March 8, 2019

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

File Reference No. 2019-100

Dear Ms. Cosper:

Citigroup appreciates the opportunity to comment on the Exposure Draft ("ED") of the proposed Accounting Standards Update ("Proposed ASU" or "Update"), Targeted Transition Relief for Topic 326, Financial Instruments – Credit Losses. We have the following comments in response to the questions for respondents raised in the ASU.

**Question 1: Do you agree with the amendments in this proposed Update to provide entities with an option to irrevocably elect the fair value option in Subtopic 825-10 for eligible instruments that are within the scope of Subtopic 326-20, except for held-to-maturity debt securities, upon adoption? If not, please explain your reasoning.**

We agree with the amendments in the ED to provide entities with an option to irrevocably elect the fair value option in Subtopic 825-10 for eligible instruments that are within the scope of Subtopic 326-20 upon adoption.

However, we do not agree with the Board’s decision to exclude held-to-maturity ("HTM") and Available-for-Sale ("AFS") securities from the scope of the ED, as the scope of the ED should be consistent with the scope of ASU 2016-13, Financial Instruments – Credit Losses (Topic 326) ("Update 2016-13").

The scope of Subtopic 326-20, as defined in ASC 326-20-15-2, includes financial assets measured at amortized cost basis, and lists HTM securities as an example, along with four types of receivables. We note that the provisions of Subtopic 326-20 applicable to financial assets measured at amortized cost basis applies to all such assets, without qualification or exclusion. Thus, it is unclear why the ED...
differentiates between legal forms by excluding HTM securities, which does not occur in Subtopic 326-20.

Paragraph BC17 of the Proposed ASU indicates that the Board decided to exclude held-to-maturity debt securities from the scope of the proposed Update after consideration of “the potential transition complexities and subsequent questions that could arise from broadening the scope of the targeted transition relief to include such securities”.

It is not clear to us what transition complexities could exist. The transition relief for HTM securities would reclassify those securities to the Trading category. An entity is already required to disclose the fair value for HTM securities pursuant to Topic 320; therefore, an entity already has the relevant information to record the transfer. Going forward, the classification of the security would remain in Trading and the entity would continue to recognize its respective fair value measurements. We do not see transition complexities in this type of relief.

Citi believes the transition relief for HTM securities would not be complicated and recommends the Board include HTM securities within the scope of the ED. It is reasonable that entities that elected HTM classification for certain securities under current GAAP may not have done so had the provisions of Update 2016-13 been effective. Update 2016-13 will require entities to expand their measurement of expected credit losses to loans, other receivables and HTM securities prior to their being impaired, but unlike loans and other receivables, there will be no ability for entities to sell or transfer HTM securities to gain transition relief from the Update.

We note that such transition relief is not unprecedented, as the Board recently provided one-time transition relief that allowed entities to transfer certain HTM securities to Available-for-Sale (AFS) in connection with the adoption of ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. We also note that ASU 2017-12 provided this transition relief without changing the measurement methodology for securities, while Update 2016-13 significantly changes the measurement methodology for HTM and AFS securities and, thus, should also provide transition relief.

We also ask the Board to consider transition relief to allow entities to transfer AFS securities to the Trading category upon the adoption of Update 2016-13. We commend the Board and acknowledge that Update 2016-13 improves current GAAP for AFS securities, including the ability to reverse prior credit losses. However, we believe that entities should be allowed a one-time transfer for securities to the Trading category to alleviate the costs that would be incurred to incorporate an allowance methodology in relevant financial systems. Otherwise, the only other option to avoid the costs would be to immediately sell the security.

**Question 2: Do you agree with the proposed amendment that would require that the irrevocable election of the fair value option be applied on an instrument-by-instrument basis? If not, please explain your reasoning and provide an alternative.**

We agree with the proposed amendment that would require that the irrevocable election of the fair value option be applied on an instrument-by-instrument basis. The reasoning is well articulated in BC12, where the Board acknowledged that “an instrument-by-instrument election provides entities with flexibility to more precisely align their risk management strategies with their measurement
"methodologies". The instrument-by-instrument election is consistent with fair value measurement elections generally, as it will accommodate entities that wish to elect fair value measurement for an entire class of an instrument as well as those that wish to elect fair value measurement for an individual item.

**Question 3: For entities that have not adopted Topic 326, should the effective date and transition requirements of the proposed amendments align with the effective date and transition requirements of the amendments in Update 2016-13? If not, please explain your reasoning and provide an alternative.**

We agree that the effective date and transition requirements of the proposed amendments should align with the effective date and transition requirements of the amendments in Update 2016-13.

**Question 4: For entities that have early adopted Topic 326, what should be the effective date and transition requirements for the proposed amendments?**

We have not early adopted Topic 326 and have no preference as to the effective date and transition requirements for the proposed amendments for those entities that have early adopted, beyond our belief that such date should not extend beyond the effective date of Update 2016-13 to ensure comparability from that time forward.

**Question 5: Would additional disclosures be needed for the proposed amendments, beyond the disclosure requirements in Topic 250, Accounting Changes and Error Corrections, and Subtopics 820-10 and 825-10?**

We do not believe that additional disclosures are needed for the proposed amendments, beyond the disclosure requirements in Topic 250, Accounting Changes and Error Corrections, and Subtopics 820-10 and 825-10.

**Question 6: Do you support the Board’s decision not to provide entities with an option to discontinue fair value measurements for financial assets measured at fair value through net income and instead apply the measurement guidance in Subtopic 326-20? If not, please explain your reasoning about why the measurement guidance in Subtopic 326-20 is preferable for the types of financial assets for which an entity would elect to discontinue fair value measurements.**

We would be supportive of a decision to provide entities with an option to discontinue fair value measurements for financial assets measured at fair value through net income and instead apply the measurement guidance in Subtopic 326-20.

We understand that the adoption of accounting standards as significant as Update 2016-13 can have varying impacts on different entities and that entities may have different needs and requirements to align the accounting for their financial instrument portfolios with their risk management strategies. For example, an entity may have previously elected the fair value option for an instrument where a risk-mitigating derivative was readily obtainable during market conditions at that time. However, the risk mitigating strategy may no longer be readily achievable or required in the present period due to current market conditions or other factors, and the entity may prefer to manage the remaining risk under the CECL framework.
Given these types of situations, we do not see how a one-time election to discontinue fair value measurements and apply the measurement guidance in Subtopic 326-20 could be applied in an abusive manner or used to distort financial reporting, especially when considering the earlier measurement of credit losses and the financial statement disclosures associated with Subtopic 326-20.

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

Sincerely,

Robert Traficanti
Global Head of Accounting Policy