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November 28, 2016

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

File Reference No. 2016-340

Dear Ms. Cospers:

Citigroup appreciates the opportunity to comment on the Exposure Draft (“ED”) of the proposed Accounting Standards Update (“ASU”), *Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*. We have the following comments in response to the questions for respondents raised in the ASU.

Question 1: Do you agree that premiums on purchased callable debt securities should be amortized to the earliest call date? Please explain why or why not.

We agree that the amortization period for callable debt securities purchased at a premium should be shortened to the earliest call date. The current accounting model is distortive and results in uneven, “surprise” losses when securities are called. The amendments will conform the amortization of premiums to market expectations incorporated in the “yield-to-worst” pricing of the callable securities and, thus, will be a better reflection of the economics of the securities.

We also believe the foregoing to be true for all premiums on callable debt securities, regardless of how they were generated, such as and including deferred acquisition costs and cumulative fair value hedge adjustments that increase the amortized cost basis of a callable security above par value. Given the extensive references to “purchase premiums” in the ASU, we recommend the Board clarify that there is no conceptual basis to differentiate the accounting for purchase premiums from other premiums, as any such differentiation would be contrary to the stated objectives of the ASU and inconsistent with current GAAP requirements.

Specifically, the ASU makes several references to the Board’s objectives of aligning the amortization period of premiums and discounts with market pricing expectations and also aligning the recognition of interest income with the economics of an underlying instrument. If the proposed amendments are only intended to address the accounting for purchase premiums, the guidance will fail to meet these stated objectives because other carrying value adjustments will amortize in a manner that is not consistent with the market economics of a callable security.

Under current GAAP for fair value hedges, ASC 815-25-35-1(b) mandates that *“the gain or loss on the hedged item attributable to the hedged risk shall adjust the carrying amount of the hedged item and be recognized currently in earnings.”*

The subsequent accounting for these carrying value adjustments is addressed in paragraph 815-25-35-8, which states that *“The adjustment of the carrying amount of a hedged asset or liability required by paragraph 815-25-35-1(b) shall be accounted for in the same manner as other components of the carrying amount of that asset or liability.”*

For financial instruments, this guidance is further clarified in paragraph 815-25-35-9, whereby *“An adjustment of the carrying amount of a hedged interest-bearing financial instrument shall be amortized to earnings. Amortization shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.”*

In applying the foregoing guidance under current GAAP, entities generally begin to amortize cumulative fair value hedge adjustments when a hedge relationship is dedesignated, and do not amortize hedge adjustments while an item is subject to an active fair value hedge. For those cumulative hedge adjustments subject to amortization, the pattern of amortization is determined in a manner that is consistent with a purchase premium or purchase discount, (i.e., the amounts are amortized “in the same manner as other components of the carrying amount of that asset or liability”). Currently, GAAP requires this pattern of amortization be based on the full contractual life of the instrument, regardless of whether the cumulative fair value hedge adjustment is the equivalent of a premium or a discount.

Under the amendments, there will be a differentiation in the accounting for purchase premiums and purchase discounts on callable securities. Consistent with this differentiation and because there are no proposed amendments to the paragraphs cited above from ASC Topic 815, it is our understanding that the amortization of cumulative fair value hedge adjustments related to dedesignated fair value hedge relationships that are no longer active will continue to be “accounted for in the same manner as other components of the carrying amount of that asset”, and this will mean that fair value hedge adjustments that are the equivalent of “premiums” shall be amortized to the first call date for a hedged callable security, and those that are the equivalent of “discounts” shall be amortized over the full contractual life of the security. In addition, it is our understanding that cumulative fair value hedge adjustments that are not subject to amortization under current GAAP (i.e., because they relate to an item subject to an active hedge relationship) will not be amortized under the amendments, regardless of whether the designated term of the hedge relationship extends beyond the first call date.

For purposes of clarity and the avoidance of doubt, although we believe there is no other way to interpret the effects of the proposed amendments (i.e., there is no basis in the proposed guidance for the amortization of all cumulative hedge accounting adjustments to default to be similar to “purchase discounts”), we have included a few proposed edits to the ASU for your consideration in Appendix A.

Question 2: How much time would be needed to implement the proposed amendments? Should entities other than public business entities be provided more time? Should early adoption be permitted?

We do not believe a significant amount of time will be needed for entities to implement the proposed amendments. However, regardless of the length of time the Board allows after issuance before the final standard becomes effective, we strongly encourage the Board to allow entities to early adopt the amendments upon issuance of the standard. We believe the proposed amendments in the ED represent a significant improvement to existing GAAP and, as such, many entities will be eager to early adopt.

Question 3: Do you agree with the proposed transition method and disclosures in paragraph 310-20-65-1(c)? Please explain why or why not.

We agree with the proposed transition method for entities to adopt the amendments through a modified retrospective approach that will reflect a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. To apply the guidance through a full retrospective approach could require significant operational effort to reconstruct historical activity (e.g., purchases, sales and calls) to determine the amount of amortization that should have been recorded in prior periods (for securities that continue to be held), as well as any adjustment required to previously recognized gains or losses that should have been recorded as amortization (for securities that were sold). We also agree that an entity should provide disclosure about a change in accounting principle in the period of adoption.

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

Global Head of Accounting Policy

APPENDIX A – SUGGESTED EDITS TO PROPOSED AMENDMENTS

For clarity, the paragraphs included below include the edits as proposed in the ASU, and the changes reflected below represent proposed additional edits to the ASU. All of the proposed edits are reflected as **red font**, and further, added text is underlined, and deleted text is ~~struck out~~.

Who Would Be Affected by the Amendments in This Proposed Update?

The amendments in this proposed Update would affect all entities that ~~purchase~~ hold investments in callable debt securities that have an amortized cost basis in excess of the amount that is repayable by the issuer at the first call date (that is, at a premium).

> Estimating Principal Prepayments

310-20-35-33 To the extent that the amortized cost basis of an individual callable **debt security at a premium** exceeds the amount repayable by the issuer at the first call date, the excess (that is, the premium) shall be amortized to the earliest call date. After the earliest call date, if the call option is not exercised, the entity shall reset the yield using the payment terms required by the debt security. Under paragraph 310-20-35-26, an entity must have a large number of similar loans in order to consider estimates of future principal prepayments when applying the interest method.

> Amortization or Accretion Period

942-320-35-1 The period of amortization or accretion for debt securities shall generally extend from the purchase date to the maturity date, unless the security ~~was purchased at a premium and~~ is callable and has an amortized cost basis that is greater than the amount repayable by the issuer at the first call date. In that case, the amortization period for the excess (that is, the premium) shall extend ~~from the purchase date~~ to the earliest call date.