

LETTER OF COMMENT NO. 2



909 Third Avenue  
New York, NY 10022

June 9, 2008

Mr. Robert Herz  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, Connecticut 06856-5116

Dear Mr. Herz:

Citigroup would like to submit comments on the potential amendments to FAS 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, and FIN 46(R), *Consolidation of Variable Interest Entities*. We have several conceptual and operational concerns with the proposals that were made and alternatives that were discussed at the FASB meetings and educational sessions over the past several months.

#### **Effective Date**

We understand that the FASB Staff will propose a January 1, 2009 effective date for new securitization structures and a January 1, 2010 effective date for existing securitization structures. Citigroup is firmly opposed to a split effective date, because we believe that having two models in place at the same time would be extremely confusing to users of financial statements and difficult for Citigroup to explain. It is unclear under such a model whether credit card replenishments into securitization trusts would be considered new or existing securitizations. If they were considered new securitizations, then there would effectively be no delay for credit card securitizations, because, under the terms of the trust documents, new receivables arising on designated credit card accounts must be used to replenish the trusts. We believe the effective date for all securitizations should be deferred until 2010 to avoid having two models in place simultaneously and to give banks enough time to thoroughly analyze all of their structures under the new rules.

#### **Transition**

At transition, we believe that companies should be allowed to bring assets and liabilities back onto their books at current book value (of the entity that holds the assets and liabilities) if they are deemed the primary beneficiary along with an associated allowance. This is necessary to avoid being forced into a mixed attribute accounting model for those assets and liabilities in the financial statements that are otherwise carried at historical cost. The majority of Citigroup's loans are carried at cost, with a related allowance for loan losses. Thus, if loans are added back to the balance sheet at fair value and the fair value option were not elected, they would not have a loan loss allowance relating to the face value of the loan. As a result, loan loss statistics would be distorted, since some loans would have an allowance reflecting losses since the inception of the loans and the allowance for other loans would begin accumulating based on when the

loans were brought onto the balance sheet. We understand that this is the model for purchased loans under FAS 141(R), *Business Combinations*, and SOP 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*, but in the case of securitizations not eligible for sale treatment, we believe the company's books and records should reflect the loans as if they were never sold. Our proposed treatment is also consistent with the original basis of FIN 46(R) for undoing sales treatment if sale conditions are subsequently not met. Furthermore, we support retrospective application with the cumulative effect recorded as an adjustment to opening retained earnings in the year of adoption.

#### **Kick-Out Rights**

At the June 4<sup>th</sup> educational session, the Board members discussed whether the new FIN 46(R) model should be based on current power or contingent power, that is, whether kick-out rights should impact the decision about whether to consolidate an entity. We believe that in order to have consistent accounting, kick-out rights should be considered in the decision to consolidate an entity. EITF 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights*, states that if limited partners possess substantive kick-out rights, presumption of control by the general partners would be overcome and each of the general partners would account for its investment using the equity method of accounting. The revised FIN 46(R) model should be consistent with this guidance. Therefore, we believe that kick-out rights should be considered in the determination of whether an entity is the primary beneficiary. We believe that substantive kick-out rights are an indicator of where control/power lies and are no different than a master servicer's ability to appoint and remove a sub-servicer.

#### **Reconsideration Events**

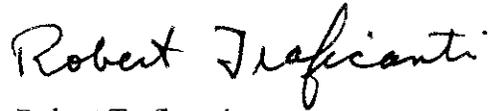
The Board voted at the April 9<sup>th</sup> meeting that reconsideration events would be eliminated from the guidance in FIN 46(R) and consequently all VIEs and former QSPEs would be reassessed continuously for consolidation. We believe that this model is impractical from an operational standpoint. Citigroup has involvements with over seven thousand VIEs and has over one hundred QSPEs. Reconsidering each of these entities for consolidation continuously and documenting our conclusions for each entity would be a very arduous task. We would not be able to perform this analysis given the resources we currently have. We would need to hire many more accountants, who would need to be trained to do the analysis.

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We thank you and the Staff for your consideration and would welcome the opportunity to further discuss our comments. Please do not hesitate to contact me at (212) 559-7721.

Very truly yours,

A handwritten signature in black ink that reads "Robert Traficanti". The signature is written in a cursive style with a prominent loop at the end of the last name.

Robert Traficanti  
Vice President and Deputy Controller  
Citigroup Inc.