



153 East 53rd Street
New York, NY 10043

April 14, 2004

Ms. Suzanne Bielstein
Director of Major Projects & Technical Activities
Financial Accounting Standards Board
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Letter of Comment No: 25
File Reference: 1200-300
Date Received: 4/14/04

Re: Proposed Statement of Financial Accounting Standards, *Exchange of Productive Assets*, an amendment of APB Opinion No. 29

Dear Ms. Bielstein:

Citigroup is pleased to have the opportunity to comment on the Exposure Draft for the proposed statement of financial accounting standards relating to Exchanges of Productive Assets ("Exposure Draft").

Although we agree with the broad principle that exchange transactions having commercial substance should be accounted for at fair value, we do not believe the "commercial substance" guidance within the Exposure Draft is operational. We urge the Board to move away from the proposed rules-based approach to testing for "commercial substance" and instead develop a principle-based definition. For example, exchanges of similar assets would provide such a principle. We are also concerned with the proposal to eliminate Statement 140's exclusion of exchanges of equity method investments for similar productive assets because by definition, a business is a collection of assets and liabilities that constitute a productive asset. We believe that the transfer of an interest in a business should not be subject to Statement 140's requirements.

The balance of this letter contains our detailed comments on the Exposure Draft.

Issue 1

Commercial Substance. Is the commercial substance guidance operational?

Though the Exposure Draft breaks down the process of determining whether a non-monetary exchange has commercial substance into two distinct steps, it fails to provide users with clarity in regards to the magnitude by which the configuration (risk, timing or amount) of the expected future cash flows of the assets received should differ from that of the transferred asset.

In the absence of clear guidance with regard to what constitutes “significant” differences relative to the fair value of assets exchanged, we do not believe that the guidance will lead to a significant improvement in practice. Further, we can think of examples of exchange transactions involving significantly different productive assets that happen to have similar cash flows, and therefore similar fair values, but could potentially fail the proposed test for commercial substance. An example would be the exchange of buildings in different cities that may have nearly identical cash flows and fair values. We find it hard to believe that such transactions should not be viewed as having commercial substance.

Rather than develop additional guidance around this test, which we believe is arbitrary and not truly indicative of “commercial substance,” we urge the Board to move away from a rules-based approach to determining “commercial substance.” The Board had considered an approach to defining “commercial substance” that evaluates whether the exchanged assets are similar. We suggest the Board develop a more principles-based approach around this concept.

Issue 4

Amendment of FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.

We are concerned that elimination of the scope exception in Statement 140 without further consideration may result in overlapping guidance for certain transactions which, at a minimum, may cause confusion among constituents. One example would be an exchange of equity method investments where each underlying entity owns a single real estate investment. Such investments are considered to be investments in real estate under the provisions of FIN 43. In this scenario, it is unclear whether the relevant guidance is Statement 140 as an exchange of equity method investments, or the amended version of APB Opinion No. 29 as, in substance, the sale of real estate.

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We urge the Board to carefully consider the impact that the elimination of this scope exception would have on other transactions and accounting guidance.



Conclusion

We thank the Board for its consideration and would welcome the opportunity to further discuss this matter with Board members and their staff. Please do not hesitate to contact me at (212) 559-7721.

Sincerely,

Robert Traficanti
Vice President & Deputy Controller