

October 15, 2008

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



File Reference: Proposed FSP FAS 140-e and FIN 46(R)-e

Dear Mr. Golden,

Citigroup appreciates the opportunity to comment on the proposed FASB Staff Position, Disclosures about Transfers of Financial Assets and Variable Interest Entities (proposed FSP). We acknowledge the need for additional disclosure and are directionally supportive of the proposed FSP. We already disclose our significant involvement with QSPEs where we are the transferor. Additionally, we have significantly increased both our qualitative and quantitative disclosures of our involvement with SPEs in response to the market's desire for greater transparency.

While we are supportive of improved disclosure, the proposed FSP furthers the piecemeal approach to disclosure, thus making it more difficult to provide information in a meaningful way to users of financial statements. Some of the requirements would significantly increase the volume of transactions included in the footnotes. It is questionable whether this extra data adds value, while it comes at significant additional cost as it is not captured in the normal course of business. Additionally, by being overly inclusive or duplicative, the disclosures become unwieldy and may, in fact, lead to less transparency by burying information about those types of transactions that would be more useful to financial statement users in a mountain of detail.

We believe disclosures that target significant transactions, significant continuing involvement, and consistent criteria for disclosure will provide more meaningful and transparent information to financial statement users. As elaborated below, we believe that this can be achieved by:

• Limiting disclosure requirements in paragraph 17 to transactions that are sponsored by the transferor, and where the transferor also retains significant variable interests. No disclosures should be required when a transferor has no continuing involvement.

- Eliminating the disclosure requirements for passive investors with no other involvements with a VIE. Such passive investors will not have access to the information needed to make the disclosures required in the proposed FSP.
- Requiring disclosure of significant assumptions the reporting entity made in determining which transactions and entities fall within the scope of the disclosure requirements of this proposed FSP and its related standards.
- Eliminating the requirements that are forward looking or require the presentation of an alternative analysis that supports conclusions not reached by the enterprise. There should be no disclosure of the possible effects of assumptions that might have, but were not, made by the enterprise.
- Eliminating the requirement to disclose methodologies and assumptions used to value transactions accounted for as secured borrowings as they are irrelevant for assets that were not removed from the balance sheet.
- Limiting the disclosure of third-party commitments or guarantees to those that benefit or impact the reporting entity.
- Eliminating the requirement to disclose separately the fair value of the financial assets and liabilities owned by consolidated VIEs.

Our more detailed discussion of our comments and these recommendations follow.

Statement 140 Disclosures

We believe that certain of the new disclosure requirements are extremely broad and would result in disclosures that could include such a wide variety of transactions, with relatively insignificant continuing involvement. We are concerned that the breadth of these disclosures could obscure information that is most relevant for financial statement users and would be very costly to prepare.

Paragraph 17(h) requires disclosures regarding characteristics of all transfers of assets to an SPE, including quantitative information regarding a gain or loss, and requires these disclosures regardless of any continuing involvement in the transferred assets. Consider the sale of an actively traded bond to a customer. That customer may be a substantive operating business or it may be considered an SPE established by the customer. As a dealer in financial assets, we sell financial assets such as bonds or loans to our clients in the normal course of our trading operations, and the revenue from our trading activities (including both realized and unrealized gains and losses) is recognized as a separate line item in our income statement. We do not understand how disclosures distinguishing transactions that occurred with a client that is a substantive operating business from transactions that occurred with a client that either utilizes an SPE or is an SPE itself is useful to financial statement users. Such a distinction would require enhancements to our trade capture systems and client identifiers, particularly to prepare any quantitative information. If the FASB is concerned that the existing disclosure requirements in Statement 140 may be avoided because of technical nuances regarding whether a transaction is a "securitization" or not, we suggest that paragraph 17(h) apply to transfers of financial assets to SPEs sponsored by the transferor. We believe that would provide the appropriate focus for

financial statement users on SPE transactions, while avoiding an overly broad scope that could include transfers in normal trading operations.

Paragraph 17(i) requires disclosures regarding transfers to an SPE where there is any form of "continuing involvement" (rather than the current requirement, which focused only on those securitizations in which the transferor held a retained interest). The proposed FSP defines continuing involvement very broadly to include any derivative instruments and servicing arrangements. With this broad definition, we believe that this disclosure may include such a volume of transactions that it would obscure the information that is of real value to financial statement users. For example, consider a circumstance where a third-party investment bank and its clients are structuring a collateralized loan obligation (CLO transaction). The SPE to be used in that transaction will obtain loans from a variety of sources, including the structuring investment bank but also from independent parties. If an independent party sells a loan to the SPE in the course of its market-making activities, and also happens to execute an interest rate swap with the SPE, all of the disclosures in paragraph 17(i) may be required, because the interest rate swap would meet the definition of continuing involvement as the cash flows from the transferred loans, in part, are used to pay the amounts due under the interest rate swap. In our view, disclosures about the methodology and inputs to valuing that interest rate swap, sensitivity or stress tests regarding the valuation of the interest rate swap, cash flows under that interest rate swap, and assets transferred and delinquencies and credit losses in those assets, are not useful to financial statement users and would require significant effort and cost to collect. Disclosures relevant to the interest rate swap are already provided under FASB Statement No. 157, Fair Value Measurements, and will be provided under FASB Statement No. 161, Disclosures About Derivative Instruments and Hedging Activities. We believe it would be very confusing to financial statement readers to see expansive information isolated for a small (and not unique) segment of our derivative portfolio.

We believe that the scope of paragraph 17(i) would capture the appropriate information if it only applied to transfers to SPEs (a) sponsored by the transferor and (b) where the transferor retained a significant variable interest as contemplated in FIN 46(R). Limiting the information to transfers to a sponsored SPE would eliminate the issues regarding transfers in the normal course of trading operations (and the issues of distinguishing client SPEs from client operating businesses). Limiting the information to transactions with a significant variable interest would eliminate the disclosures of incidental relationships with the SPE and, instead, focus appropriately on situations where the transferor has a significant variable interest that is exposed to the risks of the transferred financial assets. We believe that FSP FIN 46(R)-6, Determining the Variability to Be Considered in Applying FASB Interpretation No. 46(R) reached reasonable conclusions regarding whether derivative instruments represent significant variable interests in transactions and those concepts should be applied to these disclosure requirements as well.

• The disclosure requirements in paragraph 17(i) are inappropriately broad. For example, the proposed FSP would require disclosure of the methodology and assumptions used to measure assets that relate to the continuing involvement in a

transaction accounted for as a secured borrowing. Note that the transferred assets (still recorded on the balance sheet) would fall under the disclosure requirements of Statement 157 (if accounted for at fair value) or FASB Statement No. 107, Disclosures about Fair Value of Financial Instruments. Although paragraph 17(i)(6) of the proposed FSP is limited to nonconsolidated SPEs, compliance with this requirement would require a transferor to ascertain whether the transferee in a failed sale transaction is actually consolidated or not consolidated, even though such a determination has no relevance to the accounting for the transaction, except for this disclosure requirement. This determination is not currently made in the normal course of business. We recommend that this requirement be eliminated.

Paragraph 17(i)(2)(e) requires disclosure of "liquidity guarantees and other commitments provided by third parties related to the transferred assets." This seems to be an unusual disclosure because it speaks to the risk of a third party, not to any continuing risk of the transferor. If this disclosure is intended to provide information regarding how these guarantees or commitments may affect the value or risk of any retained variable interests owned by the transferor, then we believe that this should be made explicit. For example, assume that an entity transferred loans of \$100 to an SPE, retained a subordinate \$20 interest and sold a senior \$80 interest to third parties. Further assume that the \$80 of senior interests were wrapped by a credit guarantee provided by a third party. The third-party commitment has no bearing on the value of the \$20 subordinate interest owned by the transferor, and the transferor has no risk related to that guarantee. Therefore, we are concerned that disclosure of the guarantee in the transferor's financial statements would be unusual and confusing to readers. In contrast, if the transferor had retained some of the senior interests that benefited from the guarantee, we understand that the existence of the guarantee could be relevant to financial statement users and should be considered for disclosure.

We believe that the proposed FSP largely represents a piece-meal, "add-on" approach to disclosures without a thoughtful and comprehensive review of existing disclosure requirements. This results in many disclosures that appear duplicative, or largely overlapping. Furthermore, some of the overlapping disclosures appear to capture slightly different populations of transactions. We believe such disclosures may ultimately be confusing to financial statement readers by presenting seemingly similar information for slightly different populations of transactions.

- Paragraph 17(h)(3) appears to apply to interests that continue to be held by the transferor or to liabilities incurred. These disclosures appear to be duplicative of disclosures in paragraph 17(i). We believe that those disclosures should be included in paragraph 17(i), since it appears that paragraph 17(i) addresses transfers to SPEs where the transferor has continuing involvement, and paragraph 17(h) will apply to transfers to SPEs where the transferor may not have continuing involvement.
- Paragraph 17(i)(7) requires information including principal amount outstanding, delinquencies, and credit losses for any financial assets transferred to an SPE with which an entity has *continuing involvement*. Paragraph 22C of FIN 46(R) requires similar information for any VIE with which an entity has a *significant variable*

interest. We are concerned that the differences in the definitions of continuing involvement and significant variable interest will lead to the identification of different populations of items for these disclosures and question whether two sets of similar data are useful to financial statement users.

Interpretation 46(R) Disclosures

Paragraph 22C(a)(2) of the proposed FSP appears to be consistent with critical accounting policy disclosures required by the SEC in Management's Discussion and Analysis. Since the proposed FSP would only apply to *public* entities, we fail to see why this disclosure should be required in the footnotes. Furthermore, it seems highly unusual to cite judgments that could have been (but were not) made and the effects of those judgments in audited financial statements. In practice, we find that the issues addressed in complex fact patterns often result in pages of written analysis and conclusions. Given the scope of the judgments required by Interpretation 46(R), and the wide variety of fact patterns that exist in practice, we question whether these issues can be adequately summarized in any useful or meaningful way in concise and clear financial statement footnotes.

Paragraph 22C requires a discussion regarding significant factors considered regarding consolidation of a VIE (that is, whether the entity is the primary beneficiary of a VIE), but does not require any discussion of significant factors considered regarding disclosure of a VIE (that is, whether an entity's variable interest is considered significant, or whether an entity is the sponsor of a VIE). We believe that there is diversity in practice with respect to these judgments, and the extent of disclosure of VIEs, and it would be helpful for financial statement users to understand the factors considered in making those important judgments.

Paragraph 23(d) of the proposed FSP requires disclosure of the fair value of the financial assets and liabilities owned by consolidated VIEs. We do not understand the usefulness of these disclosures and think they should be removed from the FSP. For example, we do not understand why certain loans owned and consolidated through a variable interest entity should be disclosed or addressed in any more or less detail than identical loans owned and consolidated in a voting interest subsidiary. We believe that these "special" disclosures may actually be misleading to investors, since they would require discussion of certain variable interest entity activities as though they were necessarily different from activities carried out in operating subsidiaries. However, if the Board decides to retain these disclosures, the Basis for Conclusions should address, in detail, why the Board believes the disclosures required in Statement 157 (for items measured at fair value) or Statement 107 are not sufficient.

Paragraph 24(b) of the proposed FSP requires "the enterprise's estimated exposure to loss or range of that loss if it believes that the amount of the maximum exposure to loss is not representative of its estimated exposure to loss." "Exposure," by definition, is a maximum concept or total potential of loss. As such we do not understand how there could be two numbers to compare, because "estimated exposure" and "maximum exposure" are both "exposures" – which imply the total amount that is at risk. If the FASB is seeking disclosure of the difference between maximum exposure and expected or anticipated losses, we believe this to be forward-looking information that would be inappropriate for audited financial statements. An estimate of anticipated future losses would require a prediction of future

changes in circumstances, market values, and market conditions; such forward-looking predictions do not seem appropriate in audited financial statements.

Effective Date

We share the Board's sense of urgency in providing complete and useful information to financial statement users regarding transfers of financial assets and involvement with variable interest entities, and have demonstrated that support through our own expanded disclosures over the past twelve months. We believe that many aspects of the proposed FSP are either already available or could reasonably be obtained for December 31, 2008 financial statements.

However, if the Board retains the very broad scope of certain disclosures, including information on transfers of financial assets to SPEs with which the entity has no continuing involvement or insignificant continuing involvement, information regarding third-party guarantees, certain quantitative information regarding transfers accounted for as secured borrowings, we believe that the adoption of the proposed FSP for December 31, 2008 financial statements will prove to be extremely challenging for many companies, since the additional information requested is not captured in the normal course of business. We would be happy to have a detailed discussion with the FASB staff regarding our suggestions to make the timely implementation of the proposed FSP feasible.

In summary, we support the move to enhanced disclosure with a focus on significant transactions that present significant risks to the reporting entity. We recommend that the final FSP permit judgment by the reporting entity to aggregate and disclose its transactions and risks in the most meaningful way. We remain concerned that the piecemeal approach to disclosure requirements could have the consequence of reducing transparency as it is often difficult to mesh all the varied requirements in a thoughtful, coherent manner to provide information rather than data. Additionally, as discussed above, we believe that some of the required disclosures in the proposed FSP cause undue burden on preparers given the limited additional transparency, if any, they provide.

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,

Robert Traficanti

Vice President and Deputy Controller

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Citigroup Inc.