



Two Court Square, 15<sup>th</sup> Floor  
Long Island City, NY 11101

October 17, 2013

Ms. Susan Cosper  
Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

**Re: File Reference No. EITF 12-Gr: Measuring the Financial Liabilities of a Consolidated Collateralized Financing Entity (CFE)**

Dear Ms. Cosper:

We appreciate the opportunity to comment on the Proposed Accounting Standards Update, Consolidation (Topic 810) – *Measuring the Financial Liabilities of a Consolidated Collateralized Financing Entity* (proposed ASU). The highlights of our comments are provided below with a detailed discussion following that (specific responses to the FASB's questions are provided in the Appendix):

- We oppose the creation of a new measurement basis for financial liabilities.
- We believe that the proposed measurement approach does not provide meaningful representation of the net economics of an entity's retained interest in a CFE.
- We propose that the ASU be amended to require that the net income of the primary beneficiary reflects solely the changes in the fair value of its retained interests. We believe that attribution of this fair value to the gross consolidated assets and liabilities of the CFE should not be prescribed and that the final ASU should allow for the use of the best information available for determining fair value.

We support the FASB's objective of resolving diversity in practice in accounting for certain consolidated CFEs. However, we do not support the creation of a new measurement basis for a narrow class of liabilities (i.e., those of a consolidated CFE), as proposed by the ASU. The proposed measurement basis for the liabilities of a CFE lacks a clear conceptual basis and has the potential for distorting the net income reported by the primary beneficiary.

Citi believes that the guiding principle should be that the net income of the primary beneficiary reflects the changes in the fair value of its retained interests. Therefore, we disagree with the formula prescribed by the proposed ASU insofar as (1) it requires consideration of the carrying amounts of nonfinancial assets (as opposed to their fair values) and (2) it requires a process for attributing the

values of the CFEs assets to the retained beneficial interests (as opposed to using the fair values of these beneficial interests). These two requirements introduce a measurement approach that is not reflective of the economics retained by the primary beneficiary.

We understand the FASB's concerns about consistent accounting for all nonfinancial assets (generally other real estate owned (OREO) for financial institutions) reported on the balance sheet. However, we believe it is more important for the accounting to adhere to the economic substance and the risks retained in the transaction. Generally, the amount of OREO in securitization trusts that would qualify as CFEs is not material. During a downturn in the economic cycle, the OREO balance in these CFEs could potentially become significant; however, at that point in the economic cycle we also expect the OREO fair value to approximate the carrying amount under the "lower of cost or fair value" model. Consequently, we believe the accounting for the OREO that might exist in these CFEs at a point in time should not be a determining factor in establishing the overall measurement model for the assets and liabilities of the CFE.

Similarly, we believe the most relevant attribution of the assets of the CFE to the beneficial interests issued by the CFE is the one that market participants make, as reflected by the fair value of the beneficial interests. However, paragraph 810-10-35-6 b.1 of the ED could be interpreted as requiring a different approach for this attribution (e.g. on a pro-rata basis), which could result in the net income of the primary beneficiary not being reflective of the risks retained. We believe this is neither appropriate nor does it provide the most useful information to the readers of the financial statements.

Finally, since ASC 820 is not being amended, we believe that the following interpretation would still be supportable for certain CFEs, notwithstanding the guidance in the proposed ASU. ASC 820-10-35-5 states that "*a fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either: a. In the principal market for the asset or liability; b. In the absence of a principal market, in the most advantageous market for the asset or liability.*" For certain loans, securitization through a CFE could be deemed the primary or the most advantageous market. In other words, the fair value for the loans under ASC 820 is the price obtained in the securitization market – calculated using the current fair value of all beneficial interests issued by the CFE plus the fair value of retained interests, and the servicing contract. We acknowledge that presence of significant OREO may introduce complexity; however, in our experience OREO in these CFEs is generally not significant. Since the proposed ASU does not amend ASC 820, we believe the approach described above will continue to be appropriate for valuing the assets of these CFEs subsequent to the adoption date.

Thank you for your consideration of our comments. 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

## Appendix

### Questions for All Respondents

**Question 1:** Do you agree with the measurement of the financial liabilities of a consolidated collateralized financing entity as described in paragraph 810-10-30-2A? Do you also agree that a reporting entity that consolidates a collateralized financing entity should no longer be permitted to measure the financial liabilities of the collateralized financing entity using the fair value option of Topic 825 (whether or not the reporting entity elects to apply the measurement guidance under the proposed Update)?

Citi disagrees with the proposal for the reasons discussed in the body of our cover letter.

**Question 2:** Do you agree that a reporting entity that previously elected or was required to measure all eligible financial assets and financial liabilities of the consolidated collateralized financing entity at fair value should be required to apply the amendments in this proposed Update to those collateralized financing entities that exist at the date of adoption? Do you also agree that a reporting entity that had not previously measured all eligible financial assets and financial liabilities of the consolidated collateralized financing entity at fair value should be permitted to elect to apply the amendments in this proposed Update to those collateralized financing entities that exist at the date of adoption? Do you agree that a reporting entity that consolidates for the first time a collateralized financing entity should have an option to not apply the amendments in this proposed Update?

If the Board decides to adopt the proposed ASU, we agree that the amendments should apply to CFEs existing at adoption date and that an entity should be allowed at adoption date to elect the fair value option for assets and liabilities of CFEs previously accounted for at amortized cost.

**Question 3:** Should the decision to apply the proposed amendments be an accounting policy decision or a decision to be applied to individual collateralized financing entities? Please

Citi believes the decision should be applied to individual collateralized financing entities in order to allow consideration of the structure and risks of the various types of vehicles being consolidated.

**Question 4:** The proposed amendments require that a reporting entity allocate the calculated value to the individual financial liabilities on a reasonable and consistent basis using a methodology appropriate in the circumstances. For preparers, is additional allocation guidance necessary? If yes, what methods should be used to allocate the calculated value of the financial liabilities to the individual financial liabilities.

Citi does not believe additional allocation guidance is necessary.

**Question 6:** Do you agree that the proposed amendments should be applied using a modified retrospective approach, with the option to apply the proposed amendments retrospectively for reporting entities that have previously measured the financial assets and financial liabilities of the collateralized financing entity at fair value? If not, please explain why.

Citi agrees with the proposed transition approach.

**Question 7:** Do you agree that early adoption of the proposed amendments should be permitted? If not, please explain why.

Citi agrees that early adoption of the proposed amendments should be permitted.

**Question 9:** For preparers, how much time would be needed to implement the proposed amendments?

The proposed transition date for years beginning after December 15, 2013 does not allow enough time for implementation, considering also that a preparer might elect the fair value option for assets of consolidated CFEs that were previously accounted for at amortized cost. We recommend the transition date be for years beginning after December 15, 2014.

**Question 10:** For preparers, what costs do you expect to incur as a result of implementing the proposed amendments?

We have not performed an evaluation of implementation costs.