

May 31, 2013

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

Re: File Reference No. 2012-260: Financial Instruments—Credit Losses

Dear Ms. Cosper:

Citigroup appreciates the opportunity to provide feedback on the Financial Accounting Standards Board's (FASB) Exposure Draft of the proposed Accounting Standards Update (proposed ASU), Accounting for Financial Instruments – Credit Losses. The FASB's focus on improving the accounting for financial instruments is critical for financial institutions and an effort that Citi supports.

We appreciate the efforts made by the FASB and the International Accounting Standards Board (the IASB) to develop a financial reporting model that is more responsive to deterioration in credit quality, such as that observed in the most recent financial crisis. Regarding the divergence in each Board's respective credit impairment models, we would like to point out that as a financial institution with operations in multiple geographies, and with multiple local reporting requirements, a harmonized, single, credit impairment model would be preferable. However, we continue to believe that no matter how strongly supportive we are of the goal of convergence, no goal is more important than that of high quality accounting guidance.

The subsequent sections of this letter contain our observations regarding the operability and understandability of the FASB's proposed current expected credit loss model (CECL), as well as our assessment of the proposed model's ability to achieve the Board's stated objectives in this project. We commend the Board on the steps taken towards the goal of developing a credit impairment model that is more easily implemented than prior proposals, including the most recent IASB "three-stage" model (exposed in March 2013). We appreciate your considering our suggestions and hope that as the Board enters into redeliberations later this year you will continue to work with the IASB towards developing a high quality, and converged, approach to the accounting for credit losses.

Citi is of the opinion that the proposed model achieves the goals the FASB had when undertaking the project to improve the accounting for credit impairment of financial instruments; that is, to require credit losses to be recognized earlier than under the incurred loss model (which recognizes credit losses only when they are probable and reasonably estimable, i.e., they have been incurred) and to allow the incorporation of forward-looking information into the estimate of credit losses. Further, we believe CECL makes significant progress toward limiting the complexity of having multiple credit impairment models for what is essentially the same economic risk.

We believe that the CECL model is a significant improvement over the three-stage impairment model proposed by the IASB in March 2013. In particular, CECL is conceptually simpler and — with certain clarifications — operable. Among the most positive aspects of the proposed credit impairment model are: eliminating the complex accounting for purchased credit-impaired (PCI) financial assets under ASC 310-30 (formerly SOP 03-3); harmonizing the accounting for credit impairment for securities and loans accounted for at amortized cost; and, perhaps most importantly, allowing an appropriate amount of flexibility in application — allowing current models, systems and data sources to be leveraged and allowing for practice to continue to develop as appropriate for new products and risk management techniques.

Citi is of the opinion that certain clarifications and modifications to CECL would further enhance its understandability and operability. These are addressed in further detail in the appendix to this letter, and are summarized at a high level below:

- 1. The time value of money concept, first discussed in ASC 825-15-25-4 of the proposed ASU, is one that is well understood in finance and accounting. However we are concerned that the requirement to incorporate time value of money in all estimates of expected credit losses under CECL may render unacceptable certain loss estimation techniques that are well established and well understood today despite being characterized in the proposed ASU as implicitly incorporating the time value of money. Accordingly, we believe that the FASB should state that such models are acceptable alternatives.
- 2. As it is currently proposed, eligibility for the practical expedient for financial assets measured at fair value with qualifying changes in fair value recognized in other comprehensive income (FV-OCI) in ASC 825-15-25-2 is not responsive only to changes in fair value due to credit quality. The criterion that fair value be equal to, or exceed, amortized cost will be influenced by changes in interest rates and liquidity premiums/discounts. Thus, we suggest either removing the fair value criterion or requiring that either one of the criteria be met in order to be eligible to use the practical expedient. Further, we are of the opinion that the scope of the expedient should be extended to include financial assets measured at amortized cost.
- 3. Certain transactions that are very well, or over, collateralized (such as margin accounts and reverse repurchase agreements) are unlikely ever to experience economic losses because of the protection provided by the collateral. We believe that these types of arrangements should either be out of scope of the Credit Losses ASU or be explicitly characterized as resulting in no loss, even when the possibility of a default is considered in the estimation of credit allowances. That is, the probability of default (PD) may not be zero, but the loss given default (LGD) would be zero or very close to zero because the collateral is not freestanding and therefore should be incorporated in the estimation of expected credit losses.
- 4. We believe that U.S. GAAP is enhanced by the inclusion of guidance regarding the cessation of an interest accrual. However, certain clarifications and amendments to the proposed guidance would further enhance its usefulness. We do not believe that it is necessary to apply the nonaccrual guidance to instruments measured at FV-OCI. We also believe that the guidance should not conflict with existing bank regulatory guidance regarding the triggering of nonaccrual status for a financial instrument or the methodology for recognizing income for cash payments that are received.

Finally, through our participation in banking sector industry groups we are aware, and supportive, of a proposal submitted to both the FASB and the IASB that offers an alternative that could converge the credit impairment models. We understand that this proposal, rather than measuring expected losses over the next 12 months (for 'stage 1' financial assets in the IASB model) or over the remaining contractual life (for 'stage 2 and 3' financial assets in the IASB model, and for all financial assets in the FASB model), would have both Boards amend the expected loss measurement period to be the greater of 12 months or the period that is reliably estimable and predictable. If both Boards were to endorse this approach and issue matching implementation guidance, Citi would support that approach as it would eliminate the complexity of having to record credit losses using different impairment models in numerous countries where constituents prepare both U.S. GAAP and IFRS financial statements.

We would be pleased to discuss any of our comments at your convenience. Please feel free to call me at (347) 648-7721.

Sincerely,

Robert Traficanti

Deputy Controller and

Global Head of Accounting Policy

Robert Draficanti

Question 1: Do you agree with the scope of financial assets that are included in this proposed Update? If not, which other financial assets do you believe should be included or excluded? Why?

Other than the specific exceptions discussed in further detail below, Citi agrees with the scope of financial assets included in the proposed update.

- We believe that highly collateralized receivables subject to daily margining will not result in an economic loss should a credit loss occur this is because the collateral in place insulates a creditor from loss when a debtor fails to repay or otherwise service their financial obligation. As a result we believe that the Credit Losses ASU should contain a scope exception in Section 825-15-15 for these arrangements or, as discussed further in our response to Question 11 below, the final ASU should explicitly state in paragraph 825-15-25-6 that these collateral arrangements are not freestanding and, thus, the loss mitigating effects should be considered when determining the expected credit losses on the underlying receivable.
- We believe that measurement of all insurance-related balances (including insurance receivables, reinsurance receivables, and policy loans) should be addressed in the insurance contracts project, and excluded from the financial instruments project. The inclusion of reinsurance receivables in the scope of this proposed ASU by 825-15-15-2(a)(4) should thus not be carried forward to the final ASU.
- We also believe that excluding short-dated trade receivables from the scope of the Credit Loss project would greatly enhance the operability of the Credit Losses ASU for less sophisticated financial statement preparers, particularly those outside of the financial services industry.

Question 9: The proposed amendments would require that an estimate of expected credit losses be based on relevant information about past events, including historical loss experience with similar assets, current conditions, and reasonable and supportable forecasts that affect the expected collectibility of the financial assets' remaining contractual cash flows. Do you foresee any significant operability or auditing concerns or constraints in basing the estimate of expected credit losses on such information?

Citi believes that the historical information and information about current conditions required to estimate expected credit losses is currently available for most loan-type financial assets as they are currently used in estimating loan loss reserves. For securities, currently subject to the Other-Than-Temporary Impairment (OTTI) model in ASC 320-10, this type of historical data may not currently be in use. Historical credit performance data relevant to securities may be required to be purchased from specialist vendors or internally gathered and analyzed before the effective date of any Credit Losses ASU.

Forecast information is not currently an input into calculations of estimated credit losses on financial assets. While this information is available and used within the organization, although generally not for financial reporting purposes, ensuring that it is supportable, appropriately documented, auditable and subject to the internal control framework that governs financial reporting would require systems development costs and time to accomplish.

Many of the disclosures prescribed in the proposed ASU, while currently made for loans, would now have to be made for securities and other non-loan financial assets. These disclosure requirements would require the design of new data aggregation tools and methodologies, as well the establishment of the associated internal controls.

Aside from the operational changes discussed in the above paragraphs, we do not believe that there are significant operational or audit-related concerns related to the informational inputs to CECL.

Question 10: The Board expects that many entities initially will base their estimates on historical loss data for particular types of assets and then will update that historical data to reflect current conditions and reasonable and supportable forecasts of the future. Do entities currently have access to historical loss data and to data to update that historical information to reflect current conditions and reasonable and supportable forecasts of the future? If so, how would this data be utilized in implementing the proposed amendments? If not, is another form of data currently available that may allow the entity to achieve the objective of the proposed amendments until it has access to historical loss data or to specific data that reflects current conditions and reasonable and supportable forecasts?

Citi believes that in most circumstances the approach discussed in Question 10 of basing loss estimates on historical data and updating that data to reflect current conditions and forecasts of the future will be used when implementing CECL. As discussed in our response to Question 9, generally, we believe that requisite data are available either within the organization or from outside vendors. We also believe that the data described could appropriately be input into loss estimation models in use today in order to estimate credit losses under CECL or could be utilized to adjust the output of the historical loss reserve calculations to reflect expectations about the future. The veracity of this data would have to be evaluated in accordance with Citi's internal control framework for financial reporting information and, thus, would need to be subjected to an appropriate level of back testing, verification, authorization and documentation.

Question 11: The proposed amendments would require that an estimate of expected credit losses always reflect both the possibility that a credit loss results and the possibility that no credit loss results. This proposal would prohibit an entity from estimating expected credit losses based solely on the most likely outcome (that is, the statistical mode). As described in the Implementation Guidance and Illustrations Section of Subtopic 825-15, the Board believes that many commonly used methods already implicitly satisfy this requirement. Do you foresee any significant operability or auditing concerns or constraints in having the estimate of expected credit losses always reflect both the possibility that a credit loss results and the possibility that no credit loss results?

Citi believes that the requirement to use some average of loss estimates, as opposed to the single most likely outcome, the statistical mode, is appropriate when using a discounted cash flow technique to calculate the expected credit losses.

For receivables that are highly collateralized and subject to daily margining the collateral insulates a creditor from economic loss when a debtor defaults or otherwise fails to service their financial obligation. It is for this reason that we believe that the Board should exclude these arrangements from the scope of the Credit Losses ASU, as outlined in our response to Question 1 above. Alternatively, the Credit Losses ASU could be applied to these arrangements as prescribed in the proposed ASU. That is, that the possibility that a credit loss results would be incorporated into the determination of the allowance for these instruments. However, the collateral should be explicitly characterized as being a credit enhancing feature that is not freestanding. Thus the loss mitigating effect of the collateral is considered when determining the expected credit losses by reducing to zero the loss severity in scenarios where a credit loss is considered to be a possibility.

Question 12: The proposed amendments would require that an estimate of expected credit losses reflect the time value of money either explicitly or implicitly. Methods implicitly reflect the time value of money by developing loss statistics on the basis of the ratio of the amortized cost amount written off because of credit loss and the amortized cost basis of the asset and by applying the loss statistic to the amortized cost balance as of the reporting date to estimate the portion of the recorded amortized cost basis that is not expected to be recovered because of credit loss. Such methods may include loss-rate methods, roll-rate methods, probability-of-default methods, and a provision matrix method using loss factors. Do you foresee any significant operability or auditing concerns or constraints with the proposal that an estimate of expected credit losses reflect the time value of money either explicitly or implicitly? If time value of money should not be contemplated, how would such an approach reconcile with the objective of the amortized cost framework?

Citi believes that it is appropriate to include the time value of money in any estimate of future events when a discounted cash flow (DCF) approach is applied in estimating the value today of future cash flows.

We are concerned that the characterization in paragraph 825-15-55-3 of "other methods" (loss-rate methods, roll-rate methods, probability-of-default methods, and a provision matrix method using loss factors) as "implicitly reflect[ing] the time value of money" may result in financial statement preparers being required by their auditors or regulators to demonstrate that concept mathematically or otherwise show the equivalence to a DCF-type technique. While we believe that these 'other methods' are appropriate tools for the estimation of credit losses on financial assets, their results may not be identical to those produced by a DCF calculation that uses the same inputs. The same concern exists for new loss estimation techniques that may arise from evolving practice — that is, before being considered acceptable under CECL, preparers may be required to demonstrate mathematically that the time value of money is embedded therein.

We suggest characterizing these 'other methods', and others like them, as acceptable credit loss estimation techniques rather than as implicitly incorporating the time value of money or as practical expedients.

Allowing existing practice to be leveraged when applying CECL, and in order to allow the continued evolution of credit loss estimation techniques, we believe that the time value of money concept should be a requirement only for DCF and other techniques that explicitly require the projection and discounting of future cash flows.

Question 13: For purchased credit-impaired financial assets, the proposed amendments would require that the discount embedded in the purchase price that is attributable to expected credit losses at the date of acquisition not be recognized as interest income. Apart from this proposal, purchased credit-impaired assets would follow the same approach as non-purchased-credit-impaired assets. That is, the allowance for expected credit losses would always be based on management's current estimate of the contractual cash flows that the entity does not expect to collect. Changes in the allowance for expected credit losses (favorable or unfavorable) would be recognized immediately for both purchased credit-impaired assets and non-purchased-credit-impaired assets as bad-debt expense rather than yield. Do you foresee any significant operability or auditing concerns or constraints in determining the discount embedded in the purchase price that is attributable to credit at the date of acquisition?

Citi believes that the accounting prescribed for PCI financial assets in the proposed ASU is an improvement to current U.S. GAAP (ASC 310-30, formerly SOP 03-3), is operable and will provide useful information to users of our financial statements.

However, we believe that Example 6 in the Implementation Guidance is misleading as it is missing key information necessary to account for the PCI loan under 825-15-25-9 of the proposed ASU. The example should identify:

- 1. The gross cash flows not expected to be collected (assuming the \$175,000 allowance for credit losses in the example represents a discounted amount);
- 2. The portion of the total 'time value of money' discount (\$75,000) that relates to the allowance for credit losses and the portion that is the noncredit discount. We believe that the entire \$75,000 is incorrectly characterized as noncredit discount in the example.

The identification of these amounts is required to comply with the requirement in paragraph 825-15-25-9 that '[...] an entity shall not recognize as interest income the discount embedded in the purchase price that is attributable to the acquirer's assessment of expected credit losses at the date of the acquisition.' The noncredit portion of the \$75,000 would be recognized as interest income over the life of the loan, while the credit portion of the \$75,000 would be recognized as a provision for credit losses as the creditor reevaluates the allowance at every subsequent period end.

We believe the Board's intent and view (as noted in BC40) is that '[...] it is more representationally faithful to recognize yield by accreting from the purchase price to the cash flows expected to be collected at acquisition [...].' We agree with the Board's view. However, the example (as noted in 825-15-55-40) is not consistent with this view as '[...] the asset is accreted from this amortized cost to the contractual cash flows [...]'.

The following tables illustrate the suggested amendments discussed above and contrast the resulting accounting outcomes with those that would result from the application of Example 6 as currently drafted.

Applying the same facts in Example 6 and assuming that the credit-impaired asset is:

- Purchased at 1 January 2013
- Has three years to maturity at that date
- Pays no interest until maturity
- The acquisition date estimate of credit losses does not change over time.

At acquisition the implied effective interest rate for this instrument is 2.63%.

The facts above are summarized as follows:

		Present	
		Value at	Difference
Years to Maturity	3	1 Jan 2013	
Par Value	1,000	925	75
Acquisition date expected cash flow at maturity	811	750	61
Difference = Acquisition date expected credit loss	189	175	14
Purchase Price: 1 January 2013		750	_
Market interest rate	2.63%		

Applying the accounting approach we outline above to this case results in the following outcome:

··	uisition Date (1 January 2013) Journal	Liluy
Dr	Financial Asset	1,000
Cr	Financial Asset [Noncredit discount]	(61)
	Financial Asset [Credit discount]	(14)
	Allowance for Credit Losses	(175)
Cr	Cash	(750)
1 [December 2013 Journal Entry	
	Financial Asset [Noncredit discount]	19.75
	Interest Income	(19.75)
Dr	Financial Asset [Credit discount]	4.61
	Provision for Credit Losses	(4.61)
Dr	Provision for Credit Losses	4.61
	Allowance for Credit Losses	(4.61)
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	December 2014 Journal Entry	
Dr	Financial Asset [Noncredit discount]	
Cr	Interest Income	(20.27)
Dr	Financial Asset [Credit discount]	4.73
Cr	Provision for Credit Losses	(4.73)
Dr	Provision for Credit Losses	4.73
Cr	Allowance for Credit Losses	(4.73)
_		
	December 2015 Journal Entries	20.00
	Financial Asset [Noncredit discount]	
Cr	Interest Income	(20.80)
Dr	Financial Asset [Credit discount]	4.85
Cr	Provision for Credit Losses	(4.85)
Dr	Provision for Credit Losses	4.85
	Allowance for Credit Losses	(4.85)
D	Cach	011
	Cash Allowance for Credit Losses	811
υľ		189
٥-	Financial Asset	(1,000)

	Cumulat	ive Leager	Entries - Su	iggested \	Nording A	pproach	
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Filidiicidi Asset		Credit	Losses				
925 [*]			(175)				
* Net of n	oncreditano	d credit disc	ount				
· · · ·		Allowa	nce for	Provisi	on for	Interest	Income
Financial Asset		Credit	Losses	Credit	Losses	(ne	et)
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			(4.61)	4.61	, ,		
Financi	al Asset	Allowa Credit	nce for Losses	Provisi Credit		Interest (ne	
925			(175)				
19.75							(19.75
4.61			(4.54)	4.64	(4.61)		
20.27			(4.61)	4.61			(20.27
4.73					(4.73)		(20.27
4.73			(4.73)	4.73	(4.73)		
	1		()				
	Allowance for Provision for Interest Income						
		۸۱۱ مربیم	nco for	Drovici	on for	Intoroct	
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	al Asset	Allowa Credit	Losses	Provisi Credit		Interest (n	
925	al Asset						et)
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925	al Asset		Losses				et)
925 19.75	al Asset		Losses (175)	Credit	Losses		et) (19.75
925 19.75 4.61	al Asset		Losses (175)	Credit	Losses		et) (19.75
925 19.75 4.61 20.27 4.73	al Asset		Losses (175)	Credit	(4.73)		(19.75)
925 19.75 4.61 20.27 4.73 20.80	al Asset		(175) (4.61)	Credit 4.61	(4.73) (4.73)		(19.75)
925 19.75 4.61 20.27 4.73	al Asset		(4.61) (4.73)	4.61 4.73	(4.73)		
925 19.75 4.61 20.27 4.73 20.80	al Asset		(175) (4.61)	Credit 4.61	(4.73) (4.73)		(19.75)

Acquisition Date (1 January 2013) Journal Entry Cumulative Ledger Entries - ASC 825-15-25-9 and 55-40 to 55-42 Approach Allowance for Financial Asset Dr Financial Asset 1.000 Credit Losses Cr Financial Asset [Noncredit discount] 925* (75) (175)Cr Allowance for Credit Losses (175)Net of noncredit discount Cr Cash (750)31 December 2013 Journal Entry Allowance for Provision for Financial Asset Interest Income **Dr** Financial Asset 24.35 **Credit Losses** Credit Losses Cr Interest Income (24.35)925 (175)24.35 (24.35)(4.61)4.61 **Dr** Provision for Credit Losses 4.61 Cr Allowance for Credit Losses (4.61)31 December 2014 Journal Entry Provision for Allowance for Financial Asset Interest Income **Credit Losses** Credit Losses **Dr** Financial Asset 24.99 925 Cr Interest Income (24.99)(175)24.35 (4.61)4.61 (24.35)**Dr** Provision for Credit Losses 4.73 24.99 (4.73)4.73 (24.99)Cr Allowance for Credit Losses (4.73)31 December 2015 Journal Entries Allowance for Provision for Financial Asset Interest Income **Credit Losses** Credit Losses **Dr** Financial Asset 25.65 Cr Interest Income (25.65)925 (175)24.35 4.61 (4.61)(24.35)**Dr** Provision for Credit Losses 4.85 24.99 (4.73)4.73 (24.99)Cr Allowance for Credit Losses (4.85)25.65 4.85 (25.65)(4.85)(1,000)189 811 14 (75) **Dr** Allowance for Credit Losses 189 Net Income Statement effect: Cr Financial Asset (1,000)(61)

Without amending Example 6 as suggested, we believe the following accounting outcome would occur:

While the net impact on earnings is \$61 in both tables, the Interest Income is overstated in the second table by the amortization of the original credit discount.

Question 14: As a practical expedient, the proposed amendments would allow an entity to not recognize expected credit losses for financial assets measured at fair value with qualifying changes in fair value recognized in other comprehensive income when both (a) the fair value of the individual financial asset is greater than (or equal to) the amortized cost basis of the financial asset and (b) the expected credit losses on the individual financial asset are insignificant. Do you foresee any significant operability or auditing concerns or constraints in determining whether an entity has met the criteria to apply the practical expedient or in applying it?

Citi believes that a practicability exception to the general financial asset impairment model for very high credit quality financial assets could make the ASU easier to implement and thus result in cost savings at transition and over time. However we do not foresee being able to avail ourselves of the practical expedient as it is currently described in 825-15-25-2.

The dual requirements that the instrument's fair value be greater than (or equal to) the amortized cost basis and that the expected credit losses on the individual financial asset be insignificant may render the practical expedient unwieldy in the situations described below.

- 1) Different batches of the same instrument (identified by its CUSIP) will have different purchase prices and effective interest rates and, thus, different amortized cost balances at the same point in time. They could thus have different outcomes when evaluating the first criterion for the practical expedient that fair value exceed (or equal) amortized cost.
 - The instruments have identical credit exposure, but could have different (some and none) credit loss allowances recognized.
- 2) The amortized cost of a financial instrument will move in a predictable pattern with the passage of time. The fair value of the same instrument can fluctuate in response to changes in interest rates and other market factors, even in the absence of any change in the issuer's credit standing. Thus, when evaluating the applicability of the practical expedient to an instrument with unchanged credit risk from period to period, the first criterion may cause the outcome of this assessment to change from period to period.

As these examples illustrate, we do not believe that a practical expedient designed to address credit risk, should be contingent upon factors other than credit. We suggest either removing the first criterion for eligibility to use the practical expedient and, thus, have it reference only the expected insignificance of the expected credit losses inherent in the instrument, or requiring only one of the two criteria to be met.

Further, we suggest making the practical expedient applicable to both financial instruments measured at fair value with qualifying changes in fair value recognized in other comprehensive income and those measured at amortized cost. Without expanding the scope of the practical expedient, identical instruments (same CUSIP, purchased at the same date) that are classified differently (solely because of differences in management's business objective in holding or selling those financial instruments) could have different (some and none) credit loss allowances recognized, despite having identical credit exposures.

Question 15: The proposed amendments would require that an entity place a financial asset on nonaccrual status when it is not probable that the entity will receive substantially all of the principal or substantially all of the interest. In such circumstances, the entity would be required to apply either the cost-recovery method or the cash-basis method, as described in paragraph 825-15-25-10. Do you believe that this proposal will change current practice? Do you foresee any significant operability or auditing concerns with this proposed amendment?

Due to lack of guidance under U.S. GAAP, Citi follows bank regulatory guidance to determine when loans should be placed on nonaccrual status. This regulatory guidance relies on factors such as deterioration of the financial condition of the borrower, expectation that principal or interest will not be collected in full, and the delinquency status of the loan. Regulatory guidance also provides for exceptions to placing certain loans on nonaccrual status, for example, purchased credit-impaired loans and consumer loans to individuals, such as credit card and other revolving loans, provided there is an alternative method of evaluating the loans to ensure that net income is not materially overstated.

We believe that delinquency status and other indicators noted above that Citi currently uses to determine nonaccrual status should continue to be an appropriate way to evaluate whether it is "not

probable that the entity will receive substantially all of the principal or substantially all of the interest" as proposed in the ASU.

In order to ensure that a change from current practice will not be required for regulated banks, and in order to avoid any associated operational and audit challenges that may accompany such a change, we urge the Board to consider setting a nonaccrual threshold that is consistent with the principles contained in bank regulatory guidance. Specifically, we would suggest replacing the proposed threshold (i.e., "not probable that the entity will receive substantially all of the principal or substantially all of the interest") with the regulatory threshold (i.e., "payment of principal or interest is not expected"). As noted in the Basis for Conclusions of the proposed ASU, "the Board decided to provide specific guidance for nonaccrual assets in this proposed Update to promote consistency and comparability between regulated and nonregulated entities." Our recommended revision would ensure that the proposal is not interpreted as a change in current practice for regulated bank entities.

Financial Assets Measured at Fair Value

We do not believe that the proposed nonaccrual guidance should be applicable to financial instruments measured at FV-OCI. Expectations of a shortfall in interest income would be reflected in the ongoing market-to-market of the instrument. Thus, a nonaccrual policy for instruments measured at FV-OCI appears unnecessary. Interest Income is either reported in Net Income when recognized or reflected in OCI when shortfalls are expected. Both amounts are included in Stockholders' Equity.

Credit Card Receivables

Due to the operational complexities (e.g., identifying the delinquency status of a specific borrower to which the accrued interest relates) for credit card and unsecured revolving loans, we believe that the exception for consumer loans to individuals provided in bank regulatory guidance should be preserved. If the proposal is so revised, then our current practice for the majority of credit card loans of accruing interest until the time the receivable is written off (with the exception of certain international portfolios) and reserving to ensure that net income is not materially overstated, in line with bank regulatory guidance and industry practice, would continue to be appropriate under U.S. GAAP.

Purchased Credit-Impaired Assets

We foresee potential implementation difficulties relating to the interaction between the guidance for PCI assets and the nonaccrual guidance in the proposed Update. Under the proposal, a loan would be placed on nonaccrual status when it is not probable that the entity will receive substantially all of the principal or substantially all of the interest. No exception is provided for PCI assets. However, the proposal also states that for PCI, the discount embedded in the purchase price that is attributable to the buyer's assessment of expected credit losses at the acquisition date should not be recognized as interest income. Interest income would be recognized to accrete the purchase discount that is not attributable to credit losses, but would cease if the asset met the proposal's criteria for nonaccrual status. This yields a counterintuitive result as the probability of not collecting "substantially all principal or interest" is already considered in the PCI cash flow estimate, and the accretion is simply a recognition of the time value of the amount of cash flows expected to be collected.

As noted above, bank regulatory guidance currently provides an exception to nonaccrual status for PCI loans. The Instructions for Preparation of Consolidated Reports of Condition and Income (FFIEC 031 and

FFIEC 041, or Call Reports) for Schedule RC-N, Past Due and Nonaccrual Loans, Leases and Other Assets, in the Definitions section, as well as in the Glossary, states that one situation where "an asset need not be placed in nonaccrual status" is when "The criteria for accrual of income under the interest method specified in ASC Subtopic 310-30 [....] are met for a purchased credit-impaired loan, pool of loans, or debt security accounted for in accordance with that Subtopic, regardless of whether the loan, the loans in the pool, or debt security had been maintained in nonaccrual status by its seller." Similarly, ASC 310-30-35-3 states that for PCI loans, "if the timing and amount of cash flows expected to be collected [....] are reasonably estimable, the investor shall use those cash flows to apply the interest method under this Subtopic."

To address the counterintuitive result of discontinuing accretion on amounts expected to be collected for PCI assets, as well as the inconsistency between the proposal and bank regulatory guidance, we believe that the exception for PCI currently provided in such regulatory guidance and as outlined in ASC 310-30-35-3 should be preserved.

Cost-Recovery versus Cash-Basis

As mentioned above, due to the lack of guidance under current U.S. GAAP, Citi follows bank regulatory guidance in recording cash receipts on nonaccrual loans. Such regulatory guidance requires that "when doubt exists as to the collectability of the remaining recorded investment" in a nonaccrual asset, then payments received "must be applied to reduce the recorded investment in the asset to the extent necessary to eliminate such doubt" (i.e., cost-recovery accounting would be applied). Interest payments received may be recognized as interest income on a cash basis "as long as the remaining recorded investment in the asset [...] is deemed to be fully collectible." The proposed ASU, however, uses the criterion "not probable that the entity will receive substantially all of the principal or substantially all of the interest" to determine whether to apply the cash-basis or cost-recovery method of accounting.

As the Board's stated intent was to promote consistency and comparability between regulated and nonregulated entities, we recommend that the bank regulatory threshold of "doubt as to the collectability of the remaining recorded investment" be used for determining whether cash-basis or cost-recovery should be applied. While achieving consistency with bank regulatory guidance, adopting this regulatory threshold would also avoid the operational challenges that would result from attempting to determine whether substantially all principal or interest will be received. In addition, the focus would appropriately be on the collectability of the recorded investment that is reflected on the balance sheet, as opposed to amounts of principal and interest that may not be (and, in the case of interest, are most likely not yet) recorded. Finally, this threshold would be aligned with the accounting for the cash receipts, because if collectability of the recorded investment is doubtful, cash received would first be applied to reduce that recorded investment to the extent necessary to remove that doubt.

Further, current regulatory guidance states that when cash basis accounting is used, the contractual interest payment received may be recognized (1) entirely as interest income, as a reduction of the recorded investment or as a recovery of prior charge-offs, or (2) as an allocation to these components, with interest recognized on the recorded investment at the contractual rate. The proposed ASU requires that receipts that exceed the interest income that would have been recognized had the asset not been placed on nonaccrual status be applied to reduce the carrying amount of the asset. There is no mention of the treatment of prior charge-offs. Again, given that the Board's intent was to promote consistency and comparability between regulated and nonregulated entities, we believe that an allocation of receipts to the recovery of prior charge-offs should still be appropriate under cash-basis accounting; however, this point requires clarification in the proposal. Without such clarification,

changes in current practice will occur, since the proposal is not consistent with current bank regulatory guidance.

Question 16: Under existing U.S. GAAP, the accounting by a creditor for a modification to an existing debt instrument depends on whether the modification qualifies as a troubled debt restructuring. As described in paragraphs BC45–BC47 of the basis for conclusions, the Board continues to believe that the economic concession granted by a creditor in a troubled debt restructuring reflects the creditor's effort to maximize its recovery of the original contractual cash flows in a debt instrument. As a result, unlike certain other modifications that do not qualify as troubled debt restructurings, the Board views the modified debt instrument that follows a troubled debt restructuring as a continuation of the original debt instrument. Do you believe that the distinction between troubled debt restructurings and nontroubled debt restructurings continues to be relevant? Why or why not?

Citi believes that the distinction between troubled debt restructurings (TDR) and nontroubled debt restructurings continues to be relevant and that TDRs are appropriately considered to be a continuation of the original financial instrument. However, we do not believe that the requirement in the proposed ASU to write off the difference between an asset's amortized cost and the present value of the expected cash flows on the date of a troubled debt restructuring is appropriate. Unlike the general requirements of CECL, the write off for TDRs would not allow subsequent changes in management's credit loss estimates to be reflected as a change in an allowance. Specifically, improvements in a TDR financial asset's credit standing would not be recognizable until settlement.

Question 18: Do you foresee any significant operability or auditing concerns or constraints in complying with the disclosure proposals in the proposed Update?

Citi believes that the disclosure requirements in the proposed ASU pose the greatest operational challenge to implementing CECL as proposed. Many of the disclosures prescribed, while currently made for loans, would now have to be made for securities and other non-loan financial assets.

We would urge the Board to consider the stated goals of the Disclosure Framework project when promulgating new disclosure requirements, specifically the premise discussed therein that an interim period is not a discrete reporting period but an integral part of the next annual reporting period. We would suggest rationalizing and limiting the disclosures prescribed for interim reporting periods.

Question 19: Do you believe that the implementation guidance and illustrative examples included in this proposed Update are sufficient? If not, what additional guidance or examples are needed?

Citi believes that the implementation guidance and illustrative examples are sufficient, except for the following items:

- As discussed in our response to Question 13 regarding PCI financial assets: consider adding an example to illustrate the accretion from purchase price to expected cash flows though interest income.
- 2) In 825-15-35-1 that addresses write-offs, we understand that recoveries are to be recognized in the credit loss allowance account in order to reflect credit provisions, write-offs and recoveries in the same account.

"825-15-35-1 [...] Recovery of a financial asset previously written off shall be recognized by recording an adjustment to the allowance for expected credit losses only when consideration is received [...]" (Emphasis added)

Further, the disclosure requirement for the allowance requires recoveries to be shown therein.

- "825-15-35-10 Furthermore, to enable financial statement users to understand the activity in the allowance for expected credit losses for each period, by portfolio segment an entity shall separately provide the following quantitative disclosures for financial assets classified at amortized cost and financial assets classified at fair value with qualifying changes in fair value recognized in other comprehensive income:
- a. The beginning balance in the allowance for expected credit losses
- b. Current period provision for credit losses
- c. Writeoffs charged against the allowance
- d. Recoveries of amounts previously written off
- e. The ending balance in the allowance for expected credit losses."

However, as the underlying financial asset has been settled, it is inappropriate to have any associated credit allowance (in this case, a recovery of an allowance amount previously written off) remain.

We would thus suggest adding an illustrative example to clarify that, while recoveries are recognized in the credit allowance upon their receipt, they should be swept out of the allowance balance through the provision for credit losses determined at the next scheduled review of the adequacy of the allowance.

Question 20: Do you agree with the transition provision in this proposed Update? If not, why?

Citi believes that the transition provisions in the proposed ASU are appropriate. However, we ask that the final ASU include clarification regarding the transition provisions for existing PCI instruments. We believe that, at transition, existing PCI assets should continue to be designated as PCI and that the identification of PCI assets under the ASU should only be for assets acquired after the effective date.

Question 21: Do you agree that early adoption should not be permitted? If not, why?

Citi believes that early adoption should be prohibited in order to increase comparability among financial statement preparers applying the ASU for the first time.

Question 22: Do you believe that the effective date should be the same for a public entity as it is for a nonpublic entity? If not, why?

Citi has no strong opinion or preference regarding the appropriateness of a delayed implementation date for nonpublic entities.

Question 23: Do you believe that the transition provision in this proposed Update is operable? If not, why?

Citi believes that the transition provision in this proposed update is operable. Also see our response to Question 20.

Question 24: How much time would be needed to implement the proposed guidance? What type of system and process changes would be necessary to implement the proposed guidance?

Citi believes that no less than three years would be required between the date of publication of the ASU and the effective date for the application of the requirements contained therein.

While CECL would allow us to leverage existing credit loss estimation systems and techniques, certain (non-loan) financial assets are not now evaluated for impairment using those tools. Applying CECL to a larger population of instrument types would require a significant data aggregation and/or procurement effort, model testing and back testing.

Incorporating forward-looking data into credit loss estimates, while operationally possible, would require the design, testing, implementation and documentation of new controls over financial reporting in order to maintain a robust internal control framework.

Similarly, expanding the disclosure requirements, as discussed in our response to 18 above, would require the design of new data aggregation tools and methodologies, as well as the associated internal control build out.

We suggest that any changes to GAAP resulting from the project on Financial Instruments—Overall (Subtopic 825-10): *Recognition and Measurement of Financial Assets and Financial Liabilities* be required to be implemented at the same date as this ASU.

Other Observations

- 1) The definition of 'Fair Value' in the Glossary is, we believe, incorrect, and should be amended to read:
 - "The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."
- 2) We would encourage the FASB to incorporate the guidance contained in the *Frequently Asked* Questions document, published on March 25, 2013, into the final ASU.