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January 15, 2008

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



LETTER OF COMMENT NO. 40

File Reference: Proposed FSP FAS 107-a.

Dear Mr. Golden:

Citigroup appreciates the opportunity to comment on the proposed FASB Staff Position FAS 107-a, *Disclosures about Certain Financial Assets: An Amendment of FASB Statement No. 107* (“the FSP” or “the proposed FSP”).

We are in favor of increasing transparency and improving the quality of information provided to users in the financial statements. However, we do not support the issuance of this FSP with the proposed effective date because of its very limited lead time.

Our specific concerns with this FSP are described below.

Scope

The proposed scope, as drafted, is too broad. We believe the FASB should limit the scope of the proposed FSP to held-to-maturity (HTM) and available-for-sale (AFS) debt securities that are credit impaired. Those security net realizable values can then be compared to Statement 157 values, where the liquidity discounts can be very large. Investors can then understand differences and where values may improve.

Similar to Statement 114, where we can use a portfolio approach to determining the incurred loss, the FASB should permit a portfolio valuation approach to debt securities in the proposed FSP. Also, the proposed FSP should provide an explicit scope exception for smaller balance debt securities as Statement 114 does for smaller balance homogeneous loans. This would significantly improve the operationality of the proposed FSP.

Application to asset backed securities.

We believe that the application of Statement 114 to asset-backed securities has not previously been explored by the FASB and may raise significant and complex issues. For floating rate assets, Statement 114 suggests a very simple approach: use the current quoted rate (LIBOR, prime, etc.) to determine the expected cash flows and the appropriate discount rate to use in the analysis. In fact, Statement 114 explicitly precludes more complex assumptions, stating "projections of changes in the factor should



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not be made for purposes of determining the effective interest rate or estimating expected future cash flows." However, many asset-backed and mortgage-backed securities are part of multi-tranche structures with very complex cash flows, and the underlying collateral and associated cash reserve accounts (which support the credit worthiness of the securities) and cash waterfalls (which affect the timing of cash flows) are very dependent on interest rate assumptions. While the use of a flat, constant interest rate assumption may appear to simplify the analysis, for most asset- and mortgage- backed securities, such a simplifying assumption will materially distort the amount and timing of expected cash flows away from the cash flows actually expected by the owner given realistic interest rate curve assumptions. Thus, the economics of the security may not be accurately reflected. We believe that with some time and analysis, these issues could be addressed in a reasonable and practical way.

Pro Forma Income from Continuing Operations

We think the pro forma income requirements should be eliminated from the FSP, since they would require preparers to maintain multiple sets of accounting records – GAAP-basis, fair value-basis, and incurred loss-basis (net realizable value).

If all financial assets were accounted for at fair value through earnings, financial institutions would likely elect the fair value option for more (most) liabilities and might also execute different hedging strategies. We believe it is misrepresentative to report pro forma operating income as if all financial assets were accounted for at fair value through earnings, without incorporating the actions management would take if it actually had to report all financial assets at fair value.

Clarifications/Modifications

We are unclear about certain aspects of the proposed FSP. We ask the Board to provide clarification/modification of the following:

- We believe that footnotes "(d)" and "(g)," from the example on page 9, ought to be added to paragraph 11 as part of the text. The concepts in both footnotes (d) and (g) are key to understanding the Board's intent and should be in the body of the standard. The Board needs to clarify that no changes in loan valuation from the currently reported loans less the allowance for loan losses are required for loans and long-term receivables, as stated in footnote "(g)" of the example on page 9. In addition, the Board needs to clarify that incurred loss amounts for debt securities should be based on the each security's original effective interest rate.
- We believe the Board intends that footnote (d) to the example on page 9 apply to HTM securities as well as AFS securities, if so this note should be added to the table.



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- Footnote (a) of the example on page 9 causes some confusion. For securities, does footnote (a) mean that FAS 114 measures should be applied to :
 1. Only debt securities considered other-than-temporarily impaired, as is the case of impaired loans under FAS 114, or
 2. Only debt securities with fair value less than book value, or
 3. Only FAS 114 loans (that is, debt securities should be not be measured using the FAS 114 method since they are outside the scope of FAS 114), or
 4. All securities (as per paragraph 11 and footnote (d))?

- Paragraph 11 indicates that the incurred loss amount for loans and receivables should be determined using existing Statement 114 and Statement 5 estimates. Paragraph 13 of Statement 114 explicitly permits that a creditor "may measure impairment based on a loan's observable market price." However, paragraph 11 indicates that for debt securities the incurred loss amount shall be measured based on the present value of expected future cash flows. It is not clear to us whether paragraph 11 intentionally eliminates the use of fair value as a practical expedient to measuring impairment for debt securities. If so, this represents another source of non-comparability between the measurement of impairment for loans and debt securities under the FSP. If not, we believe that the FSP should make clear that the incurred loss for debt securities may be measured under any of the methods specified by Statement 114.

Effective Date

We do not believe that the implementation of this FSP is operational for year-end financial statements. Financial statements for many U.S. companies must be filed with the SEC by March 2, 2009. If the FSP is finalized in late January, companies would have less than a month to gather all the required data to comply with the FSP. The application of FAS 114 to debt securities is a significant new and complex task, and we believe that attempting to complete that task within current financial statement deadlines provides too little time to identify and resolve the numerous interpretive issues that will need to be addressed in applying the FAS 114 framework to asset-backed securities.



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

Very truly yours,

A handwritten signature in cursive script that reads "Robert Traficanti".

Robert Traficanti
Vice President and Deputy Controller
Citigroup Inc.