1 Court Square, 8th floor
Long Island City, NY 11101

December 19, 2018

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

File Reference No. 2018-300

Dear Ms. Cosper:

Citigroup appreciates the opportunity to comment on the proposed Accounting Standards Update (“Proposed ASU” or the “Exposure Draft”), *Codification Improvements – Financial Instruments*.

We commend the efforts of the Board to provide clarification and corrections to the following ASUs in an expedited manner:

1. Accounting Standards Update No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*
2. Accounting Standards Update No 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*
3. Accounting Standards Update No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities.*

Overall, Citigroup supports the Board’s proposed amendments as most provide the necessary clarifications or corrections that will simplify or reduce operational concerns.

Citigroup has the following specific comments on certain amendments in the Exposure Draft:

Topic 1: Codification Improvements Resulting from the June 11, 2018 Credit Losses TRG Meeting

1. *Issue 1A: Accrued Interest*
   a. Citi recommends that paragraph 326-20-45-5 be revised to allow the separate presentation election for accrued interest to be permitted at the class of financing receivable and major security-type level. Currently Citi includes accrued interest on credit cards in the Loans line on the balance sheet but, for other financial assets, accrued interest is included in the Other Assets line item. Requiring the “entire” accrued interest receivable balance to be presented separately as described in paragraph 326-20-45-5

would be restrictive and inconsistent with the accounting policy election for measurement of expected credit losses on accrued interest at the class of financing receivable or the major security type level.

b. The requirement to disclose the total amount of accrued interest excluded from the amortized cost basis is duplicated in paragraphs 326-20-50-3A and 326-20-50-3B.

c. Overall Citi supports the accounting policy elections afforded by the Exposure Draft that allow the option to choose to (a) write off accrued interest amounts by either reversing interest income or adjusting the allowance for credit losses and (b) elect not to measure an allowance for credit losses on accrued interest if the entity writes off uncollectible accrued interest amounts in a timely manner. However, Citi would like to highlight a few items:

    i. For credit cards, regulatory guidance mandates that uncollected card accrued interest and fees be written off at 180 days past due. It is Citi's view that charge off of uncollectible accrued interest and fees at 180 days past due is timely – under any other interpretation of GAAP 180 days is considered short term. In addition, other products such as mortgages and installment loans are placed on nonaccrual status at 90 or 120 days past due – it is Citi's view that 180 days past due is not substantially longer than the aforementioned nonaccrual thresholds.

    ii. At some institutions, billed credit card accrued interest rolls up to the loans financial statement line item while unbilled credit card accrued interest rolls up to the other assets line item – we believe that the same policy election should apply to both billed and unbilled accrued credit card interest. It is our view that while the financial statement line roll up may differ, regardless of whether card interest is billed or unbilled, credit risk inherent in the receivable is similar and, therefore, the accounting policy election should be applied as though billed and unbilled interest are the same class of financing receivable.

d. Citi recommends that the accounting policy elections for accrued interest also be available to AFS debt securities, requiring amendments to Subtopic 326-30.

2. *Issue 1B: Transfers between Classifications or Categories for Loans and Debt Securities*

    a. As revised by the Proposed ASU, paragraph 320-10-35-10 would only refer to transfers in and out of the trading category. Citi recommends that "with the exception of debt security transfers in paragraph 320-10-35-10A through 35-10B" be struck out and replaced with clarity that the paragraph 320-10-35-10 specifically refers to transfers in and out of the trading category. As revised by the Proposed ASU, paragraph 320-10-35-10 would only refer to transfers in and out of the trading category.

b. Paragraph 320-10-35-10B (b) to be corrected as follows to require transfers from the available-for-sale category to the held-for-maturity category at fair value:

320-10-35-10B

b. Reclassify and transfer the debt security to the held-to-maturity ~~available-for-sale~~ category at its fair value ~~amortized cost basis (which is reduced by any previous writeoffs but excludes any allowance for credit losses) plus or minus the amount of any remaining unrealized holding gain or loss reported in accumulated other comprehensive income~~

c. Paragraph 320-10-35-10B(d) refers to both amortization of premiums and discounts. Citi recommends including "accretion" when referring to discounts.

3. *Issue 1C: Recoveries*
   a. Permitting negative allowances for available-for-sale debt securities would more closely align the accounting for recoveries on securities and loans under ASC 326-20 and should apply to portions of available-for-sale securities previously written down for credit losses.

Topic 4: Codification Improvements to Update 2016-01

1. *Issue 4C: Applicability of Topic 820 to the Measurement Alternative*
   a. Citi recommends further clarity to paragraph 321-10-50-2B. It is not clear how the disclosure requirements in Subtopic 321-10 would meet the disclosure requirements described in Section 820-10-50 when the latter includes incremental requirements (e.g., the level of the fair value hierarchy).

2. *Issue 4D: Remeasurement of Equity Securities at Historical Exchange Rates*
   a. Citi does not support the deletion to paragraph 830-10-45-18(a)(2). This deletion would result in held-to-maturity securities being nonmonetary assets, remeasured at historical foreign exchange rates. In current GAAP, foreign exchange risk that exists in held-to-maturity securities is an eligible risk to be hedged under Topic 815. In addition, many companies employ asset-liability management strategies whereby these companies look to match foreign exchange translations between held-to-maturity securities and cost-based liabilities denominated in the same foreign currency. This type of offset is achieved under Topic 830 without having to elect hedge accounting under Topic 815. Further, the definition of amortized cost basis includes adjustments for foreign exchange. It would seem inconsistent to exclude held-to-maturity securities from these types of translations, but not all other investments and financing receivables that get captured in the amortized cost basis definition and would be subject to foreign exchange translations. Therefore, this amendment would create practice issues that did not exist

previously. Citi believes current GAAP should remain whereby held-to-maturity debt securities are monetary assets, re-measured at current foreign exchange rates, with re-measurement (difference in spot to spot foreign exchange rates) recorded in earnings.

Topic 5: Codification Improvements Resulting from the November 1, 2018 Credit Losses TRG Meeting

1. *Issue 5A: Vintage Disclosures – Line-of-Credit Arrangements Converted to Term Loans*
   a. Rather than the addition of paragraph 326-20-50-6A, we recommend that paragraph 326-20-50-7 be amended as follows to describe how automatic conversions per contract terms and conversions through TDRs should be presented for vintage disclosure purposes:

      > **326-20-50-7** An entity shall use the guidance in paragraphs 310-20-35-9 through 35-12 when determining whether a modification, extension, or renewal of a financing receivable should be presented as a current-period origination. An entity shall use the guidance in paragraphs 842-10-25-8 through 25-9 when determining whether a lease modification should be presented as a current-period origination. <u>For line-of-credit arrangements that are converted to term loans without an additional credit decision or that are converted through a troubled debt restructuring, the entity shall disclose the amortized cost basis in a separate column (see Example 15) in the reporting period of the conversion.</u>

      Paragraph 326-20-50-6A in the Proposed ASU introduces a new concept of "most recent credit decision" that was not previously in ASU 2016-13 for vintage disclosures. As part of our implementation efforts, we have not prepared to track "most recent credit decision" and, therefore, would not be able to implement this concept by January 1, 2020. In addition, we believe that "most recent credit decision" could be interpreted differently by entities. We are comfortable applying the guidance in paragraphs 310-20-35-9 through 35-12 to determine whether a modification of a line-of-credit arrangement to a term loan through an additional credit decision results in a new loan.

   b. Credit quality disclosures apply only to financing receivables and not debt securities. Paragraph 326-20-50-6A should be corrected to remove reference to major security type, if paragraph 326-20-50-6A is retained in the final ASU.

2. *Issue 5B: Contractual Extensions and Renewals*
   a. Citi recommends that paragraph 326-20-30-6 (b) be amended to remove the requirement to evaluate the likelihood that a contractual extension or renewal option will be exercised. Basis of Conclusions paragraph BC104 acknowledges that there are various methods to consider how to incorporate contractual extension or renewal options when determining the contractual term. As written in the Proposed ASU, an entity would be prohibited from including 100% of extension and renewal options that are not unconditionally cancellable

by the entity. We currently do not track borrower exercise of extension or renewal options. If we are required to develop a process for considering the likelihood of exercise by the borrower, we will require more time to implement.

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