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August 14, 2015

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

File Reference No. 2015-270, *Proposed Accounting Standards Update, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*

Dear Ms. Cosper:

Citigroup appreciates the opportunity to comment on the Exposure Draft for the proposed Accounting Standards Update ("ASU"), *Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* ("the Proposal").

We support the efforts of the Board to reduce complexity in accounting standards while maintaining or improving the usefulness of the information provided to users of financial statements. While we are supportive of the majority of the amendments in the Proposal, we do not agree with the amendment to record excess tax benefits and tax deficiencies in the income statement.

Under current GAAP, award expense recognized in the income statement (for equity-classified awards) is based on the grant date fair value of such awards, while the deduction for tax purposes is based on the value of the award upon vesting (or exercise in the case of options). Subsequent changes in the award value attributable to changes in the underlying share price are not presented in the income statement under current (or proposed) GAAP. Similarly, under current guidance, the excess tax benefits or tax deficiencies related to changes in the value of the award subsequent to grant date are also recorded in APIC, but only to the extent that an entity has an accumulated excess tax benefit balance (an "APIC pool"). Such accounting requires an entity to track the balance of its APIC pool.

The Board's proposal is intended to simplify the accounting for equity-classified awards by requiring that all excess tax benefits and tax deficiencies would be recognized as an income tax expense or benefit in the income statement, thus eliminating the need to track APIC pool balances. We disagree with this proposal because, as stated above, any subsequent changes in the award value attributable to changes in the underlying share price are not currently presented in the income statement, it therefore follows that the tax effects of these fair value changes should also be presented in APIC, not in the income statement. We recommend that the Board consider an alternate proposal whereby both excess tax benefits and deficiencies are presented directly in APIC. We further believe that presentation of fair value changes in the income statement attributable to changes in the underlying share price is not useful because the share price is not within the entity's direct control. For this reason, we believe that financial statement users will choose to reverse any excess tax benefits or deficiencies presented the income statement. Doing away with the complex APIC pooling principle and presenting excess tax benefits or deficiencies directly in APIC will achieve the Board's objective of simplification, and improve the usefulness of information provided to users of the financial statements.

We also note that the Board has proposed an amendment that would allow entities to withhold a tax amount up to the employee's maximum individual statutory tax rate in a given jurisdiction without causing the award to be liability classified. We welcome this simplification of the current guidance and suggest a modification that would offer even greater operational simplification to global organizations with a large expatriate employee population.

Our responses to the specific questions presented in the proposed ASU are provided below.

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

Sincerely,

Robert Traficanti

Robert Traficanti
Global Head of Accounting Policy

Question 2: *Should excess tax benefits and tax deficiencies be recognized in the income statement? If not, why, and are there other alternatives that are more appropriate? Should an entity delay recognition of an excess tax benefit until the benefit is realized through a reduction to taxes payable? If yes, why?*

We do not support the proposal to present excess tax benefits and tax deficiencies in the income statement and would instead recommend that the Board consider requiring all excess tax benefits and deficiencies to be presented directly in APIC, i.e., without the intermediate pooling step, in order to fulfill the Board's stated goal of simplification, while improving the usefulness of the information provided to users in financial statements.

Per ASC 718, for equity-classified awards, compensation cost is recorded based on the fair value of the award on the grant date. Any subsequent changes in the fair value of the award due to fluctuation in the underlying share price are not included in earnings as they occur. Further, the settlement of the award is reflected in APIC; therefore, conceptually, the recognition of the tax effect of this transaction should be reflected consistently with the way in which the pre-tax transaction is reflected, i.e., any excess tax benefits or deficiencies that result from changes in fair value of the award subsequent to the grant date should not be reflected in earnings, but rather in APIC. We believe that presentation in equity would yield considerably more useful financial statement information than the presentation in earnings proposed in this proposed ASU.

Additionally, we believe that entity-specific factors that are not wholly within the control of the reporting entity tend to be ignored or neutralized by users of financial statements. As such, we expect that under the current proposal, the income statement volatility attributable to these excess tax benefits and deficiencies will be reversed by users analyzing our financial performance.

Furthermore, by requiring both benefits and deficiencies to be recorded directly in APIC, entities may reduce complexity and potentially achieve cost savings by eliminating the current requirement to track APIC pools.

Question 4: *Should entities be permitted to make an accounting policy election either to account for forfeitures when they occur or to estimate forfeitures? If not, why?*

Yes, we agree that entities should be permitted to make an accounting policy election either to account for forfeitures when they occur or to estimate forfeitures. Choosing to account for forfeitures on an as-they-occur basis would negate the need to apply the highly stratified and complex models that a reliable forfeiture estimate requires, resulting in cost savings and the elimination of needless complexity. For entities that choose to retain the forfeiture estimate, because the estimate is ultimately trued-up to the actual forfeiture experience over time, the final expense amount will be the same as if the as-they-occur approach had been applied. For this reason, we believe that providing a choice (as opposed to mandating one approach or the other) is appropriate.

Question 5: *Is the proposed expansion of the exception to liability classification related to the amount withheld for employee's taxes appropriate? If not, is there another exception that is more appropriate and why?*

We agree that the proposed approach is a simplification and an improvement to current guidance; however, it does not go far enough in addressing the burdensome complexities of tax settlement issues related to a company's expatriate population.

Employees classified as "Expatriates" are subject to the Expatriate Policy ("the Policy") at Citi, which is a corporate benefit program designed to facilitate the temporary transfer of employees to different countries to share and develop their skills. The Policy is designed to neutralize the relative advantages or disadvantages presented by differing tax laws in an employee's "compensation country" and their "assignment country" and thereby neutralize (or at least minimize) tax considerations from the employee`s decision regarding whether or not to accept an expatriate assignment. This neutralization is accomplished by tax equalization.

In most global corporation's tax equalization policy, the "hypothetical tax" that an employee is levied is based on tax rates in the expatriate employee's compensation country. These hypothetical taxes are deducted from their stay-at-home compensation (i.e., base salary and incentive compensation) for the duration of their assignment. Compensation subject to hypothetical tax may include equity compensation (e.g., restricted or deferred stock awards and stock options). During the assignment, the company will pay all applicable actual taxes on the expatriate's compensation, and the expatriate employee will pay hypothetical tax to the company at the applicable actual tax rate in his or her compensation country.

Where shares are withheld from equity compensation to cover the withholding taxes on a share-based award, current accounting rules require a company to withhold tax at no more than the minimum statutory withholding ("MSW") rate for the relevant equity award. This presents challenges for expatriates and their employers if the expatriate is assigned to a country where the MSW rate is lower than their hypothetical tax rate (i.e., the withholding rate that they are contractually subject to under the Policy) or if no withholding obligation applies in the assignment country. In such cases, expatriate employees may be forced to sell shares in the market when they would not otherwise choose to do so in order to satisfy the shortfall between their hypothetical tax rate and the MSW rate. Expatriate employees subject to hypothetical tax payments are economically disadvantaged as compared to non-expatriate employees who can satisfy their withholding tax obligations in full without requiring additional cash-on-hand or being exposed to immediate market risk. In many cases, expatriate employees may also be barred from selling shares if the withholding obligation arises during quarterly "blackout" periods pursuant to corporate trading policies in place to prevent even the appearance of insider trading. This causes administrative inefficiencies for the employer and frustration for expatriate employees.

The proposed simplification to the current rule will reduce some of these difficulties, but because the maximum statutory rate in many cases will not be reflective of the employee's contractual tax liability under the Policy, most of the challenges described above will persist.

We therefore propose that employers be allowed to use the hypothetical tax rate an employee is contractually obligated to pay pursuant to the terms of a bona fide tax equalization policy for expatriate employees. A hypothetical tax rate under a bona fide tax equalization policy would be one that does not exceed the maximum individual statutory tax rate in the designated compensation country to which an expatriate employee is tax equalized.

We believe that this proposed tax withholding approach can be adopted because the withholding of shares in a quantity sufficient to settle the employee tax liability is undertaken to achieve administrative simplicity.

Question 6: *Should the cash paid by an employer to the taxing authorities when directly withholding shares for tax-withholding purposes be classified as a financing activity on the statement of cash flows? If not, what classification is more appropriate and why?*

Yes, we agree that the cash paid by an employer to the taxing authorities when directly withholding shares for tax-withholding purposes should be classified as a financing activity on the statement of cash flows. In line with the reason set out in BC20, there are no income effects that result from an employer directly withholding shares for tax-withholding purposes; therefore, classification as an operating activity on the statement of cash flows would not appropriately reflect the economics of the transaction.

Question 10: *Are the transition requirements for each area appropriate? If not, what transition approach is more appropriate?*

We agree with the proposed transition requirements.