

September 3, 2010

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

Re: Proposed Accounting Standards Update, Fair Value Measurements and Disclosures (Topic 820): Amendments for Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs

Dear Mr. Golden:

Citigroup Inc. appreciates the opportunity to comment on the Exposure Draft, Fair Value Measurements and Disclosures (Topic 820): Amendments for Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (the Exposure Draft).

We are generally supportive of the FASB's efforts to converge with IFRS and of several of the Exposure Draft's provisions. However, we have some concerns about the operationality and usefulness of other provisions, specifically the proposed sensitivity disclosures.

We support the FASB's proposal to permit valuation of assets and liabilities on a portfolio basis, provided certain criteria are met. We believe the result will largely be a continuation of current practice and is consistent with how certain risks are measured and managed by Citigroup and other market participants.

We also do not object to the FASB's proposals on the elimination of blockage factors for any fair value measurement. While we continue to disagree with the elimination of blockage factors and the definition of the unit of account, consistent with our views on Level 1 instruments, the expansion of the blockage prohibition into those assets classified as Level 2 or Level 3 within the fair value hierarchy has a minimal impact that is outweighed by the benefit of convergence and enhanced comparability.

Citigroup also supports measuring the fair value of an instrument classified in stockholders' equity from the perspective of a market participant who holds the instrument as an asset. We believe this will result in the most appropriate measurement of fair value.

We support the FASB's proposal on the highest and best use and valuation premise. The proposals are consistent with our current valuation techniques.

We also support efforts to improve the quality and usefulness of disclosures on fair value measurements. We do not object to the Exposure Draft's requirement to categorize by level of the fair value hierarchy those items not measured at fair value on the balance sheet, but included at fair value in footnote disclosures. While we do not believe that the disclosure will provide decision useful information, its preparation will not create a significant operational burden. It is likely that most financial instruments not measured at fair value will be categorized as Level 3 as they will include assets and liabilities, such as loans and deposits, which have primarily unobservable inputs. However, we have concerns about some of the Exposure Draft's proposed disclosure requirements and the timelines proposed for their implementation. In particular, we are concerned about the requirement to disclose the total effect(s) of reasonably possible alternatives for significant unobservable inputs used in the valuation models for Level 3 instruments (the "sensitivity" disclosures).

The proposal requires a substantial volume of detailed information to be presented in the notes to the financial statements, which we believe may overwhelm the financial statement user and result in any potential benefit from the additional disclosures being lost. We also believe that presenting ranges of valuations could be misleading for investors and other financial statement users, who may regard the lowest value presented as a conservative or minimum valuation. We have further concerns about disclosing proprietary information that could negatively impact our competitiveness in the market.

Further, we believe that many of the disclosures would likely not be comparable among peer institutions due to the unique nature of Level 3 items and the inputs to the models used to value them.

We have suggested below a number of alternative disclosures that we believe would reduce the operational burden and enhance the usefulness of information for financial statement users. We believe that providing an expanded qualitative description of our modeling processes would help users better understand how we determine our best estimate of the fair value of Level 3 instruments and the possible risks associated with valuation uncertainty. This alternative would be much more manageable for preparers and enhance the usefulness of information for financial statement readers, consistent with the objective of this proposed Exposure Draft. If the FASB believes that it is necessary to provide some quantitative information regarding reasonably possible alternative inputs, we suggest reducing the scope of what would be required to focus on the most significant instrument classes only. This will also make the requirements more operational and the disclosed output more useful. Additionally, we would require sufficient lead time to effect the operational changes necessary to support the new data requirements. We request an effective date no earlier than periods beginning after December 15, 2012, but would prefer an effective date coincident with the effective date of the Financial



Instruments Project so that systems implementation could be comprehensive and more efficient.

Further details of our specific concerns are described below.

Effect(s) of Reasonably Possible Alternative Inputs

Paragraph 820-10-50-2(f) of the Exposure Draft requires disclosure of the total increases or decreases in the fair value of Level 3 instruments, which may be calculated by using reasonably possible alternative unobservable inputs to the fair value calculation. We support the FASB's objective of enhancing disclosures about fair value measurements where significant unobservable inputs are used; however, we have several significant concerns about the current Exposure Draft.

Presentation of Disclosures:

We expect that the volume of data that would be produced to satisfy the proposal would be challenging to present without overwhelming the users of the financial statements.

- Citi disclosed more than 30 distinct categories of assets and liabilities within the Level 3 roll forward table at the end of the 2010 second quarter this number would be expected to increase under the requirements of other elements of the Exposure Draft. The examples provided in the Exposure Draft (paragraphs 820-10-55-77 through 820-10-55-81) needed more than a page of sensitivity disclosure to cover two similar asset classes. On this basis, the financial statement user may expect to be presented with some 20 30 additional pages of disclosure regarding the effects of reasonably possible alternative unobservable inputs to Level 3 valuations.
- We consider that it may not be possible to aggregate the sensitivity analysis across asset classes and/or financial products in a way that will be meaningful for the users of the financial statements as there may be hundreds or thousands of such assets. This exercise will be further complicated by the fact that within groups of similar financial products, which may use the same type of valuation technique, individual contracts are unique and reasonably possible alternative inputs may be different for each contract. For example, within one class of assets or product type, the significant unobservable input may include correlation or volatility. However, for each individual contract, the reasonably possible alternative input values for each could vary widely.
- We further note that such sensitivity analyses are not currently used by management as a risk management tool. Accordingly, this extensive information would be prepared solely for disclosure purposes at a significant cost.

We also believe that disclosures of sensitivities in the manner suggested in the proposal could be misinterpreted by the users of the financial statements.

 Showing sensitivities relating only to the Level 3 items in gross format (i.e., merely calculating sensitivities for those items in Level 3 in isolation without



considering offsetting risk management transactions which the business intended to mitigate the risks of those Level 3 items) is not representative of the true risk in the portfolio. In many instances, such valuation risk is managed by other financial instruments which are included in Levels 1 or 2, or in derivative form and subject to netting under ASC 815-10-45-1 through 7 (previously FIN 39, *Offsetting of Amounts Related to Certain Contracts*). We believe that the sensitivities disclosed should be aligned with those used by management and risk professionals to assess the portfolios of the bank in aggregate. This information would be both a better representation of the actual risk of the institution and more meaningful for the financial statement user.

- We also believe that there could be significant risk in disclosing a range of "reasonably possible alternative valuations." The average user of financial statements may only consider the lowest amount in the range or interpret the range as a minimum and maximum valuation even though this is not the intention of the disclosure. Level 3 valuations are, by definition, subjective and are highly dependent upon the facts and circumstances prevailing at the valuation date. Such circumstances may change swiftly, and what may have been reasonably possible at the reporting date, may not be considered reasonably possible at the date that the report is filed. This information could therefore be misleading and provide users with a false sense of security that the bottom end of the valuation range represents the total price risk of an asset or class of assets.
- Sensitivity analysis as proposed can be misleading because certain factors, such as correlation, cannot be properly captured. While removing correlation from the analysis would simplify the analysis, it would also significantly reduce its value.

Further, we have concerns about the confidentiality of the information being requested. The level of detail which is required by the proposal would force disclosure of an entity's opinions about the significance of valuation inputs and the correlation among those inputs to the valuation models that are used. We consider that such information could be proprietary and could prejudice the entity's future trading. We request that there be an exemption from the disclosures for any information that the reporting entity considers proprietary.

Operationality

We believe the enhanced disclosures proposed in the Exposure Draft, particularly for sensitivities, would be a significant operational burden that would not be justified by the potential usefulness for financial statement readers.

The disclosures as currently proposed would require a very significant level of systems development in order to comply, as the data requested is not consistent with that used by management in the normal course of business. Current valuation systems are designed to process financial information and pass it to the general ledger for financial reporting purposes. As such, systems are designed to process and feed data on either a daily or monthly basis. Any additional reiteration of those systems would interfere with current

day processing. As a global institution, Citi maintains a large number of dedicated inhouse systems for the purposes of pricing, valuation and financial reporting. These systems are not designed for offline re-modeling of historic scenarios. Substantial reprogramming and development expense would be required to develop additional elements of these systems so they could store quarterly valuation data offline from the financial reporting cycle. The systems would also need to be modified such that inputs to the valuations could be easily adjusted and re-worked on a post-hoc basis simply to generate this disclosure.

IFRS Comparison

IFRS 7, Financial Instruments: Disclosures, includes a requirement to disclose the effects of changing assumptions within valuation models for those financial instruments which are valued on the basis of unobservable inputs (IFRS 7.27.c) for annual periods beginning on or after January 1, 2007. Financial industry reviews of the disclosures provided by IFRS reporters in the 2008 annual financial statements show that disclosures provided under this requirement varied greatly in terms of detail, content and consistency. Industry reports therefore questioned the value of this requirement as it did not provide information that was comparable among institutions. We believe that the current FASB proposal will suffer from the same issues relating to usefulness and comparability of disclosures as has been seen under IFRS 7. We therefore question the value of providing this volume of information relating to the sensitivity of valuation models used, when such requirements have been shown in the past to be unlikely to assist the reader of the financial statements in comparing data across institutions. In addition, we believe that once this information is aggregated for financial statement presentation, any usefulness of the raw data will further deteriorate.

We believe the lack of consistency and overall shortcomings of the IFRS 7 sensitivity disclosures are likely to be, in part, a result of the operational difficulties we have articulated in this comment letter.

Further Clarification Required

We believe that there are certain aspects of the requirements where further clarification or implementation guidance is needed.

Valuation Based on Indicative Bid

Some Level 3 valuations are based upon indicative third-party quotes or obtained from pricing services. Where such valuation techniques are used, it is not possible to apply reasonably possible alternative inputs to the model for valuations, because the price quoted is controlled by the third-party provider and the reporting entity uses no model. It is not clear whether or not sensitivity disclosure requirement would apply to such valuations and, if so, how it would be applied. We note that sensitivity disclosures are not required for measurements that utilize the practical expedient offered by the FASB's

recently issued ASU, Measuring the Fair Value of Investments in Certain Entities that Calculate Net Asset Value Consistent with Topic 946, Financial Services – Investment Companies; and we consider that valuations based on indicative quotes are broadly comparable to valuations based on reported Net Asset Value. We ask the FASB to confirm that, where entities are priced using indicative bids, they would not be required to provide a sensitivity analysis as outlined in the Exposure Draft.

Alternative Valuation Techniques

As a result of the nature of Level 3 items, there are sometimes several different models which could be applied for valuation purposes (a simple example might include using the Black-Scholes equation to value an option, with an alternative approach being a Monte-Carlo simulation). The Exposure Draft indicates that reasonably possible alternative unobservable inputs should be applied in determining the potential impact of Level 3 measurement uncertainty. However, risk management systems sometimes use an alternative model or valuation technique to calculate a reasonably possible alternative valuation. We propose that the FASB allow reporting entities to use alternative valuation techniques rather than alternative inputs where management believes it is reasonable to do so. Level 3 valuation measurements are based on management's best judgment; therefore, we believe management should be able to use judgment in determining the most appropriate method of estimating a range of reasonably possible valuations for classes of Level 3 assets and liabilities.

Alternative Disclosure Suggestions

In order to address the concerns above, we propose the requirements of the Exposure Draft be amended such that entities would provide qualitative information about valuation techniques accompanied by a qualitative analysis of the significant unobservable inputs. We believe this would provide useful information to help financial statement users better understand Level 3 fair value measurements and why the reporting entity considers that the valuations it has presented are most representative of management's best estimate of the fair value of its Level 3 inventory.

If the FASB believes that a quantitative measure is necessary or useful for financial statement users, we propose a more focused approach to sensitivity analysis which would be less burdensome for preparers, and would provide more useful information for financial statement users:

• Limit the scope of what is reported to a few classes within the Level 3 category which are considered by management to contain the highest levels of valuation risk or to be particularly susceptible to changes of inputs (a top down approach). This subset of Level 3 items would then be subjected to a focused sensitivity analysis. This would allow an entity to provide disclosures covering a significant portion of Level 3 measurement uncertainty, while minimizing the cost and operational burden involved in generating that disclosure. We believe that management should be permitted to use judgment in providing a level of

information it feels would be useful for financial statement users, for example, information that is consistent with its own risk management practices.

- Disclosures could be based upon risk measures which are already prepared by the organization and used by management to monitor and evaluate risk. Examples of these metrics might include value at risk (VaR), earnings at risk or back-testing.
- Assessing the entire Level 3 inventory could be achieved by selecting specific high risk factors and modeling their impact on the entire portfolio to demonstrate its overall impact (e.g., the effect of a 100 basis point shift in credit spreads across the debt securities portfolio in Level 3).

We believe these suggested alternative disclosures would provide users with some concise, focused alternative metrics that would allow them to make their own judgments about what might be reasonably possible, given their expectations of future movements in the market.

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

Robert Draficanti

Deputy Controller and Global Head of Accounting Policy

Citigroup Inc.