



July 8, 2016

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

**File Reference: No. 2016-230: Proposed Accounting Standards Update, Intangibles – Goodwill and Other (Topic 350)**

We appreciate the opportunity to comment on the FASB's exposure draft "Intangibles – Goodwill and Other (Topic 350)" ("the ASU" or "the proposal"). Regions Financial Corporation ("Regions"), with approximately \$126 billion in assets<sup>1</sup>, provides traditional commercial, retail and mortgage banking services, as well as other financial services in the fields of asset management, wealth management, securities brokerage, insurance, 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 1,600 banking outlets.

In order to fully consider the exposure draft and assess how the proposed changes would impact our company, we discussed the exposure draft with business leadership responsible for the accounting for goodwill impairment as well as potentially impacted areas (e.g., Corporate Tax 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 removing Step 2, but we believe the option to perform Step 2 procedures should be retained, primarily because focusing efforts onto a highly judgmental valuation will not provide a reduction in our operational burden. We are also interested in the future phase of the project ("Phase 2") where the Board expects to consider whether to make additional changes to the accounting for goodwill impairment including consideration of permitting or requiring amortization of goodwill and/or further changes to the impairment testing methodology. If amortization is supported, we believe amortization of goodwill should be applied retrospectively as a cumulative effect adjustment to the opening balance of accumulated other comprehensive income ("AOCI") in the year of adoption with any remaining goodwill or future goodwill additions amortized through AOCI as well. We believe this is a more meaningful way to account for goodwill 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 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 bases its evaluation of our company's operating performance (utilizing return on tangible common equity, which excludes goodwill). It is because of the factors discussed above that we believe if amortization is supported that it should be recognized within AOCI and not be recognized through expense as to avoid presenting a view of a

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<sup>1</sup> Goodwill comprises \$4.9 billion (approximately 4%) of Regions \$126 billion in assets.

company's income statement that will be continually adjusted to remove goodwill by analysts and other users of the financial statements. We believe these changes would provide the most 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.

While we are in favor of the simplification effort, we do believe the amended standard may also have unintended consequences related to Step 1 procedures. If entities are not allowed to make a policy election to perform Step 2 and have 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. Because of this, we urge the Board to consider retaining the option to perform Step 2 procedures.

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

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,

A handwritten signature in cursive script that reads "Brad Kimbrough".

Brad Kimbrough  
Executive Vice President, Controller and  
Chief Accounting Officer

## Appendix A Questions for Respondents

**Question 1:** Do you agree with the proposed amendments to eliminate Step 2 from the goodwill impairment test? Why or why not?

As long as Step 2 is retained as a policy election, we agree with the proposed amendments to allow for elimination of Step 2 from the goodwill impairment test. As we have not had to perform Step 2 procedures for several years now, the proposed amendments would result in insignificant cost savings for Regions as Step 1 procedures are time intensive and heavily audited by external and internal auditors.

**Question 2:** Should the requirement to perform Step 2 of the current goodwill impairment test be retained as an option? Why or why not? If the use of Step 2 is optional, should an entity be allowed to apply that option by reporting unit or should it be a policy election at the entity level applicable to all reporting units?

Yes, we believe the option to perform Step 2 of the current goodwill impairment test should be retained as a policy election at the entity level applicable to all reporting units. As Regions has had to perform Step 2 procedures in the past and subsequently written off a portion of goodwill in previous years, we have already incurred the cost for a majority of Step 2 procedures from working with external consultants and as such, would like to retain the option of performing those procedures if Step 1 indicates signs of impairment (i.e., the estimated fair value of a reporting unit(s) is less than the book value of equity) as opposed to immediately recognizing a goodwill impairment. Further, we believe using only Step 1 to calculate impairment would result in a less precise amount of impairment.

**Question 3:** Do you agree with the proposed amendments to require all entities to apply the same one-step impairment test to all reporting units, including those with zero or negative carrying amounts? Why or why not? If not, what would be the suggested goodwill impairment test for reporting units with zero or negative carrying amounts?

Yes, we agree with the proposed amendments to require all entities to apply the same one-step impairment test to all reporting units, including those with zero or negative carrying amounts of goodwill. We do not believe separate accounting should exist as the population of entities with zero or negative amounts of goodwill is very small and should not require additional accounting guidance. Also, with the removal of Step 2 procedures, but not the removal of the policy election, these entities would likely pass the one-step impairment test because the fair value of a reporting unit generally would not be negative.

**Question 4:** Should entities with reporting units with zero or negative carrying amounts be required to disclose the existence of those reporting units and the amount of goodwill allocated to them? Why or why not? Are there additional disclosures that would provide useful information to users of financial statements?

Not Applicable. Regions does not have zero or negative carrying amounts of goodwill. Refer to our response to question 3 above.

**Question 5:** Should the guidance on deferred income tax considerations when determining the fair value of a reporting unit outlined in paragraph 350-20-35-25 through 35-27 and illustrated in Example 1 and Example 2 be retained, or should this Subtopic rely on the fair value guidance in Topic 820, Fair Value Measurement? If the guidance on the tax structure is retained, what, if any, amendments are necessary to address the potential difference in the impairment charge calculated under the proposed amendments, depending on which tax structure is used in calculating the fair value of the reporting unit?

We believe the current tax structure should be retained and do not believe additional amendments are necessary. An entity's current taxable or nontaxable assumption is evaluated as part of the overall implied business valuation considered in the goodwill impairment process and will continue to be evaluated for reasonableness as part of the overall process. While we acknowledge that the determination of whether each reporting unit could be bought or sold in a taxable transaction will have an impact on calculating the

applicable impairment amount, this is an assumption that is based on management's expertise, supplemented by business valuation specialists, with the determination subject to external scrutiny from auditors and therefore, do not believe any additional guidance is necessary especially if Step 2 is retained as a policy election.

**Question 6:** Do you agree that the proposed guidance to remove Step 2 from the goodwill impairment test should be applied prospectively? Should there be specific transition guidance for companies that previously adopted the goodwill accounting alternative for private companies in current GAAP but decide to adopt this proposed guidance after it becomes effective?

Yes, we agree the proposed guidance to remove Step 2 procedures should be applied prospectively and not retrospectively. However, as part of Phase 2 of this project, if amortization is supported, we believe amortization of goodwill should be applied retrospectively as a cumulative effect adjustment to the opening balance of AOCI in the year of adoption with the remaining goodwill or future goodwill additions amortized through AOCI as well.

**Question 7:** How much time would be necessary to adopt the amendments in this proposed Update? Should early adoption be permitted? Would the amount of time needed to apply the proposed amendments by entities other than public business entities be different from the amount of time needed by public business entities?

Based on the assumption that entities with material expense to goodwill impairment have already invested in a more robust governance and infrastructure, we do not believe entities would need much time to apply the proposed amendments within this exposure draft and believe early adoption should be permitted. We do not believe the amount of time needed for entities other than public business entities should be different as the only additional disclosure (i.e., disclosing any reporting units that have zero or negative carrying amounts of goodwill) pertains to a small population of both public business entities and other than public business entities.

**Question 8:** Would the proposed amendments meet the Board's objective of reducing the cost of the subsequent accounting for goodwill while maintaining the usefulness of the information provided to users of the financial statements? Why or why not?

If an entity currently has to perform Step 2 as part of their accounting for goodwill impairment, the Board's proposed amendment may reduce the direct cost of subsequent accounting for goodwill as it relates to Step 2 procedures but the entity will still have to incur the costs of completing Step 1 procedures. Also, if an entity does not have to perform Step 2 procedures due to the outcome of either their qualitative or quantitative Step 1 procedures, the proposed amendment would not reduce cost as complexities associated with accounting for goodwill impairment from Step 1 still exist. Further, we believe this ASU could have unintended consequences as we expect additional scrutiny to be placed on Step 1 estimates and management assumptions from external reviewers which likely will increase costs.

**Question 9:** Are there additional changes that should be made to the subsequent accounting for goodwill to meet this objective, including changes that might be considered in Phase 2 of the Board's project?

Yes, as stated above and throughout our comment letter, if amortization of goodwill is supported, we believe it should be applied retrospectively as a cumulative effect adjustment to the opening balance of AOCI in the year of adoption with the remaining goodwill or future goodwill additions amortized through AOCI as well. We believe these changes would provide the most 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.

While we agree with the Board's decision from the Private Company Council ("PCC") that it does not make sense to align the useful life of goodwill to the primary asset from the acquisition, we believe the Board should consider a more meaningful useful life determination as opposed to an arbitrary 10 years or less if the entity demonstrates that another useful life is more appropriate as it did for private companies.

We believe the Board should allow management the option to elect a useful life on the date of acquisition other than the arbitrary 10 years as long as it is reasonable and supportable. 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. While we understand management may be required to maintain the amortization period within a reasonable range, we believe this useful life determination would be more indicative of the expectation of market participants and also more consistent with accounting and valuation theory used in determining the values of other intangible assets (e.g., core deposit intangibles).

**Question 10:** Are there unintended consequences resulting from the improvements to the Overview and Background Sections of the Subtopics (discussed in Part II of the proposed amendments)?

While there are not unintended consequences resulting from the improvements to the Overview and Background Sections, we do believe there could be unintended consequences as it relates to the overall simplification project for subsequent accounting of goodwill as the one-step impairment process would most likely receive additional scrutiny from external auditors and regulators. For entities not currently performing a Step 2 analysis, this standard could potentially increase costs due to the additional scrutiny around Step 1.