



Ms. Susan M. Cospers
Technical Director, File Reference No. 2013-210
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference Number 2013-210

Dear Ms. Cospers,

Citigroup appreciates the opportunity to comment to the Financial Accounting Standards Board (“FASB” or “the Board”) on the proposed Accounting Standards Update “Effective Control for Transfers with Forward Agreements to Repurchase Assets and Accounting for Repurchase Financings” (the “Exposure Draft”).

Strict Definition of Scope

We acknowledge the FASB’s objective of addressing the accounting for repurchase agreements whose term is equal to the maturity of the underlying transferred assets (repo-to-maturity transactions) and its conclusion that they should be presented on the balance sheet as financing transactions. We agree that repurchase agreements, whether to maturity of the underlying transferred assets or prior to their maturity, should be reflected on the balance sheet as financing transactions.

We appreciate and are not troubled by the Board’s acknowledgement that the Exposure Draft’s accounting for repo-to-maturity transactions is not consistent with the current effective control framework. However, because the Exposure Draft’s guidance is not consistent with the current framework and may result in different accounting treatments for economically similar transactions (as acknowledged by the Board with regard to sale and total return swap transactions in the Basis for Conclusions paragraphs BC 37-39), we believe it is critically important that the FASB clearly define the transactions to which the Exposure Draft applies. We don’t believe the scope of the Exposure Draft as written is clear.

The Exposure Draft references and amends the definition of the term “Repurchase Agreement” from the Master Glossary which is later used in implementation paragraphs 860-10-55-51 thru 56. However, the defined term is not used in paragraph 860-10-40-24 where the revised accounting is first presented. We recommend that paragraph 860-10-40-24 specifically incorporate the defined term “Repurchase Agreement” to eliminate ambiguity in the scope of the proposed guidance.

We further recommend that the FASB define the term “securities lending” in a manner equivalent to that of “Repurchase Agreement” and include reference to the term in paragraph 860-10-40-24. Making reference to “securities lending” transactions in implementation paragraphs 860-10-55-51 thru 56 without defining the term in a manner equivalent to that of “Repurchase Agreement”

introduces ambiguity in the scope of the Exposure Draft and presents the same risks that the FASB articulates in paragraphs BC 35-39 on “Economically Similar Transactions.” The February 2010 EITF Agenda Committee Report may present terminology or a description of securities lending transactions which may be helpful in crafting such a definition. We offer the following proposed definition for the FASB’s consideration:

Securities Lending Agreement

An agreement under which the transferor lends a security to a transferee in exchange for cash and concurrently agrees that transferee will return that security at a future date for an amount equal to the cash exchanged plus a stipulated interest factor. Some securities lending agreements call for return of securities that need not be identical to the securities initially transferred.

For avoidance of doubt, we also believe the FASB should explicitly state that transactions that may be economically similar to Repurchase Agreements, e.g. sale and total return swap transactions as mentioned by paragraphs BC 35-39, are not in the scope of the Exposure Draft. We believe it would be helpful if the FASB made reference to common examples of industry-standard agreements within the scope of the Exposure Draft including the Master Repurchase Agreement (MRA), Global Master Repurchase Agreement (GMRA), Securities Lending Agreement (SLA), and Master Securities Lending Agreement (MSLA). All transactions executed under these agreements should be within the scope of the Exposure Draft.

Other Comments

Our comments on the remainder of the Exposure Draft are as follows:

- We support eliminating the accounting currently required by FSP 140-3. We believe that repurchase agreements should be presented on the balance sheet as financings. Eliminating FSP 140-3’s presumptive linkage requirements and the resulting inventory and forward derivative presentation is a positive step.
- We recommend that paragraph 860-10-55-51A-e be removed from the Exposure Draft. The guidance in this paragraph would result in certain repurchase agreements that settle in cash prior to maturity of the underlying assets being recorded as sales, whereas a repo-to-maturity agreement (that also settles in cash) would be recorded as a financing. As written, paragraph 51A-e will allow for non-substantive changes to the contracts that may lead to a significantly different accounting result. We understand that market participants can obtain legal true sale opinions for repurchase agreements in many jurisdictions, including the United States. As a consequence, non-substantive cash settlement features may result in derecognition of the transferred securities with a forward repurchase derivative, without reporting a liability on the balance sheet for the repurchase agreement. In our view, given the Board’s objectives for issuing the Exposure Draft, it would be preferable for the ASU to state that all Repurchase and Securities Lending Agreements, as defined, are accounted for as financings.
- We believe that the disclosures proposed in paragraph 825-30-50-3b should be removed from the Exposure Draft. The scope of this disclosure is overly broad and is, in substance, a disclosure of accounting judgment around the derecognition conclusion which, as the FASB acknowledges in paragraph BC 49, is not required in other circumstances.

We would be pleased to discuss our comments with you at your convenience. I can be reached at 347-648-7721.

Sincerely,

A handwritten signature in blue ink that reads "Robert Traficanti". The signature is written in a cursive style with a blue ink color.

Robert Traficanti
Deputy Controller and Global Head of Accounting Policy