



LETTER OF COMMENT NO.

92



909 Third Avenue  
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March 27, 2009

Mr. Russell G. Golden  
Director of Technical Application and Implementation Activities  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, Connecticut 06856-5116

**File Reference: Proposed FSP FAS 115-a, FAS 124-a, and EITF 99-20-b**

Dear Mr. Golden:

Citigroup is pleased to have the opportunity to submit comments on the Proposed FASB Staff Position FAS 115-a, FAS 124-a, and EITF 99-20-b (proposed FSP or the FSP).

Citigroup strongly supports the issuance of the FSP as it provides better alignment of the other-than-temporary impairment (OTTI) guidance under U.S. GAAP for debt securities with the guidance for impaired loans. We agree with the FSP that the separation of the credit-related impairment from the impairment related to other components is appropriate. When it is probable that the holding entity will be unable to collect all cash flows due on the security, we agree that the credit component should be recorded in earnings. Moreover, when management, through holding an available-for-sale (AFS) security, expects to recover the impairment related to components other than credit, the other unrealized impairment for AFS is temporary and should be recorded in other comprehensive income, as proposed in the FSP, instead of in current earnings.

The effective date of the FSP should not be delayed and we think that the transition and effective date, as currently proposed in the FSP, are operational. While the timeframe to adopt the FSP may seem short, given the significantly improved accounting model provided by the FSP and the fact that we already make assessments of expected cash flows for purposes of OTTI testing, we can adopt the standard without a delay under the proposed prospective application for interim and annual periods ending after March 15, 2009. We would not object to an alternative effective date requiring prospective application for interim and annual periods ending after June 15, 2009, but allowing early adoption in the prior quarters.

We believe that the prospective transition adjustment is appropriate, and would object to an alternative transition approach requiring retrospective transition. Retrospective transition would raise a number of concerns, including the availability of historical data to support a measurement of the credit losses (dating back for potential years), and

conceptual issues regarding subsequent accretion and credit impairments after the date of initial impairment. We also believe that the income statement display of the impairment charges was an important part of the Board's deliberation, and such display would not be achieved if the Board were to apply the FSP retroactively. We are concerned that dealing with these issues would unnecessarily delay the issuance and adoption of the FSP and retrospective treatment has little benefit, if any, to the users of our financial statements.<sup>1</sup>

However, we have some suggested clarifications and comments for the Board to improve the impairment model for securities in the final FSP as discussed below:

- While credit losses should be recorded in current earnings, we disagree that the remaining *unrealized* losses for held-to-maturity (HTM) debt instruments should be reported in the financial statements. Unlike credit impairment, other changes in fair value for HTM debt instruments will reverse with the passage of time. Because of the restrictions precluding the sale of HTM debt instruments other than in rare circumstances, institutions do not expect ever to realize the other changes in fair value due to changes in interest rates, liquidity and other risk premiums. Reflecting the unrealized losses, other than credit, in OCI just to accrete the OCI back to the value of the HTM security confuses the readers and adds unnecessary operational challenges to the preparers of financial statements. We would also like to point out that the impairment charge for HTM debt instruments under IFRS is only limited to the amount of estimated credit impairment so eliminating the requirement to record unrealized losses other than credit in OCI would converge the impairment model for HTM securities with IFRS.

We agree that if the entity, despite the restrictions to do so, has an intent to sell an impaired HTM security, the full impairment should be recorded in earnings.

- According to the FSP, in order for an impairment not to be considered other than temporary, the company's management needs to be able to assert that:
  1. There is *no intent to sell the security*; and
  2. It is more likely than not that they will not have to sell the security before the recovery of its cost basis.

We interpret the FSP to apply the first assertion to management's *intent* with respect to the security (similar to EITF Topic No. D-44, "Recognition of Other-Than-Temporary-Impairment upon the Planned Sale of a Security Whose Cost Exceeds Fair Value"), and the second assertion to management's *ability* to continue to own the security. However, the language that the FSP uses to describe the second assertion is inconsistent throughout the document. For instance, according to the language on pages 1-3 in the notice to recipients

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<sup>1</sup> The cumulative effect impact would move previously recognized OTTI not related to credit impairment from retained earnings to OCI without changing total stockholder's equity.

section, page 1 (paragraph 2), page 9 (near bottom of the page), page 12 (paragraph A3b.), page 16 (paragraphs A3i., A3j.), page 17 (paragraphs A3k., A3l.), page 18 (paragraph A3m., A3n.) and page 20 (paragraph A4c.) of the FSP, management would be required to assert that it “will not have to sell” or “will not be required to sell” the security before recovery of its cost basis to avoid considering an impairment other than temporary. However, the language on page 5 (paragraphs 12 and 13), page 12 (paragraphs A3c. and A3c.a.) and page 13 (paragraph A3c.b.) of the FSP states that it has to be more likely than not that an entity “will not sell” the security before recovery of its cost basis in order to avoid recording the impairment in earnings. We think that the FSP should use the same language consistently and therefore propose the following word insertion on pages 5, 12, and 13 (suggested language underlined):

Page 5:

12. If a decline in fair value below the amortized cost exists at the measurement date for a debt or equity security and the entity intends to sell the security or it is more likely than not that an entity will be required to sell the debt or equity security before recovery of its cost basis, ...

13. If a decline in fair value below the amortized cost exists at the measurement date for a debt security and it is more likely than not that an entity will not be required to sell the debt security before recovery of its cost basis ...

Pages 12 and 13:

A3 c. Paragraph 15:

If it is determined in Step 2 that the impairment is other than temporary, ~~then an impairment loss shall be recognized in earnings equal to the entire difference between the investment's cost and its fair value at the balance sheet date of the reporting period for which the assessment is made. The measurement of the impairment shall not include partial recoveries subsequent to the balance sheet date. The fair value of the investment would then become the new cost basis of the investment and shall not be adjusted for subsequent recoveries in fair value.~~ the accounting for the impairment depends on whether the investor intends to sell the security or it is more likely than not that the investor will be required to sell the security before recovery of its cost basis and, for a debt security, whether a credit loss exists.

a. If the investor intends to sell the security or it is more likely than not that the investor will be required to sell a debt or equity security before recovery of its cost basis, an impairment loss ...

b. If the investor does not intend to sell and it is more likely than not that the entity will not be required to sell a debt security (classified as held-to-maturity or available-for-sale) before recovery of its cost basis, but it is probable that the investor will be unable to collect all amounts due

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according to the contractual terms of the security, the impairment shall be separated ...

Although some differences between the U.S. GAAP and IFRS impairment model for securities remain after the issuance of this FSP, the proposed FSP moves the two models much closer. For credit-impaired AFS securities, the entire impairment charge currently has to be recorded in earnings under IFRS whereas this FSP requires only the credit portion to go to earnings if the entity has no intent to sell the security. For these AFS securities, we ask that the FASB's financial instruments joint project with the IASB adopt this FSP's approach.

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

Very truly yours,



Robert Traficanti  
Vice President and Deputy Controller  
Citigroup Inc.