153 East 53rd Street
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April 17, 2007

LETTER OF COMMENT NO. 70

Ms. Suzanne Q. Bielstein
Director – Major Projects and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut, 06856-5116

**Re: File Reference No. 1520-100: Invitation to Comment: Valuation Guidance for Financial Reporting**

Dear Ms. Bielstein:

Citigroup is pleased to respond to the Invitation to Comment, *Valuation Guidance for Financial Reporting* (the Invitation to Comment or "ITC"). As a global financial institution with diverse business interests, we face an extremely wide variety of valuation questions – including liquid trading positions, complex structured derivatives, private equity investments and intangibles.

From our contact with many of the Board's constituents we understand there is a great deal of concern over the auditability and consistency in the use of fair value measurements in financial statements. We also appreciate that the Board has encouraged the use of externally observable market inputs for purposes of valuing model-priced investments where quoted market prices are not available.

We believe that more detailed rules would provide false comfort, because for the vast majority of valuation issues we encounter, like the valuation of complex derivatives, it seems unrealistic to us that the Board can really add to the expertise already applied to such valuations. We believe that the Board set a reasonable balance between detail and principles when drafting FASB Statement No. 157, *Fair Value Measurements*. At best, the Board can help via organizations like the EITF to set high level goals and concepts for areas where the definition of "what" is to be valued is uncertain.

We also believe the language in the ITC often implies a certain lack of prudence on the part of those promulgating valuation guidance due to "conflicts of interest." Such generalizations are inappropriate. Many organizations have, over the years, responsibly developed best practices documents like the Group of Thirty publication, *Derivatives: Practices and Principles*. While we are not suggesting that any particular publication is or is not consistent with Statement 157, we do believe it would be imprudent of the Board to presume that it is somehow conflicted. Those who authored such material generally have deep expertise – both theoretical and practical – and to ignore such resources would be a serious mistake.

Last and perhaps most importantly, the ITC does not attempt to address the most pressing issue – that the accounting profession as a whole is inadequately trained, starting with their college educations, to have a comprehensive understanding to be able to audit effectively, in a broad-based fair value accounting environment. While we are not suggesting that this training is primarily the Board's responsibility, we have a significant concern that there is a general lack of understanding among those trained as accountants about even basic valuation concepts. For example, we have interviewed accountants, who also had B.S. degrees in finance, who did not understand the yield curve and its applicability to determining market discount rates.

To train new staff in our accounting policy group, we have found that it is more effective for staff to study and sit for the CFA exam, to work on transactions day-to-day, and to reference investment-pricing texts, such as *Investment Pricing Methods, A Guide for Accounting and Financial Professionals*, published by John Wiley & Sons, Inc., which I co-authored while I was a project manager at the FASB. We believe that this type of training, reinforced by applying the concepts to actual transactions, provides accountants with a better understanding of the "whys" – the levers, assumptions and sensitivities inherent in any fair value.

In conclusion, we do not believe a separate committee of the FASB that would address valuation questions is necessary or appropriate at this time. If a committee were formed, instead of seeking to set (or advise on the setting of) standards, it should focus on:

- Encouraging the development of educational resources to support educators and practitioners – not standard setting, educating;
- Using available forums to push for changes in accounting curriculums that would focus greater attention on valuation issues, instead of continuing to teach concepts that are of little relevance in many industries prevalent today; and
- Consolidating literature sources on the valuation of financial and other instruments and auditing at fair value.

We do not believe such a task should be "owned" by the FASB, because to accomplish it would require the participation of and sponsorship by other constituents. However, if these goals are to be achieved, we believe the process must start with broader education, not bright lines. The few issues that may warrant incremental standard setting can and should be handled via a currently existing Board process.

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In Attachment A, we respond to the specific questions asked in the ITC. We would be pleased to discuss our comments with you at your convenience. Please contact me at (212) 559-7721.

Sincerely,

Robert Traficanti
Vice President and Deputy Controller

**Question 1—Is There a Need for Valuation Guidance Specifically for Financial Reporting?**

We believe FASB Statement No. 157, *Fair Value Measurements*, already provides significant guidance. We do not believe there is a systemic need for more such guidance at this time and that questions about *what* to value are relatively few and can be addressed by existing standard setting bodies.

**Question 1(a)—Should Valuation Guidance Include Conceptual Valuation Guidance, Detailed Implementation Guidance, or a Combination of Both?**

It should remain conceptual, in part because valuation frameworks are often in a state of continuous improvement as better models are developed, new data becomes available, or computing or other analytical power increases. Any detailed "how to" guidance will almost certainly soon become obsolete as, new fact patterns related to specific transactions and assets/liabilities continue to evolve. Conceptual guidance would be more appropriate in addressing the broad-based valuation issues.

We believe differences in valuation will continue to some extent, regardless of what detailed guidance is issued, due to the nature of valuation models, the need to use assumptions, and, more generally, the uncertainty inherent in making estimates. This concern is hardly new to financial reporting and is best handled via disclosure.

There are many sources of guidance that are more specific than Statement 157 but more general than what we describe above. Such other sources of valuation guidance already exist, albeit of varying consistency with the concepts articulated in the accounting literature. If the Board feels it is necessary to provide more detailed guidance, we suggest starting with such material and determining whether and why it is consistent (or inconsistent) with the principles in Statement 157.

**Question 1(b)—What Should Be the Duration of Any Valuation-Guidance-Setting Activities?**

Despite the best of intentions, efforts to do so in the past (like the Derivatives Implementation Group) have not resulted in what any constituent could describe as a good outcome. We think we speak for many when we say we are extremely hesitant to see another such group formed.

**Question 2—What Level of Participation Should Existing Appraisal Organizations Have in Establishing Valuation Guidance for Financial Reporting?**

The Board should seek – and listen to – expertise in all fields when it feels the need to promulgate valuation (or other specialized) guidance. We do not believe it is necessary or appropriate – or even realistic – for the Board to "in-source" such resources.

**Question 3—What Process Should Be Used for Issuing Valuation Guidance for Financial Reporting?**

To the limited extent guidance should be published, existing standard-setting mechanisms should be used.

**Question 4—Should the Process of Valuation Guidance Be on an International or National Level?**

Convergence with IFRS is always desirable and especially on this topic. There is little reason to believe that a valuation method used by companies in London or Tokyo following IFRS should somehow be systematically different than that used by entities in the United States following US GAAP. Citigroup supports the ongoing convergence of US GAAP and IFRS, including further convergence on fair value measurement issues.