909 Third Avenue
New York, NY 10022

November 12, 2008

Mr. Conrad Hewitt
Office of the Chief Accountant
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

Re: File No. 4-573, Request for Consideration to Amend the US GAAP Impairment Guidelines for Available-for-Sale and Held-to-Maturity Debt Instruments

Dear Mr. Hewitt:

Citigroup strongly believes that fair value information is useful to financial statement users. However, as envisioned in the Sections 132 and 133 of the Emergency Economic Stabilization Act (the Act) we believe that the application of fair value accounting should be appropriate in the public interest and consistent with the objectives of the investors. We believe the current application and interpretation of Statements 157 and 115 to Banking Institutions whose primary business model is to operate as a going concern with a longer term time horizon has resulted in unintended consequences. The strict restrictions on transferability and the requirement to measure impaired securities for which the institution has no immediate plans for sale on a liquidation or "exit" price notion is more relevant to active traders versus financial institutions such as Banks. Therefore, we feel that certain targeted amendments to the US GAAP impairment guidelines for available-for-sale (AFS) and held-to-maturity (HTM) debt instruments should be considered. Our proposals would not only help converge US GAAP with IFRS, but make the application of fair value accounting consistent with the objectives of the Act This letter summarizes the current guidelines in US GAAP and IFRS and proposes targeted amendments to US GAAP to achieve those objectives.

<u>When an AFS Debt Instrument is Considered Impaired</u>

US GAAP

FASB Staff Position No. 115-1, *The Meaning of Other-Than-Temporary-Impairment and Its Application to Certain Investments*, significantly expanded the situations where impairment charges are required to be recorded in earnings. FSP FAS 115-1 requires an institution to assert its positive intent and ability to hold debt securities for a period of time sufficient to allow for any anticipated recovery in fair value, even for unrealized losses due solely to changes in interest rates (including liquidity and risk premiums). Prior guidance and industry practice required such impairments to be recorded in earnings only when it was probable that the institution would be unable to collect principal and interest when due (credit impairment) or the institution intended to sell the security in the near term. FSP FAS 115-1 forces institutions to record impairment charges in earnings for debt securities that may never be sold, but where the institution is unable to forecast and assert to long-term plans for the security. Such long-term plans and definitive assertions are especially difficult to substantiate in today's uncertain economic environment. In practice, the guidance in FSP FAS 115-1 has resulted in institutions asserting to very long holding periods under current market conditions. Thus, at present institutions applying US GAAP are restricted from selling significant portions of their AFS portfolios due to the holding period assertions. No such limitations exist under IFRS.

IFRS

International Accounting Standard 39, *Financial Instruments: Recognition and Measurement*, requires impairment charges to be recorded in earnings only when there is "objective evidence that a financial asset is impaired." The guidance in IAS 39 for debt instruments focuses on credit impairments only, and explicitly states that a decline in fair value below cost (for example, which results from an increase in interest rates) is not necessarily evidence of impairment. Institutions are *not* required to assert their positive intent and ability to hold debt securities that have declined in fair value due solely to changes in interest rates (including liquidity and risk premiums).

Proposed Amendment to US GAAP

The FASB should re-instate the previous impairment guidelines to require impairment charges only when an AFS debt instrument has suffered credit impairment or the institution intends to sell the security in the near term and remove the additional requirements of FSP FAS 115-1. We believe our proposal would reduce the overall complexity of US GAAP for financial instruments by making the impairment *triggers* consistent for loans, HTM debt instruments, and AFS debt instruments. Our proposal would immediately converge the requirements in US GAAP with the principle under IFRS that impairment of all debt instruments should be based on incurred credit losses.

Measuring Impairment Charges on AFS Debt Instruments and HTM Debt Instruments

US GAAP and IFRS – AFS Debt Instruments

Once impairment is triggered under either US GAAP or IFRS, the *measurement* of the amount to be recorded in earnings is equal to the entire decline in fair value of the debt instrument, including changes in fair value due to changes in interest rates, liquidity and risk premiums, and bid-offer spreads.

US GAAP and IFRS – HTM Debt Instruments

For HTM debt instruments, both US GAAP and IFRS require impairment charges to be recorded in earnings when there is credit impairment. However, the measurement of the amount of impairment is vastly different. US GAAP currently requires the investor to record an impairment charge in earnings equal to the *entire* decline in fair value, not just the credit impairment.[1] IFRS requires the impairment charge to be measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The measurement for HTM debt instruments under IFRS is identical to that for loans, and the impairment charge is limited to the amount of estimated credit impairment.[2]

Proposed Amendments to US GAAP

For AFS and HTM debt instruments that suffer credit impairment, we propose that the amount of the impairment to be recorded in earnings equal the credit impairment. Our proposal would result in both the *triggers* and the *measurement* of impairment being consistent for loans, HTM debt instruments, and AFS debt instruments. We lay out the reasons why this amendment is justified below.

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[1] Refer to paragraph 16 of FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*.

[2] Refer to paragraphs 63 and 67 of International Accounting Standard 39, *Financial Instruments: Recognition and Measurement*.

More reflective of the expected cash flows to be generated by the investor
Because of current market dislocations, the difference between the entire decline in fair value (which includes components such as liquidity and other risk premiums) and the amount of credit impairment is often quite significant. The estimated credit impairment provides a much better reflection of the expected cash flows to be generated by the investor. Recording the entire decline in fair value for AFS debt instruments or HTM debt instruments where the investor does not intend to sell the security in the near term overstates the amount of the loss expected to be incurred.

Refer to the Appendix for an example of a real situation encountered by Citigroup. We believe this example is consistent with situations faced by many financial institutions and other investors today, and highlights the significant difference between estimated credit impairment and the entire decline in fair value due to current market conditions.

More consistent with the overall accounting models for AFS and HTM debt instruments
Our proposal is more consistent with the overall accounting models for AFS and HTM debt instruments:

- For AFS debt instruments, the remaining *unrealized* losses would continue to be reported in Other Comprehensive Income. Unlike credit impairment, those losses will reverse with the passage of time. Financial institutions currently make transparent disclosures about unrealized losses (and gains) on AFS debt instruments, and could supplement those disclosures for instruments with objective evidence of impairment.
- For HTM debt instruments, the remaining *unrealized* losses would not be reported in the financial statements.[3] Unlike credit impairment, other changes in fair value for HTM debt instruments will reverse with the passage of time. Because of the restrictions precluding the sale of HTM debt instruments other than in rare circumstances, institutions do not expect to ever realize the other changes in fair value due to liquidity and other risk premiums.

Impairment measurement model for loans is well developed and more applicable to many debt instruments today
The impairment measurement model for loans is well-known, has been consistently applied for many years, and is currently applied to large portions of financial institutions' balance sheets. As shown in the Appendix, the judgments and estimates we make to assess AFS or HTM debt instruments for credit impairment are almost identical to the requirements for loans. Note that these judgments and estimates are required not only to determine if credit impairment has occurred and to measure credit impairment, but also as an input to measure *fair value* in today's illiquid and distressed markets.

Initial basis of conclusions in FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities
When the FASB originally issued FAS 115, it stated the primary reason for not making the impairment model for AFS and HTM debt instruments consistent with that for loans was "the relatively greater and easier availability of reliable market prices for securities, which makes it more practical and less costly to require use of a fair value approach" (see paragraph 113 of

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[3] FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, currently requires disclosures about fair value of HTM debt instruments. The FASB could supplement those disclosures for HTM debt instruments with objective evidence of impairment.

FAS 115). Clearly this is not the case for many debt instruments in the current credit crisis and provides support for making the impairment model for loans and other debt instruments consistent.

Reducing complexity
We believe our proposal would reduce the overall complexity of US GAAP for financial instruments by making the measurement of credit impairment for loans, HTM debt instruments, and AFS instruments consistent. The proposal is more intuitive as the *triggers* and *measurement* for all the classes of debt instruments would be the same. Our proposal is consistent with the FASB's stated objective of reducing complexity in the accounting for financial instruments. In addition under our proposal financial institutions would supplement disclosures for all instruments to enhance transparency.

I would be happy to discuss this proposal in more detail with you and your staff.

Sincerely,

Robert Traficanti
Vice President and Deputy Controller

Appendix – Example of Difference Between Decline in Fair Value and Credit Impairment

The following example is a real situation encountered by Citigroup. We believe this example is consistent with situations faced by many financial institutions and other investors today, and highlights the significant difference between estimated credit impairment and the entire decline in fair value due to current market conditions.

In April 2006, Citigroup purchased residential mortgage-backed securities (RMBS) backed by residential mortgages originated by a leading mortgage lender and located primarily in California (55%) and Florida (16%). The RMBS was rated AAA by the rating agencies at the date of purchase, has a contractual maturity date of May 2036, and an original weighted average life of 3.4 years. Full principal pay-down using assumed prepayment rates was expected to be February 2013. The RMBS had a purchase price of $147.8 million and was recorded as AFS.

At the end of the third quarter 2008, the fair value of this RMBS was estimated at $71.6 million (approximately 49% of original cost), resulting in an unrealized loss recorded in Other Comprehensive Income of $76.2 million. The RMBS continues to be rated AAA. As part of the Other Than Temporary Impairment review, this position was reviewed to assess for possible credit impairment. Credit impairment is assessed using a cash flow model that estimates the cash flows on the underlying mortgages, using the collateral and transaction structure. We use actual cash flows on the bond through the current period, and then project remaining cash flows using a number of assumptions, including default rates, prepayment rates, and recovery rates (on foreclosed properties). Assumptions are developed using as much market participant data as possible, including internal estimates of future delinquency and default rates (as well as published estimates by rating agencies), and various assumptions regarding recovery rates – again, both published estimates and internal estimates of market participant assumptions. We believe that the assumptions incorporate and reflect fairly pessimistic views of future performance, and the default rates and recovery rates are significantly worse than have ever been historically experienced. These models have predicted, given these forward looking assumptions, that it is probable that the RMBS would suffer net principal losses as a result of default on the underlying mortgages of 10.27% throughout its contractual life. The present value of these principal losses, net of recoveries, results in a present value credit impairment of approximately 13%.

We estimate that the fair value of this RMBS reflects:

Credit impairment (discounted at the original effective yield)	13%
Losses due to other market factors including illiquidity and risk premiums	36%
Total decline in fair value	49%

As required by US GAAP, Citigroup recorded an impairment charge in earnings of $76.2 million. If the impairment guidelines were amended as proposed in this letter, Citigroup would have recorded an impairment charge in earnings of $19.2 million, while the remaining unrealized loss of $57.0 million would still be recorded in Other Comprehensive Income. We believe the impairment charge that reflects the estimated credit impairment is a much better reflection of the losses we expect to incur (and have incurred) on this RMBS position.