

October 12, 2009

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

Re: Proposed Accounting Standards Update to Topic 820, *Improving Disclosures about Fair Value Measurements* (File Ref No. 1710-100)

Dear Mr. Golden:

Citigroup Inc. appreciates the opportunity to comment on the Exposure Draft *Improving Disclosures about Fair Value Measurements, Topic 820 ("Exposure Draft")*.

We support efforts to improve the quality and usefulness of disclosures on fair value measurements. However, we have concerns about some of the Exposure Draft's proposed requirements and the timelines proposed for their implementation. We are particularly concerned about the requirement to disclose the total effect(s) of reasonably possible alternatives for significant unobservable inputs within the valuation models for Level 3 instruments (the "sensitivity" disclosures).

Our concern, especially with respect to the sensitivity disclosures, is that the proposal requires a substantial volume of detailed information to be presented within the notes to the financial statements, which may overwhelm the financial statement reader and result in any potential benefit from the additional disclosures being lost. We also believe that presenting ranges of valuations could be misleading for investors and other financial statement users who may regard the lowest value presented as a conservative or minimum valuation. We have further concerns about disclosing proprietary information that could negatively impact our competitiveness in the market.

The requirements for the sensitivity disclosures and gross presentation of cash flows in the Level 3 rollforward as currently drafted will create a substantial operational burden, and we question whether this is justified by the potential benefit to financial statement users. In order to implement the requirements as proposed in the Exposure Draft, significant investments in technology and systems will be required as the data required is not consistent with information we currently collect for risk management purposes. We believe that additional time will be required to effectively implement these technology enhancements.

Further, we believe that many of the disclosures would likely not be comparable among peer institutions due to the unique nature of Level 3 items, and the inputs to the models which are used to value them.

We have provided a number of alternatives that we believe would reduce the operational burden and enhance the usefulness of information for financial statement readers. We believe that providing an expanded qualitative description of our modeling processes would help readers better understand how we determine our best estimate of the fair value of Level 3 instruments and the possible risks associated with valuation uncertainty. This alternative would be much more manageable for preparers and enhance the usefulness of information for financial statement readers, consistent with the objective of this proposed Exposure Draft. If the FASB believes that it is necessary to provide some quantitative information regarding reasonably possible alternative inputs, we suggest reducing the scope of what is required to focus on the most significant instrument classes only. This will also make the requirements more operational and the disclosed output more useful.

The difficulties highlighted above are exacerbated by the tight timelines proposed for compliance with this disclosure. We believe that the effective date suggested in the proposal would make it difficult, if not impossible, to achieve compliance.

Further details of our specific concerns are described below.

Effect(s) of Reasonably Possible Alternative Inputs

Paragraphs 820-10-50-2(f) and 820-10-50-5(e) of the Exposure Draft require disclosure of the total increases or decreases in the fair value of Level 3 instruments which may be calculated by using reasonably possible alternative inputs to the fair value calculation. We support the FASB's objective of enhancing disclosures about fair value measurements where significant unobservable inputs are used; however, we have several significant concerns about the current Exposure Draft.

Presentation of Disclosures

We expect that the volume of data which would be produced to satisfy the proposal would be challenging to present without overwhelming the reader of the financial statements.

- Citi disclosed 22 distinct classes within the Level 3 roll forward table at the end of Q2 2009 this number would be expected to increase under the requirements of other elements of the Exposure Draft. The examples provided in the Exposure Draft (820-10-55-65) detail more than a page of sensitivity disclosure to cover two similar asset classes. On this basis, the financial statement reader may be expected to be presented with some 20 30 additional pages of disclosure regarding the effects of reasonably possible alternative inputs to Level 3 valuations.
- We consider that it may not be possible to aggregate the sensitivity analysis across asset classes and/or financial products in a way that will be meaningful for

the reader of the financial statements as there are may be hundreds or thousands of such assets. This exercise will be further complicated by the fact that within groups of similar financial products, which may use the same type of valuation technique, individual contracts are unique and reasonably possible alternative inputs may be different for each contract. For example, within one class of assets or product type, the significant unobservable input may include correlation or volatility. However, for each individual contract, the reasonably possible alternative input values for each could vary widely.

We also believe that disclosures of sensitivities in the manner suggested in the proposal could be misinterpreted by the reader of the financial statements.

- Showing sensitivities relating only to the Level 3 items in gross format (i.e. merely calculating sensitivities for those items in Level 3 in isolation without considering offsetting risk management transactions which the business intended to mitigate the risks of those Level 3 items) is not representative of the true risk in the portfolio. In many instances, such valuation risk is managed by other financial instruments which are included in Levels 1 or 2, or in derivative form and subject to netting under ASC 815-10-45-1 through 7 (previously FIN 39 'Offsetting of Amounts Related to Certain Contracts'). We believe that the sensitivities disclosed should be aligned with those used by management and risk professionals to assess the portfolios of the bank in aggregate. This information would be both a better representation of the actual risk of the institution and more meaningful for the financial statement reader.
- We also believe that there could be significant risk in disclosing a range of 'reasonably possible alternative valuations'. The average reader of financial statements may only consider the lowest amount in the range or interpret the range as a minimum and maximum valuation even though this is not the intention of the disclosure. Level 3 valuations are, by definition, subjective and are highly dependent upon the facts and circumstances prevailing at the valuation date. Such circumstances may change swiftly, particularly in the current environment, and what may have been reasonably possible at the reporting date, may not be considered reasonably possible at the date that the report is filed. This information could therefore be misleading and provide readers with a false sense of security that the bottom end of the valuation range represents the total price risk of an asset or class of assets.

Further, we have concerns about the confidentiality of the information being requested. The level of detail which is required by the proposal would force disclosure of an entity's opinions about the significance of valuation inputs, and around the correlation between those inputs to the valuation models which are used. We consider that such information could be proprietary and could prejudice the entity's future trading. We request that there be an exemption from the disclosures for any information which the reporting entity considers proprietary.

Operationality

We believe the enhanced disclosures proposed in the Exposure Draft, particularly for sensitivities, would be a significant and time consuming operational effort,

The disclosures as currently proposed would require the collection of data that is not used by management in the normal course of business. Therefore, it would be necessary to make significant enhancements to our systems to comply in a controlled and systematic fashion. As a global institution, Citi maintains a large number of dedicated in-house systems for the purposes of pricing, valuation and financial reporting. These systems are not designed for offline re-modeling of historic scenarios. Substantial re-programming, and development expense would be required to develop additional elements in order to store quarterly valuation data offline from the financial reporting cycle. The systems would also need to be modified such that inputs to the valuations could be easily adjusted and re-worked on a post-hoc basis simply to generate this disclosure. Implementing these changes would require significant resources and will be time consuming. Therefore if the FASB does not amend the proposed requirements, we believe additional time should be provided to enhance our systems in a way that we could effectively comply with the sensitivity disclosures required.

IFRS Comparison

IFRS 7, 'Financial Instruments: Disclosures,' includes a requirement to disclose the effects of changing assumptions within valuation models for those financial instruments which are valued on the basis of unobservable inputs (IFRS 7.27.c) for annual periods beginning on or after January 1, 2007. Financial industry reviews of the disclosures provided by IFRS reporters in the 2008 annual financial statements show that disclosures provided under this requirement varied greatly in terms of detail, content, and consistency. Industry reports therefore questioned the value of this requirement as it did not provide information which was comparable among institutions. We believe that the current FASB proposal will suffer from the same issues relating to usefulness and comparability of disclosures as has been seen under IFRS 7. We therefore question the value of providing this volume of information relating to the sensitivity of valuation models used, when such requirements have been shown in the past to be unlikely to assist the reader of the financial statements in comparing data across institutions.

We believe the lack of consistency and overall shortcomings of the IFRS 7 sensitivity disclosures are likely to be, in part, a result of the operational and conceptual difficulties we have articulated in this comment letter.

Further Clarification Required

We believe that there are certain aspects of the requirements where further clarification or implementation guidance is needed.

Some Level 3 valuations are based upon indicative third-party quotes or through pricing services. Where such valuation techniques are used, it is not possible to apply reasonably possible alternative inputs to the model for valuations because the price quoted is

controlled by the third-party provider and the reporting entity uses no model. It is not clear if the sensitivity disclosure requirement would apply to such valuations and if so, how it would apply. We note that sensitivity disclosures are not required for measurements that utilize the practical expedient offered by the FASB's recently issued ASC update, 'Measuring the Fair Value of Investments in Certain Entities that Calculate Net Asset Value Consistent with Topic 946, Financial Services – Investment Companies'; and we consider that valuations based on indicative quotes are broadly comparable to valuations based on reported Net Asset Value. We ask the FASB to confirm that, where entities are pricing from indicative bids, they would not be required to provide a sensitivity analysis as outlined in the Exposure Draft.

As a result of the nature of Level 3 items, there are sometimes several different models which could be applied for valuation purposes (a simple example might include using the Black-Scholes equation to value an option, with an alternative approach being a Monte-Carlo simulation). The Exposure Draft indicates that reasonably alternative inputs should be applied in determining the potential impact of Level 3 measurement uncertainty. However, risk management systems sometimes use an alternative model or valuation technique to calculate a reasonably possible alternative valuation. We propose that the FASB allow reporting entities to use alternative valuation techniques rather than alternative inputs where management believes it is reasonable to do so. Level 3 valuation measurements are based on management's best judgment; therefore, we believe management should be able to use judgment in determining the most appropriate method of estimating a range of reasonably possible valuations for classes of Level 3 assets and liabilities.

Alternative Disclosure Suggestions

In order to address the concerns above, we propose the requirements of the Exposure Draft be amended such that entities would provide qualitative information about valuation techniques accompanied by a qualitative analysis of the significant unobservable inputs. We believe this would provide useful information to help financial statement readers better understand Level 3 fair value measurements, and why the reporting entity considers that the valuations it has presented are those which are most representative of management's best estimate of the fair value of its Level 3 inventory.

If the FASB believes that a quantitative measure is necessary or useful for financial statement readers, we propose a more focused approach to sensitivity analysis which would be less burdensome for preparers, and would provide more useful information for financial statement readers:

• Limit the scope of what is reported to a few classes within the Level 3 category which are considered by management to contain the highest levels of valuation risk or to be particularly susceptible to changes of inputs (a top down approach). This subset of Level 3 items would then be subjected to a focused sensitivity analysis. This would allow an entity to provide disclosures covering a significant portion of Level 3 measurement uncertainty. We believe that management should be permitted to use judgment in providing a level of information it feels would be

useful for financial statement users, for example that which is consistent with its own risk management practices.

- Disclosures could be based upon risk measures which are already prepared by the organization and used by management to monitor and evaluate risk.
- Assessing the entire Level 3 inventory could be achieved by selecting specific high risk factors and modeling their impact on the entire portfolio to demonstrate its overall impact (e.g., the effect of a 100 basis point shift in credit spreads across the debt securities portfolio in Level 3).

This would provide users with some concise, focused alternative metrics that would allow them to make their own judgments about what might be reasonably possible, given their expectations of future movements in the market.

Activity within Level 3 and Disaggregation

We believe the new requirement in paragraph 820-10-20-2(c) to separately disclose gross purchases, sales, issuances and settlements of Level 3 fair value measurements and to further disaggregate classes of financial instruments in paragraph 820-10-50-2A will have limited value to readers. While compliance with these requirements for the quarter ending after December 15, 2009 will add some operational complexity, time and resource demands, we believe it is possible to operationalize these requirements. However, the Exposure Draft also requires that disaggregated disclosures be provided for the annual period. A review of the historical data previously provided in aggregate for the first three quarters of 2009 would be more challenging to achieve within the proposed time line.

We do not believe disclosing these components separately provides meaningful information about an entity's risk exposure related to Level 3 financial instruments. Therefore, we question the value of adding this requirement.

Effective Date

We are concerned that the effective date of this Exposure Draft does not provide sufficient time for implementation given the volume and difficulty of additional disclosures that would be required. The operational challenges as described above will require an enormous amount of effort and resource. We believe additional time is required in order to collect and analyze the appropriate information to provide accurate information in our financial reporting.

If the FASB accepts our suggestions to reduce the operational burden of implementing fair value disclosure enhancements, we believe we could comply within the timelines proposed. However, if the FASB continues to include the sensitivity analysis requirement as it is currently worded in the final standard, we believe it will be critical to extend the effective date to provide entities with sufficient time to enhance systems and processes. We suggest that the FASB consider including fair value disclosure enhancements as part of the Financial Instruments Recognition and Measurement (FIRM) project or delaying this standard until the FIRM project is completed. As an alternative, given the challenges associated with the Exposure Draft, we ask that the effective date be revised to no earlier



than for periods ending after December 15, 2010. In setting an effective date, we ask the FASB to consider other large implementation projects which currently demand a significant amount of resources, such as SFAS 166 'Accounting for Transfers of Financial Assets—an amendment of FASB Statement No. 140; and SFAS 167 'Amendments to FASB Interpretation No. 46(R)'.

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

Very truly yours,

Robert Traficanti

Vice President and Deputy Controller

Robert Draficanti

Citigroup Inc.