOR SOME ENTITIES YES</td>
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<tr>
<td>Amortization with Impairment</td>
<td>YES</td>
<td>FOR SOME ENTITIES YES</td>
</tr>
<tr>
<td>Amortization only</td>
<td>YES</td>
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**Modification of the Recognition of Intangible Assets in a Business Combination**

Comerica would support other intangibles being subsumed into goodwill and subsequently amortized as one unit of account. Not only would this reduce the cost for determining the acquisition date allocation among intangibles and goodwill, but it would also prevent any bias to allocate more or less value to the indefinite lived goodwill asset. Additionally, we agree with the concerns raised by other stakeholders that many valuations are perceived to be too subjective and, therefore, are not reliable.

**Disclosures about Goodwill and Intangible Assets**

We would support disclosure requirements around the facts and circumstances that triggered an impairment. We would also be supportive of similar disclosures if the results of the analysis signaled that the entity or reporting unit was at risk of failing the quantitative impairment test (similar to today’s practice to disclose the percentage by which fair value exceeded carrying value). This information helps users understand how different events may impact a business and are considered by management in an impairment analysis. However, we do not believe it would be useful to financial statement users to
provide such disclosures if the analysis did not result in an entity being at risk of failing the quantitative impairment test.

Comerica is aware that some users have stated that it would be beneficial for acquirers to disclose performance against key performance targets for several years following an acquisition. This disclosure would be overly complex in nature, and the costs of new processes and controls required to report such information would outweigh any benefit to financial statement users. As such, we are not supportive of this disclosure.

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We thank you for the opportunity to express our support and views regarding this topic, and we respectfully request that the Board considers the points we have raised. Should you require further information or have any questions, please do not hesitate to contact me (telephone 214-462-6757; email address maortiz@comerica.com) or Erick Fanini, Senior Vice President – Assistant Controller (telephone 2014-462-4294; email address effanini@comerica.com).

Sincerely,

Mauricio A. Ortiz
Senior Vice President and Chief Accounting Officer

cc: Jim Herzog, Executive Vice President and Chief Financial Officer
    Erick Fanini, Senior Vice President and Assistant Controller