



September 25, 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 No. 2012-200; Proposed Accounting Standards Update, *Financial Instruments (Topic 825), Disclosures about Liquidity Risk and Interest Rate Risk*

Dear Ms. Cospers:

We appreciate the opportunity to comment on the proposed Accounting Standards Update on Disclosures about Liquidity Risk and Interest Rate Risk (the ASU). The FASB rightfully focuses on providing users of financial statements with more decision-useful information about liquidity and interest rate risk and Citi supports that effort. However, we do not support the issuance of the proposed ASU by the FASB as it does not improve financial reporting.

Liquidity and interest rate risk are the key risks faced by banking institutions and, for public institutions, significant disclosures related to liquidity and interest rate risk are already required in the Management's Discussion and Analysis (MD&A) section of their public filings. The tabular presentation of contractual maturity information provides little useful information beyond what is already in the MD&A at considerable additional cost.

In addition to the lack of usefulness and costs involved, we believe that liquidity and interest rate risk discussions are more appropriately included in the MD&A, similar to other qualitative and quantitative risk analyses. We are not aware of any issues with the information presented in the MD&A and, thus, question why such information should be presented in the notes to the financial statements. For example, while we are fully supportive of the disclosure of available liquid funds, it should be left in the MD&A where firms are better able to discuss various contingency events that may require the usage of those funds.

Furthermore, the majority of the disclosures proposed in the ASU require projections of forward-looking results. We are concerned that it may be difficult for auditors to express an opinion on this type of information if included in the notes. Moreover, while there is a safe harbor for forward-looking information in MD&A, a safe harbor for the audited financial statements in SEC

filings may not always be available. Therefore, while presenting the forward-looking information is appropriate for MD&A, we do not support moving such information into audited financial statements.

Regarding liquidity risk, while the proposed disclosures attempt to provide information about the risks and uncertainties that a reporting entity might encounter in meeting its financial obligations, we believe that the proposed disclosures would fail to achieve that objective. The usefulness of liquidity gap information in the ASU is largely dependent on the assumptions made regarding the timing of cash flows under the “expected maturity” definition in the ASU. Because of this definition, the expected maturity framework essentially provides a run-off of period-end balances in future periods, without considering actions management would take, such as the reinvestment of cash proceeds from sales and maturities, as part of the liquidity management process. Thus, the proposed model turns what is actually a dynamic process of managing liquidity into a static picture that is not useful for decision-making purposes.

Furthermore, we are greatly concerned about the potential inconsistencies between the FASB’s proposed liquidity risk disclosures and the forthcoming bank regulatory liquidity requirements under Basel III. Any disclosures in public filings of liquidity measures that were prepared on a different basis will only confuse the users of financial statements and are not justified considering the significance of additional costs that would be incurred by preparers. Since the rules for regulatory disclosures of liquidity ratios have not been finalized, we urge the FASB to work together with the bank regulators to determine to what extent the disclosures that will be required by the regulators would already satisfy the financial statement users’ needs to receive additional decision-useful information about liquidity risk. The FASB should not proceed with its own liquidity risk disclosure requirements until after regulatory liquidity disclosures have been finalized and only if it is determined at that time that additional liquidity disclosures are indeed required. If such disclosures are then needed, the FASB should ensure that key terms in its proposed disclosures and those required by regulators are defined consistently.

Additionally, we want to emphasize the uniqueness of liquidity risk for a banking institution. Different from interest rate changes, a bank’s liquidity position, if inappropriately presented, may have far-reaching consequences. A bank whose actual liquidity position is sound may appear to be failing based on information required to be presented in the proposed liquidity gap table as its deposit liabilities could have shorter expected maturities than its assets. In reality, liquidity is managed by either renewing deposit liabilities or, if necessary, selling liquid assets before their contractual maturities. If users rely on the proposed faulty liquidity gap table, a misinterpretation of a sound liquidity position may become a self-fulfilling prophecy leading to real liquidity issues for a bank and potentially causing serious systemic disruptions. Liquidity problems can develop very fast and, different from issues related to other types of risks, management may not have a chance to take remedial action or explain the real liquidity situation to the stakeholders before a liquidity crisis has already occurred. While there is no easy solution in this situation, we, again, urge the FASB to work with the bank regulators who understand and have considered this risk in developing their liquidity risk disclosures.

In the following Appendix, we provide additional detail regarding our comments and also highlight some operational concerns regarding the placement and application of the proposed disclosures in the audited financial statements.

We would be pleased to meet with the FASB board and staff members at your convenience to discuss our comments regarding the proposed liquidity and interest rate risk disclosures. Please feel free to call me in New York at (347) 648-7721.

Sincerely,



Robert Traficanti
Deputy Controller and
Global Head of Accounting Policy

APPENDIX

Consider Disclosures That Will Be Required Before Moving Forward

The FASB rightfully focuses on two topics of importance in understanding the risk profiles of companies. In concert with the industry paper, “Principles of Liquidity Risk Management” (Institute of International Finance (IIF), March 2007) for funding liquidity risk, firms should address their practices related to the management of the following:

- structural or long-term liquidity risk (generally one year);
- short-term liquidity risk (generally 30 - 90 days cash flow);
- intraday liquidity risk (cash and collateral management); and
- contingent liquidity risk (stress testing, i.e., sensitivity analysis and scenario testing, liquidity asset buffers, contingency plans, ratios).

We are very concerned about the potential inconsistencies between the FASB’s proposed liquidity risk disclosures and the forthcoming regulatory liquidity requirements. Since the measurement, definition and disclosure of liquidity risk metrics is already the subject of numerous proposals from international and national bank regulators, creating yet another measure that is not consistent with other liquidity disclosure frameworks creates an undue burden for financial institutions.

Before creating another set of metrics and definitions, we urge the FASB to review the work already done by U.S. and international regulators in defining liquidity risk and time the issuance of its liquidity risk disclosures, if additional disclosures are still needed, with the completion of the work by regulators. For example, banks are going to need to disclose information under the Basel III Liquidity Coverage Ratio (LCR). We strongly suggest that the FASB coordinate its discussions considering this and any measurements required by Dodd-Frank (see the notice of proposed rulemaking (NPR) issued by the Board of Governors of the Federal Reserve System entitled, “Enhanced Prudential Standards and Early Remediation Requirements for Covered Companies” for implementation of the enhanced prudential standards required to be established under Section 165 of the Dodd-Frank Act).

If the FASB decides to move forward with the current ASU, we offer the following comments:

Scope

The ASU defines financial institutions as “...entities or reportable segments for which the primary business activity is to do either of the following:

- a. Earn, as a primary source of income, the difference between interest income generated by earning assets and interest paid on borrowed funds.
- b. Provide insurance.”

Regarding which entities would be subject to the proposed liquidity and interest rate risk disclosures, we are concerned about the narrow definition of financial institutions. While

investment banks, broker-dealers, hedge funds, private equity funds and money market funds are presumably not deemed to be financial institutions according to the ASU's definition, all of these entities are subject to the same liquidity concerns as other entities deemed to be financial institutions under the proposed definition. Although not the primary risk for assets and liabilities reported at fair value, interest rate risk still has significant impact on the fair value of assets and liabilities of such entities, whose securities portfolios are often dominated by debt securities. Moreover, these portfolios must be funded by other interest-bearing liabilities. Therefore, we believe these types of entities not considered to be financial institutions under the proposed definition of the ASU should be subject to the same more rigorous liquidity disclosures and interest rate disclosure requirements as providers of insurance and entities whose primary source of income is earned from the difference between interest income generated by interest-earning assets and interest paid on borrowed funds.

Paragraph 825-10-50-23B of the ASU indicates that entities may combine reportable segments of financial institutions and also reportable segments of nonfinancial institutions for the purpose of providing the disclosures. However, there is no indication in the proposed ASU that combining reportable segments that qualify as financial institutions with reportable segments that do not qualify as such would be allowed. Bank holding companies may have subsidiaries or segments not included in the proposed definition of financial institutions; however, management may evaluate and measure the liquidity and interest rate risk for the institution as a whole. Excluding risk data for such subsidiaries or segments could be operationally complex and provide an incomplete picture to financial statement users about the risks involved regarding the bank as a whole. Therefore, we ask the FASB to clarify in the final standard that entities would be allowed to combine financial and nonfinancial subsidiaries and segments to provide disclosures for the entire consolidated entity as a financial institution even if some consolidated subsidiaries or segments may not be separately deemed financial institutions as defined in the ASU.

Liquidity Risk Disclosures

General Comments and Concerns

The proposal related to liquidity disclosures has some positive and meaningful aspects, such as the disclosure of available liquid funds. We urge the FASB to use the guidance related to Section 165 of the Dodd-Frank Act and the Basel framework in defining liquid assets. The harmonization of this definition is an important building block in creating a "common language of risk" for banks and their investors. Additional detail on the legal vehicle composition of the liquidity buffers is also a useful disclosure. However, we encourage the FASB to consider our concerns about the disclosure of available liquid funds in the footnotes as opposed to the MD&A. We believe that these disclosures are better located in the MD&A where firms are better able to discuss the availability of liquid funds in the context of the funds necessary to cover various contingency events.

We agree that the ASU should require qualitative disclosures related to liquidity risk management. Given that it is more of an art than a science, any meaningful disclosure should

start with qualitative information related to the firm's liquidity risk management framework supported by quantitative disclosures the firm thinks are important.

In other areas the liquidity disclosure proposal has short-comings. For example, we believe that the tabular format presenting contractual information provides little additional useful information beyond what is already available in the MD&A at considerable additional cost. The information derived based on the current proposal is not consistent with the way firms manage their liquidity risk and would create an irrelevant metric that would need to be explained and analyzed as required in paragraph 825-10-50-23J. Firms manage their liquidity based on modeling their expectations for liquidity mismatches under a variety of business conditions and take actions to adjust their portfolios of financial assets and liabilities to limit their liquidity risk. For example, banks model their expectations regarding the potential runoff from deposit withdrawals and substantial judgments need to be made in the modeling process. These judgments under various conditions are not captured by the tabular information required in the proposed standard. Thus, users of the financial statements would still be left to make assumptions about those judgments, such as deposit runoff, in determining risk under changing conditions. Therefore, the tabular presentation turns what is actually a dynamic process of managing liquidity into a static picture that is not useful for decision-making purposes.

We question the need to include lease obligations, which are generally an immaterial component of liquidity planning for a financial institution.

Another area of concern relates to the "fungibility of liquidity," which is the ability to freely move liquidity around the company and any restrictions of such movements due to regulations, currency exchange limitations or laws. We support providing qualitative disclosures about the effects of regulatory, tax, legal and any other restrictions that could potentially limit the transferability of funds as the depiction of aggregated information without significant qualitative disclosures surrounding these limitations would be misleading to the users of financial statements.

Including derivative products in the liquidity gap table creates some questions. First, derivative cash flows are dependent on whether the relationships are covered by collateral arrangements and future moves in interest rates and other underlyings. Thus, a derivative that is fully cash-collateralized would not have any cash being exchanged upon settlement and/or maturity. Second, we are not sure why derivatives, which are accounted for at fair value through net income, should be included in the maturity columns while debt securities that are also accounted for at fair value through net income would only be included in the total carrying amount column. Since the measurement of derivatives and trading debt securities is the same, we believe disclosure of these instruments should be presented consistently in the liquidity gap table in the "Total Carrying Amount" column. And third, we are not sure whether the FASB intended the fair value of derivatives in the liquidity gap table should be presented on a net basis, as presented on the balance sheet, or gross. We ask the FASB to clarify which presentation is proposed in this table.

Finally, liquidity gapping for financial institutions is a dynamic process and changes from day to day. Publishing information about period-end liquidity in quarterly and annual reports with a significant time lag raises questions about the relevance of such data, which would be stale by the time financial statements are issued.

Time Buckets

We believe the liquidity gap table includes too many periods, especially in the interim periods. As discussed above, a framework to monitor and measure short-term liquidity and structural liquidity should at least include 30 days (or 1 month) and 1 year, respectively. We also support having additional time buckets in between those two, and an additional bucket covering year two. Beyond year two, however, the information becomes less meaningful as many variables will most likely have changed by then.

Expected Maturity

The IIF paper rightfully indicates that “Firms should ensure that there is appropriate disclosure of qualitative and quantitative information about each firm’s liquidity position and liquidity risk management practices. Mandating quantitative disclosure would not be meaningful or comparable across firms given that firms’ liquidity practices vary significantly, as do their internal and external environments.” The core difficulty with the FASB’s proposed tabular maturity analysis, even if all entities followed a consistent framework for presentation, is that the underlying assumptions for “expected maturities” can differ significantly from firm to firm. For example, it is meaningless to bucket all demand deposit liabilities in the overnight tenor. Firms model deposit behavior using statistical techniques, and those results will typically vary across customer segments and entities.

A key area of concern is the definition of the term “expected maturity” as “the expected settlement of the instrument resulting from contractual terms.” This definition would not capture the behavioral characteristics of the firm’s balance sheet or off-balance sheet obligations. To be a more effective measure of liquidity gaps, the term “maturity” should encompass a firm’s modeling of the mismatches in a firm’s assets, liabilities and off-balance sheet commitments/contracts. For example, bucketing liquid investment securities held in an AFS liquidity portfolio in their contractual maturity buckets does not represent the “time to funding” given the ability to repo or sell these securities at any time. These factors, and numerous others, are the subject of extensive study related to the behavioral characteristics of the underlying instrument. This gets more complex when modeling repos and reverse repos and the impact of covering short positions and the implicit risk of allowing certain funding relationships to terminate contractually. Given that contractual maturity and “time to liquidity” are generally significantly different, the proposed disclosures using the expected maturity as defined in the document will be an inaccurate view of cash flow mismatches and potentially misleading.

Also, we believe that the concept of expected maturity and duration as defined in the staff draft does not appropriately differentiate between those concepts as used in relation to “liquidity risk” and “interest rate risk.” The expected settlement based on contractual terms may work for liquidity risk, but is not necessarily the right measure of duration for interest rate risk. For

example, as core deposits mature, the expectation is that they will be rolled over (i.e., replaced with new deposits). We believe that any appropriate duration assumptions should reflect the firm's actual experience with retention of deposits, rather than rely on expected maturity of existing deposits, defined in the ASU as being based on their contractual terms.

Estimating Expected Maturity

Regarding estimates of expected life for various sectors and products within our wholesale and retail loan portfolios, the main challenge is that there are not many products other than the U.S. residential mortgage loans for which extensive research on prepayment behavior has been conducted. For residential mortgages, prepayment behavior is a function of many factors, such as product structure (fixed rate, adjustable, low initial rate followed by step-ups, etc.), local and national economic environment (GDP, employment, inflation, trends in home values) and interaction of the above with borrower demographics (age, mobility). As a result, any estimate of expected maturity for a set of residential mortgages reflects not only objective observable characteristics of the portfolio on the reporting date, but also (a) application of models of customer behavior and (b) forecasts of future macroeconomic and socioeconomic conditions. Therefore, for disclosures regarding a residential mortgage portfolio's effective maturity to be meaningful, the disclosures would need to include the firm's assumptions and forecasts regarding the future environment. And for a user who is looking at the expected maturity schedules of two firms' residential mortgage portfolios, the schedules will only be comparable if the firms happen to segment their residential mortgage portfolios similarly and also happen to have similar outlooks regarding future environmental conditions. Similarly, determining the estimated maturity of demand deposits would also require modeling of customer behavior and forecasts of future macroeconomic and socioeconomic conditions, which may differ across firms.

The above only illustrates the "best case," because people have studied residential mortgage prepayment behavior for many years. For revolving products, such as credit cards or wholesale revolving loans, maturity is an ambiguous and not well defined concept. For wholesale lending in general, term or revolving, there has been very little research on prepayment behavior. Additionally, most wholesale loans are prepayable at virtually any time without penalty, so this is not an area where contractual maturity is necessarily a good approximation of the actual payoff dates. To add another wrinkle, many wholesale revolving credit agreements give the borrower an option to extend the loan beyond the contractual maturity date ("term out option").

There are also data availability issues due to the complexity of certain products, some of which can be more effectively modeled statistically. For example, wholesale loan agreements tend to be highly customized (vs. retail loans agreements, which are more standardized) with many of those customized features influencing prepayment behavior. Furthermore, with prepayable floating rate loans, a large driver of prepayment is the difference between a loan's contractual spread over the LIBOR rate and the current "going rate" for comparable loans to comparable borrowers. Additionally, loan agreements often contain contingent pricing provisions that can encourage or discourage usage and prepayment (e.g., LIBOR spread may vary with borrower rating or may increase with time as a way of encouraging repayment). We believe that very few

banks currently have centralized data systems capable of capturing all the relevant features needed to model expected maturities of wholesale loans. Given our view that the proposed disclosure will be of limited value to users and could easily be counterproductive and subject to misinterpretations, it is hard to reconcile the costs of acquiring the necessary data as well as developing and validating the necessary models with the benefits of this disclosure.

Interest Rate Risk Disclosures

Repricing Gap Analysis

Some repricing gap information is typically more valuable for accrual instruments than for mark-to-market instruments. The FASB should clarify whether the repricing gap table should include all instruments that are accounted for at fair value through net income, such as trading securities. While it appears that such instruments should be included since the example does have a line for derivatives, it would be helpful to a reader if the ASU included an explicit clarification confirming such inclusion.

In addition, the FASB should clarify how to include gaps for positions with embedded options where the cash flows depend on rates scenarios such as mortgages, indefinite maturity products like deposits and credit card balances as well as non-customer balance sheet items.

Banks are currently required to disclose under their SEC Industry Guide 3 in MD&A average volume, interest expense and average rate based on their major balance sheet asset and liability categories. We ask the FASB to ensure that in the interest rate gap table, the same major categories of balance sheet interest-earning assets and liabilities could be used. Any differences in categories would need to be explained to the investors and providing the disclosures on a more granular basis seems unnecessary and would not improve our disclosures.

Similar to the liquidity gap table, we believe the repricing gap table includes too many periods, especially in the interim periods.

We would like to point out that we do not currently calculate duration and weighted average yield by type of asset/liability and repricing category. In order to be able to meet such a disclosure requirement, we would need to build new systems that would require significant time and resources considering the size and global scope of our business.

Interest Rate Sensitivity

We are generally supportive of disclosing interest rate sensitivities consistent with the proposal, but we ask that the disclosure only involve estimated impact to net interest income rather than impact to net income and shareholders' equity. In addition to interest rates (which is the risk this disclosure attempts to cover), changes in net income would also involve changes in credit risk (both own and counterparty) and foreign currency risk. If one were to start shocking credit spreads and foreign currency rates in tandem with interest rates, which we believe is the most relevant measure for banks, we believe that the disclosure about interest rate sensitivity would

become meaningless, because interest rates, credits spreads and foreign currency rates can move in opposite directions. We also object to having to disclose the impact on shareholders' equity, which includes OCI changes in addition to risks already mentioned, for the same reason.

From an implementation perspective, adjustments would need to be made to our current Interest Rate Exposure and Economic Value Sensitivity analysis included in Citi's annual and quarterly reports as our risk measurement methodologies and output are somewhat different than that which would be required by this proposed standard (the draft calls for effects on shareholders' equity as well as some scenarios that we are not currently running).

Regarding interest rate sensitivity, while quantitative disclosures are helpful, they may not always provide a complete picture. For example, an interest rate increase may not automatically give rise to the proportionate funding cost increase for a bank, because the bank may be able to maintain the rate it pays on the deposits close to the same level as before. Also, a credit card issuer may be able to revise the rate of interest it charges on its issued cards, regardless of the behavior of the general market interest rates. For interest rate risk disclosures, we echo our earlier comments in the liquidity risk section that the proposed disclosure requires too much detail rather than focusing more on qualitative disclosure about how each bank conducts its interest rate sensitivity analysis and describing the results of that analysis.

The exposure draft states that growth rates, asset mix changes or other business strategies are not to be included in preparing the interest rate sensitivity analysis. This requirement is inconsistent with the joint FRB/OCC interest rate risk guideline SR10-1 for dynamic simulation.

Issuance of Time Deposits

We don't understand why the FASB is isolating time deposits for the purposes of this disclosure. We believe it is important to focus equally on other sources of funding. We are unclear about the utility of providing quantitative information related to the maturity of time deposits. Without a discussion of the behavioral characteristics of demand deposits, this data would not be meaningful to the users of financial statements.

Additionally, regarding the requirement for a depository institution to disclose in a table information related to the cost of funding that arises from issuing time deposits and acquiring brokered deposits, we ask for a clarification in the final ASU of whether renewals/rollovers would need to be treated as part of an existing deposit or as the issuance of a new time deposit.

Effective Date

As noted above, we believe that it is critical that the FASB devote the time necessary to determine whether the disclosures that are already or will be required by other bank regulators will be sufficient to satisfy the needs of financial statement users. We believe the additional time is well worth spending in order to ensure that the ultimate disclosures are meaningful rather than rush to issue disclosures that fail to provide relevant information to investors.

Also as noted above, firms are not currently monitoring their contractual maturities for most products and the industry would have to conduct research as well as develop better models of borrower prepayment behavior. The sheer volume of data needed to fulfill all the disclosure requirements put forth in this document would be very challenging and require a long lead time to give firms an opportunity to build new systems solutions necessary to provide the disclosures. Therefore, if the FASB decides to proceed with the issuance of the current ASU, we ask that the FASB require the ASU to be implemented not earlier than at the beginning of the first reporting period following one year after the issuance of the final ASU. Also, we are supportive of the proposed prospective adoption as we would not be able to provide historical comparative disclosures because of the lack of necessary systems currently in place.