



August 20, 2009

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

File Reference No. 1700-100

Dear Mr. Golden:

Citigroup appreciates the opportunity to comment on the Exposure Draft, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* ("the Proposal" or "ED").

Citigroup believes that some of the disclosures proposed in the ED would be useful to financial statement users. However, the level of detail being proposed is too granular and may complicate the readers' ability to interpret the information that the ED would require.

GENERAL COMMENTS

We have the following significant implementation concerns and suggestions about the proposed disclosures:

Effective Date

The ED is effective for interim and annual periods ended after December 15, 2009. That effective date is not feasible. We anticipate that significant systems revisions will be necessary in order to provide the granular reporting required by the Proposal. Furthermore, SOX requirements and testing for these systems changes must also be taken into account when considering timing. In addition, many companies are currently devoting a significant amount of time preparing for the adoption of FAS 166 and 167 in 2010. Adding these disclosure requirements to those that will be required under FAS 166 and FAS 167 in the first quarter of 2010 will be extremely burdensome. We suggest that the Board postpone the effective date of this ED for at least one year.

Allowance and Receivable Rollforwards

We believe that there are several fundamental issues with separating balances in the receivable rollforward between receivables individually evaluated and those collectively evaluated as proposed under paragraphs 11 (c) and (d) of the Proposal. These issues

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complicate the financial statements users ability to analyze the allowance and the credit quality of receivables.

1. FAS 114, *Accounting by Creditors for Impairment of a Loan*, allows impaired loans with common risk characteristics to be aggregated in calculating the required loan loss allowance. It is unclear whether those aggregated loans and their related allowance for loan losses would be classified as loans that are collectively evaluated for impairment or individually evaluated for impairment in the reporting required by the ED. As a result, we would expect that there will be diversity in practice in this area.
2. Loans reported at amortized cost are generally initially evaluated for impairment under FAS 5, *Accounting for Contingencies*, and are evaluated under FAS 114 when (1) a larger balance non-homogeneous loan is deemed to be impaired, or (2) when a smaller-balance homogeneous loan is modified via a troubled debt restructuring. Therefore, the charge-offs and recoveries would be reported in the individually impaired portion of a segment while the corresponding loan had been reported in the collective portion since its origination. Hence, the proposed disaggregation would not provide meaningful information.

FAS 141(R) and SOP 03-3 Issues

FAS 141(R), *Business Combinations* (FAS 141 (R)), requires that loans acquired in a business combination be accounted for initially at fair value. Additionally, certain loans that are acquired in a transfer under the scope of Statement of Position 03-3 (SOP 03-3) would also be accounted for initially at fair value. In both cases, the expected credit losses are embedded in the underlying cash flows to the valuation and no separate allowance for loan losses is established at acquisition for FAS 141(R) acquired loans or SOP 03-3 transferred loans. And, while there is no allowance for loan losses recorded at acquisition for these loans, an allowance may be established in a subsequent period to reflect further credit deterioration. Therefore, the proposed disclosures related to the allowance for loan losses would not be relevant for such loans accounted for under FAS 141(R) or SOP 03-3 and would result in a lack of comparability. As a result, we suggest that the Board exclude from the proposed disclosures the loans acquired and recorded under the FAS141(R) and SOP 03-3.

Prescribed Level of Disclosures

The ED requires disclosures at the portfolio segment level and further by class of financing receivable. A “portfolio segment” is defined as “the level at which a creditor develops and documents a systematic methodology to determine its allowance for credit losses.” In defining a class of financing receivable, the Proposal indicates that a class of receivable must be “disaggregated to the level that management utilizes when assessing and monitoring risk and performance of the portfolio.” The Proposal suggests factors according to which this disaggregation may occur, including industry, category of borrower, type of collateral, etc. Citigroup does not assess or monitor risk in its loan

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portfolios by these suggested class factors. Rather, Citigroup manages its loan portfolios according to delinquency status or risk ratings.

Disclosing information based on portfolio segments and classes of receivables as defined by the ED would be inconsistent with how Citigroup assesses and monitors risk. Bank holding companies currently report detailed information on loan balances and their related allowance for loan loss activity under Securities Act Industry Guide 3, *Statistical Disclosure by Bank Holding Companies*, (“Guide 3”). We recommend a presentation of loan and related allowance for loan loss information that considers the classification guidance provided by Guide 3. Furthermore, we believe that disclosing credit quality information at the level required by the ED would result in financial statements that are too granular to be meaningful.

Fair Value Disclosure

The Proposal requires interim and annual reporting of the fair value of loans including the methods and significant assumptions used to determine fair value. The reporting of fair value per this ED is required at a different level of disaggregation than that reported under FAS 107, *Disclosures about Fair Value of Financial Instruments*. In our opinion, these two different streams of fair value reporting would create confusion for the financial statement user, especially when changes in fair value are unrelated to changes in the creditworthiness of obligors.

We believe that the reporting of fair value would be more appropriately addressed in the FASB’s current project to expand fair value disclosures, particularly given the topic of discussion of this ED is credit quality and not fair value, which is influenced by factors other than credit risk.

SPECIFIC COMMENTS

Issue 1: This proposed Statement defines a financing receivable as both loans as defined by FASB Statement No. 114, Accounting by Creditors for Impairment of a Loan, and lessors’ investment in leases other than operating leases that have been recorded as assets in accordance with FASB Statement No. 13, Accounting for Leases. Do you agree with the definition used to identify a financing receivable subject to the provisions of this proposed Statement? If not, why not?

We agree with the proposed definition.

Issue 2: This proposed Statement would apply to all creditors, including all public and nonpublic entities that prepare financial statements in accordance with generally accepted accounting principles. Do you agree with the scope of this proposed Statement? If not, why not?

We agree that the disclosures should apply to both public and nonpublic entities.

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Issue 3: This proposed Statement would require a rollforward schedule of the total allowance for credit losses in both interim and annual reporting periods by portfolio segment and in the aggregate. In addition, it also would require a rollforward schedule of financing receivables in both interim and annual reporting periods by portfolio segment and in the aggregate. Do you believe those disclosures will assist financial statement users in better understanding the financial information for the total allowance for credit losses as well as the associated financing receivables? If not, why not?

The ED requires that the activity in the allowance for credit losses and in the financing receivables related to the allowance be disclosed by portfolio segment and then further disaggregated into those that are evaluated collectively for impairment and those that are evaluated individually for impairment. We believe that the objective of measuring loan loss reserves under either the collective or individual evaluation is the same and we fail to understand how this level of detail is relevant to a reader of the financial statements. This type of differentiation could lead to misinterpretation of the financial information disclosed and misguided decisions by readers. Moreover, our systems and approaches to computing allowances for credit losses were not constructed in a way that easily permits such segregation.

In addition, FAS 114 allows impaired loans with common risk characteristics to be aggregated in calculating the required loan loss allowance. It is unclear whether those aggregated loans and their related allowance for loan losses would be classified as loans that are collectively evaluated for impairment or individually evaluated for impairment in the reporting required by the ED. As a result, we would expect that there will be diversity in practice in this area.

Furthermore, loans reported at amortized cost are generally initially evaluated for impairment under FAS 5 and are evaluated under FAS 114 when (1) a larger balance non-homogeneous loan is deemed to be impaired, or (2) when a smaller-balance homogeneous loan is modified via a troubled debt restructuring. Therefore, some of the charge-offs and recoveries would be reported in the individually impaired portion of a portfolio segment while the corresponding loan had been reported in the collective portion since its origination. Hence, the proposed disaggregation would skew the reader's analysis to a point of making the disclosures useless.

Disclosure of the loan balances evaluated under FAS 114, as well as the related FAS 114 allowance, is already required in the financial statements. In addition, for bank holding companies, Guide 3 requires detailed information on loan balances and their related allowance for loan loss activity including provisions, recoveries and charge-offs. We do not support a presentation of loan and related allowance for loan loss information that is based on the methodologies that are used to calculate the loan loss reserves, as the ED would require. Instead, we recommend a presentation that considers the classification guidance provided by Guide 3.

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Issue 4: This proposed Statement would require interim and annual credit quality disclosures about a portfolio by class of financing receivable, including quantitative and qualitative information about the credit quality of financing receivables. Do you believe those disclosures will assist financial statement users to better understand the credit quality for the associated financing receivables? If not, why not?

We have general concerns regarding the level of granularity of the credit quality disclosures as proposed. Specifically, we have the following reservations:

- Paragraph 13 (b) of the ED requires disclosure by credit quality indicator for financing receivables carried at amortized cost that “are neither past due as determined by management’s policy nor impaired as defined by Statement 114” – we assume that this population would consist solely of accruing receivables deemed to be current in their contractual payments. While credit quality indicators in the United States may be fairly uniform – e.g., internal risk ratings and/or federal regulatory ratings for commercial loans and FICO scores or LTV ratios for consumer loans – the indicators used internationally could vary widely, necessitating a burdensome amount of disclosure for loans that are not considered troubled. We do not believe that such information is relevant or meaningful to a reader of the financial statements. Furthermore, this requirement ignores the fact that loan loss allowances are also maintained for this segment of the portfolio.
- Paragraph 13(c) requires quantitative information about the credit quality of “financing receivables carried at a measurement other than amortized cost (fair value, the lower of cost or market, or present value of amounts to be received) that are neither past due as determined by management’s policy nor impaired as defined by Statement 114,” disclosed separately by measurement attribute. Note that the comments above regarding paragraph 13 (b) are also applicable here.
- FAS 141(R) requires that loans acquired in a business combination be accounted for initially at fair value. Additionally, certain loans that are acquired in a transfer under the scope of SOP 03-3 would also be accounted for initially at fair value. In both cases, the expected credit losses are embedded in the underlying cash flows to the valuation and no separate allowance for loan losses is established at acquisition for FAS 141(R) acquired loans or SOP 03-3 transferred loans. And, while there is no allowance for loan losses recorded at acquisition for these loans, an allowance may be established in a subsequent period to reflect further credit deterioration. Therefore, the proposed disclosures related to the allowance for loan losses would not be relevant for such loans accounted for under FAS 141(R) or SOP 03-3 and would result in a lack of comparability. As a result, we suggest that the Board exclude from the proposed disclosures the loans acquired and recorded under the FAS141(R) and SOP 03-3.

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- Paragraph 13 (f) requires the carrying amount of financing receivables that are considered current but were modified in the current year subsequent to being past due. We do not believe that the “modified in the current year *subsequent* to being past due” criteria is meaningful to financial statement users, nor is this a criteria that is tracked in our systems. FAS 114 already requires ongoing disclosure of the total recorded investment in loans that were restructured in troubled debt restructurings. It should also be noted that the Appendix example for this requirement, which presents loans “Considered Current That Have Been Modified in Previous Year” is not consistent with the paragraph 13 (f) requirement.

Issue 5: This proposed Statement would require an analysis of the age of financing receivables that are past due, but not impaired, at the end of the reporting period separately for each class of financial instruments. Do you believe those disclosures will assist financial statement users in better understanding the credit quality for the associated financing receivables? If not, why not?

We assume that “past due but not impaired” refers to loans where the borrower is delinquent but not at the point where the loan is placed upon non-accrual status; however, it is not clear in the Proposal. We suggest that the Board clarify this requirement to avoid diversity in practice.

Issue 6: This proposed Statement would require the fair value of loans at the end of the reporting period by portfolio segment. Do you believe those disclosures will assist financial statement users in better understanding the credit quality for the associated financing receivables? If not, why not?

Fair value information is already disclosed as required by FAS 107. Including this information with credit quality information may be misleading for financial statement users, since fair values can be influenced by factors other than credit quality, such as market interest rates and liquidity of the markets. Additionally, the present systems used for preparing FAS 107 fair value disclosures are not programmed to distinguish the fair value of loans that are collectively evaluated for impairment from those that are individually evaluated for impairment.

Issue 7: Do you believe it is operational for entities to disclose all of the proposed requirements for interim and annual reporting periods? Why or why not?

We are concerned about the recent numerous expansions of interim disclosures, which result in interim financial statements approaching the volume and detail levels provided in annual financial statements, while the reporting deadlines for public companies are considerably shorter. We believe that the expansions of interim reporting requirements exceed the underlying principle that interim financial statements should update the annual financial statements for material changes or significant events from the information provided in the annual financial statements.

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Issue 8: The final Statement is expected to be issued in the third quarter of 2009. The Board concluded that this proposed Statement would be effective for financial statements beginning with the first interim or annual reporting period ending after December 15, 2009. Do you agree with the Board's decision on the effective date? If not, what would be a reasonable period of time to implement the provisions of this proposed Statement? If you do not agree, please provide a description of the process changes necessary to implement this proposed Statement that would require additional time.

The proposed effective date would require many preparers to report the new disclosures as of and for the period ending December 31, 2009. This is too soon for preparers to identify the classes of financing receivables and put in place and test the systems and infrastructure necessary for the more granular reporting. It would also create additional burdens in the first quarter of 2010 for those companies required to consolidate variable interest entities under the recently issued FAS 166, *Accounting for Transfers of Financial Assets* and 167, *Amendments to FASB Interpretation No. 46(R)*. We suggest that the Board postpone the effective date of this ED for at least one year.

We thank the Board for its consideration and would welcome the opportunity to further discuss our comments with the Board members and FASB staff. Please do not hesitate to contact me at (212) 559-7721.

Very truly yours,



Robert Traficanti
Vice President and Deputy Controller
Citigroup Inc.