



March 13, 2012

Ms. Susan M. Cospers
Director of Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

**Re: File Reference Number 2011-230, Proposed Accounting Standards Update (Revised),
*Revenue Recognition (Topic 605)***

Dear Ms. Cospers:

Citigroup appreciates the opportunity to comment to the Financial Accounting Standards Board on the proposed Accounting Standards Update (ASU), *Revenue Recognition (Topic 605)*.

Citigroup supports the efforts of the Financial Accounting Standards Board (FASB) to clarify the revenue recognition principles in U.S. GAAP as well as seek convergence with the International Accounting Standards Board (IASB) through the issuance of the common revenue standard.

Our comments in this letter mainly relate to the provisions of the ASU regarding customer loyalty programs and direct response advertising. In addition to the following comments in the main section of the letter, our additional comments are provided in the attachment as part of the responses to the specific questions raised in the ED.

Credit Card Loyalty Programs - Overview

We believe the provisions of the ED neither can nor should apply to financial institutions' reward programs, particularly credit card reward programs. Furthermore, the issues noted below for credit card loyalty programs also exist for other loyalty programs related

to financial instruments that are offered by financial institutions (e.g., debit card programs).

The credit card business model is a volume-driven model, i.e., many small transactions (billions of transactions annually for larger credit card issuers), with a small profit margin, managed through a systemic process. The credit card rewards programs are likewise orchestrated and managed at a portfolio, not individual cardholder, level. These programs are constructed to give management tools to encourage desirable cardholder behavior, such as opening new accounts, increasing spending on existing accounts, referring new customers, paying down balances and transferring balances from other financial institutions. In order to satisfy varied cardholder preferences, the incentives are given in many forms, from points that can be redeemed for airline tickets, hotel accommodations or automobile purchases, to cash-back rewards, statement credits, charitable contributions, contributions to school alumni associations and others. They generally require a certain level of points to be accumulated in order to be redeemed, and most of them offer cash as one of the alternatives available to the cardholder for redemption. Fulfillment of merchandise awards is generally outsourced to a third party and the bank does not have control of the goods before they are transferred to the cardholder.

Although the rewards are given to cardholders through their cardholder agreement with the Issuing Bank, there is no revenue associated with these rewards in that agreement. The revenue from the cardholder agreement represents primarily interest and fees on the card loan, which are at market rates commensurate with the loan's credit risk and features. Also, many cardholders do not pay interest or fees on their accounts, but are still entitled to participate in rewards programs.

Comments on the ED's Proposed Accounting for Loyalty Programs

Scope

It is unclear whether the loyalty programs provided as part of the credit card loan agreement are in the scope of the ED. Paragraph 9 of the ED scopes out financial instruments and receivables, and no example is provided for a credit card loyalty program or a program with similar features.

As noted above, the only revenue resulting from the cardholder agreement relates to interest and fees on the card loan. The measurement guidance for the related loan is provided by ASC 310. We believe paragraph 11(b) scopes this revenue out of the ED because it is related to a right (i.e., the loan receivable) that is measured under a different standard. If this revenue were to be allocated between the loan performance obligation and the rewards in accordance with paragraph 11(a) of the ED, it would impact the effective yield recognition mandated by ASC 310, which we do not believe was the FASB's intent.

Therefore, we believe that because all revenue in the cardholder contract is related to the loan transaction, which seems to be scoped out of the provisions of the ED as described

above, the ED should clarify that such programs are also excluded by adding the following sentence at the end of paragraph 11:

If all revenue in a contract with a customer relates to rights (e.g., a loan receivable) within the scope of other standards, and those rights are measured in accordance with those standards, then the whole contract is considered out of the scope of this proposed guidance.

Separate performance obligations

If despite our comments above, the Board determines that the credit card loyalty programs are to be included within the scope of the ED, we believe they should not be viewed as “customer options for additional goods or services,” but rather should be treated as “consideration payable to a customer” as described by paragraphs 65-67 of the ED.

Paragraph IG20-IG24, “Customer options for additional goods or services,” requires additional goods and services provided by a vendor to its customers to be treated as a separate performance obligation if they represent a material right given to the customer that it would not have received without entering into the contract. Paragraph 65 of the Basis for Conclusions explains that treatment as a separate performance obligation is appropriate because “they are goods or services for which the customer pays and to which the entity should allocate consideration for purposes of revenue recognition.”

However, in the case of credit card loyalty programs there is no sale transaction between the bank and the cardholder, so the cardholder does not (implicitly or explicitly) pay for “additional goods or services.” Also, the bank is not in the business of selling the merchandise that customers obtain by redeeming the rewards. This type of arrangement is in contrast to other types of loyalty programs in which the rewards are offered as part of a sale transaction, such as when a vendor who grants the reward is in the business of providing the goods and services that the rewards can be redeemed for, or where the reward is in the form of a discount on a vendor’s future sale of goods, as described in Examples 22-24 of the ED.

Instead, we believe that if loyalty programs provided by financial institutions to their customers are within the scope of the ED, they do not represent separate performance obligations but rather should be accounted for as volume discount incentives, similar to consideration payable to a customer, as described in paragraph 65 and Example 10 of the ED. We believe that accounting is more representative of the substance of these programs. Furthermore, we do not believe that the type of the reward (i.e., cash vs. product/service) changes the nature of the transaction from being an incentive to being a separate performance obligation. The accounting for promotional items given in order to incentivize customers to make purchases using their credit cards should be the same whether that incentive is in the form of cash or non-cash. This accounting would also be in line with the current practice for most large U.S. credit card issuers for these types of reward agreements.

Onerous obligation

If the reward granted to the cardholder is viewed as a separate performance obligation within the scope of the ED, but there is no revenue to allocate to it, we have considered whether the ED could be interpreted to require rewards to be reported as an onerous obligation and expensed at the time the reward is granted. Even if rewards are viewed as a separate obligation, we believe they would be considered to be satisfied at a point in time (i.e., when granted or redeemed) and not over a period of time and, therefore, it would be scoped out of the onerous obligation provisions of the ED.

Operational Issues for Credit Card Loyalty Programs

We would also like to comment on the cost/benefit of the proposed accounting as it relates to credit card loyalty programs. A large financial institution may have more than 20 different loyalty reward programs targeted at different customer segments with close to 10 million customers enrolled and generating more than 1 billion separate transactions annually. Credit card loyalty programs are very dynamic in nature. Both redemption rates and costs per point can be and are changed by management actions as well as by conditions outside the control of management. Within each of these programs, points are tracked by vintage. Different vintages within the same loyalty program are of different sizes, produce different multiple points per sale and have different redemption rates and cost per point dynamics. Given the multiple loyalty programs, the changes occurring within each loyalty program over time, and the different dynamics within different vintages of the same program, the proposed accounting would require systems revisions and multiple estimates to defer revenue, to reverse deferred revenue on redemption and to adjust the rate of reversal based on changing redemption rates. Even if the ED were to mandate a specific revenue to reference as the transaction price for a credit card loyalty program, it would be operationally difficult to determine the amount of revenue to be deferred and later recognized at the loan level. To recognize revenue at a “portfolio of contracts” level as discussed in paragraph 6 of the ED would require significant assumptions, and it would not be possible to determine whether the “result of doing so would not differ materially from the result of applying this proposed guidance to the individual contracts (or performance obligations).”

We would also add that although the accounting for loyalty programs proposed in the ED is similar to the current accounting requirement under IFRS for major financial institutions, these programs predominantly reside in the U.S. and, therefore, the practical implications of this accounting model have not yet been fully tested within the financial industry. If these programs are to be retained in the scope of the ED, further outreach to the financial industry is needed to address the implementation issues noted above.

Direct-Response Advertising

We agree with the Board’s position that certain acquisition costs represent an asset, but believe that other direct costs should also qualify for capitalization. More specifically, we believe the Board should retain the current GAAP provisions for direct-response advertising.

The Board acknowledges in paragraph BC224 that certain expenses (e.g., sales commissions) represent an asset because they are reflected in the pricing of the contract and expected to be recovered. However, the proposed ED limits the type of contract acquisition costs that can be capitalized to those that are incremental to obtaining the contract and it eliminates the current guidance that allows for the capitalization of direct-response advertising costs for contracts within its scope. We believe that direct-response advertising that meets the current capitalization criteria and related implementation guidance in ASC 340-20, “Capitalized Advertising Costs” (formerly SOP 93-7) represents an asset and should continue to be reported as such.

The definition of an asset in paragraph 25 of FASB Concepts Statement No.6 and the further discussion of advertising costs in Appendix B of Concepts Statement No. 6 were the basis for the conclusions behind current direct-response advertising guidance and they are not changed by the revenue recognition principles introduced by the Board in the ED. The SOP 93-7 Basis for Conclusions provides further analysis and support for reporting certain direct-response advertising costs as assets.

We would like to note that certain entities engaged in mass marketing can accurately predict the number of successful sales based on gross solicitations made. Such entities maintain data bases with years of data from tracking solicitation response rates and successful sale rates. In many industries there is a clear statistical relationship between the number of sales attempts and successfully originated sales. The acknowledgement that under certain circumstances the revenue of a successful sale is the result of a series of acquisition activities, some of which relate to unsuccessful sales, is the basis of the business model for these entities and it is appropriately reflected in the current accounting rules for direct-response advertising.

Based on the above, we believe the ED should not eliminate the existing accounting guidance for capitalization of direct-response advertising.

Conclusion

Because of the nature of loyalty programs offered by financial institutions as described above, we believe that credit card loyalty programs and similar programs (such as debit card programs) should be scoped out of the ED. However, if they are concluded to be within the scope of the ED, we believe that such rewards under such programs should be accounted for as consideration payable to the customer. Also, we believe that the existing accounting guidance for capitalization of direct-response advertising should be retained.

We would be pleased to discuss our comments with you at your convenience. Please feel free to call me in New York at (212) 559-7721.

Sincerely,



Robert Traficanti
Deputy Controller and Global Head of Accounting Policy

Cc: International Accounting Standards Board

Attachment

Question 4

For a performance obligation that an entity satisfies over time and expects at contract inception to satisfy over a period of time greater than one year, paragraph 86 states that the entity should recognize a liability and a corresponding expense if the performance obligation is onerous. Do you agree with the proposed scope of the onerous test? If not, what alternative scope do you recommend and why?

While we agree in principle with the requirement to recognize a liability and an expense if an obligation is onerous, we object to the requirement in the ED to determine whether an onerous obligation exists at the performance obligation level. We believe that such determination should instead occur at the customer relationship level.

It is common for a vendor to offer its customers goods/services at a significant discount, or in some cases even for free, in order to induce the customers to purchase other goods or services from the vendor. Assuming that the discounted or free goods/services are deemed to be separate performance obligations, the vendor may be required under the current ED to recognize an onerous obligation for discounted or free goods/services whereas other sales to the same customer may be more than sufficient to provide the vendor with a total profit considering all sales to the customer.

Question 5

The Boards propose to amend Topic 270 and IAS 34 to specify the disclosures about revenue and contracts with customers that an entity should include in its interim financial statements. The disclosures that would be required (if material) are:

1. The disaggregation of revenue (paragraphs 114–116)
2. A tabular reconciliation of the movements in the aggregate balance of contract assets and contract liabilities for the current reporting period (paragraph 117)
3. An analysis of the entity's remaining performance obligations (paragraphs 119–121)
4. Information on onerous performance obligations and a tabular reconciliation of the movements in the corresponding onerous liability for the current reporting period (paragraphs 122 and 123)
5. A tabular reconciliation of the movements of the assets recognized from the costs to obtain or fulfill a contract with a customer (paragraph 128).

Do you agree that an entity should be required to provide each of those disclosures in its interim financial statements? In your response, please comment on whether those proposed disclosures achieve an appropriate balance between the benefits to users of having that information and the costs to entities to prepare and audit that information. If you think that the proposed disclosures do not appropriately balance those benefits and costs, please identify the disclosures that an entity should be required to include in its interim financial statements.

We understand the need for better disclosures but are concerned that the proposed disclosures required in both annual and interim financial statements are too prescriptive and very difficult for preparers to provide. We also question the value of the information required to be disclosed for financial statement users in some industries, such as financial services. For example, the proposed requirement to disaggregate revenue seems to duplicate the disclosures already provided in segment disclosures and in the Commissions and fees footnote by the financial services industry. Therefore, we recommend that the disclosures should be more principles-based and preparers in different industries should be allowed discretion in disclosing information that is not just material, but also relevant.

We also ask that preparers be given more discretion as to the level of disclosure that should be provided in interim financial statements. Disclosures in interim financial statements should focus on any material changes during the period rather than providing the information at the same level of detail as in the annual financial statements.

Question 6

For the transfer of a nonfinancial asset that is not an output of an entity's ordinary activities (for example, property, plant, and equipment within the scope of Topic 360, IAS 16, or IAS 40), the Boards propose amending other standards to require that an entity apply (a) the proposed guidance on control to determine when to derecognize the asset and (b) the proposed measurement guidance to determine the amount of gain or loss to recognize upon derecognition of the asset. Do you agree that an entity should apply the proposed control and measurement guidance to account for the transfer of nonfinancial assets that are not an output of an entity's ordinary activities? If not, what alternative do you recommend and why?

Yes, we believe it is appropriate to apply the proposed control and measurement guidance to account for the transfer of nonfinancial assets that are not an output of an entity's ordinary activities, such as the transfer of real estate. We believe the proposed guidance is consistent with other control-based models applicable to asset transfers (e.g., ASC 860, *Transfers and Servicing*, for transfers of financial assets and ASC 810-10-S99 for transfers of businesses) as well as the consolidation guidance in ASC 810, *Consolidation*, which is based on a "controlling financial interest" model. Although ASC 810 variable interest entities consolidation model includes some consideration of risks and rewards, we believe this is also true for the ED proposal, as one of the indicators of transfer of control is the analysis of risks and rewards required by paragraph 37(d) of the ED.