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Long Island Citi, NY 11101

April 17, 2013

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 EITF 13-A, Proposed Accounting Standards Update, Derivatives and Hedging (Topic 815): Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes

Dear Ms. Cospers:

Citigroup appreciates the opportunity to comment to the Financial Accounting Standards Board on the proposed Accounting Standards Update (ASU), *Derivatives and Hedging (Topic 815): Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes*.

Citi agrees with the Board's decision to include the Fed Funds Effective Swap Rate as an acceptable U.S. benchmark interest rate. We believe trends have emerged since the issuance of existing hedging guidance in Topic 815 that have significantly increased risk managers' exposure to the Fed Funds Effective Rate¹ and, therefore, increased the demand for hedging instruments that incorporate that underlying.

We support the proposed ASU's objective to provide risk managers greater flexibility to hedge interest rate risk with a shorter-term benchmark interest rate (i.e., a benchmark rate with an overnight reset). The guidance in the proposed ASU would improve U.S. GAAP as it would better reflect current risk management strategies within the financial statements.

However, Citi has concerns over certain guidance in paragraph 815-20-25-6:

The use of different benchmark interest rates for similar hedges shall be rare and shall be justified.

Citi believes the restriction on using different benchmark interest rates for similar hedges, if misinterpreted broadly, may undermine the objective of the proposed ASU. While the proposed

¹ The terms "Fed Funds Effective Rate" or "Fed Funds" may be used interchangeably in this comment letter and encompass the "Fed Funds Effective Swap Rate."

ASU acknowledges that the new benchmark rate guidance should not cause dedesignations of current hedging relationships, Citi requests the Board to consider the restriction's potential ongoing impact when all hedging relationships would be considered newly designated from the issuance date of the final Update. Risk managers may have valid reasons to select different benchmark interest rates because the objectives of hedging relationships may differ. Citi believes the interpretation of "similar hedges" should include the risk objective of the hedging relationship, not a narrow focus on the hedged item and its hedging instrument. The following examples would apply:

1. A Corporation forecasts it will issue a five-year, fixed-rate bond in 9 months at the prevailing market rate at the time of issuance. The Corporation's treasury unit (i.e., the risk manager) would like to hedge the interest rate risk existing in this forecasted transaction and has determined the most effective hedging instrument for this cash flow hedging relationship would either be a forward starting LIBOR-based swap or Fed Funds-based swap. Based on pricing terms and the effectiveness of the hedging relationship, the treasury unit selects the forward starting Fed Funds-based swap. In the future for other forecasted debt issuances, the treasury unit may find the forward starting LIBOR-based swap to be a better hedging instrument based on pricing and effectiveness determinations, or the treasury unit may find a Treasury Lock to be a better hedging instrument.
2. A Corporation or Financial Institution issues two separate three-year, fixed-rate debt instruments at the prevailing market rate at the time of issuance. The proceeds of the debt issuances are distributed to two subsidiaries. Subsidiary A uses proceeds of one debt issuance to fund the purchase of LIBOR-based assets. Subsidiary B uses the proceeds of the other debt issuance to fund the purchase of Fed Funds-based assets. The treasury unit of the parent company (i.e., the risk manager) would like to execute an interest rate fair value hedge of each fixed-rate debt instrument. Its objective would be to hedge the debt issuance affiliated with Subsidiary A with a LIBOR-based swap and the debt issuance affiliated with Subsidiary B with a Fed Funds-based swap.

In the examples above, Citi believes the risk manager has valid reasons to hedge with different benchmark interest rates, for what could appear to others as similar hedging relationships, and should be able to utilize the flexibility provided to it by this proposed ASU. To ensure this flexibility is utilized in the manner consistent with the Board's expectations, Citi requests the Board to consider removing the words "shall be rare and" in the guidance referenced above such that the use of different benchmark interest rates be allowed when a proper justification exists. Removing these words would better align paragraph 810-20-25-6 with paragraphs 810-20-25-80 and 25-81 which do not incorporate this "rare" threshold. This revision would also achieve greater convergence with IFRS which has no such restriction in its interest rate hedging guidance.

If the Board believes this restriction serves as an anti-abuse measure, we believe requiring a proper justification to use different benchmark interest rates would continue to serve as an effective anti-abuse measure. A requirement for justification should also not impede risk managers from exercising the flexibility this proposed ASU affords them. If necessary, we would support providing further disclosures that would clarify the reasons different benchmark interest rates were selected. Otherwise, Citi agrees with the Board that no further disclosure would be needed for the proposed guidance.

Citi agrees the proposed amendments should be applied only on a prospective basis for qualifying new or redesignated hedging relationships. Proper documentation is required at the designation of a hedging relationship, so Citi does not believe retrospective application would be possible.

Citi believes the effective date of the amendments in the proposed ASU should coincide with the issuance date of a final Update. Significant demand exists for a benchmark interest rate with an overnight reset and a transition period is not needed as the guidance would not impact prior accounting in the financial statements.

If the effective date does not coincide with the issuance date of a final Update, Citi believes early adoption should be permitted. Hedge accounting is an election and risk managers should be allowed to hedge with this new benchmark rate as soon as their organization is ready.

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

Sincerely,



Robert Traficanti
Deputy Controller and Global Head of Accounting Policy