16 July 2010

International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH
United Kingdom

Re: Exposure Draft ED/2010/4, *Fair Value Option for Financial Liabilities*

Ladies and Gentlemen:

Citi appreciates the opportunity to comment on the Exposure Draft (ED), *Fair Value Option for Financial Liabilities*. We support the IASB's decision to retain most of the existing requirements for classifying and measuring liabilities. We believe that the existing framework in IAS 39, *Financial Instruments: Recognition and Measurement*, for classification and measurement of liabilities and bifurcating embedded derivatives is functional, poses few practice issues and, therefore, does not necessitate significant changes. We generally view the proposals in the ED favorably (subject to our detailed comments on certain aspects outlined below) and believe that they will improve the accounting and presentation of financial liabilities classified as fair value through profit or loss.

Impact of Own Credit Risk for Liabilities Classified as Held For Trading

Citi agrees with the IASB's decision to leave the accounting model for liabilities classified as held for trading unchanged. By definition, these liabilities are frequently transacted in and all changes in fair value (including the impact of changes in own credit risk) could potentially be realized. Therefore, it is appropriate for all changes in fair value for liabilities classified as held for trading to be reflected in earnings.

Impact of Own Credit Risk for Liabilities Classified as Fair Value Through Profit or Loss (FVTPL)

Citi supports the IASB's proposal for recording changes in fair value related to own credit risk in Other Comprehensive Income (OCI) for liabilities classified as FVTPL. The proposed change appropriately addresses the widespread criticism of the current accounting for issued debt classified as FVTPL that produces counterintuitive results (i.e., gains in earnings when the issuer's creditworthiness deteriorates and losses in earnings when the issuer's creditworthiness improves) that may potentially never be realized.

Reclassifying Amounts Recorded in OCI to Earnings

Citi disagrees with the proposal in the ED not to reclassify the impact of changes in own credit risk recorded in OCI to earnings when it is subsequently realized. We acknowledge the view that a change in a liability's credit risk represents a wealth transfer between liability holders and equity holders that is appropriately reflected in a component of equity (i.e., OCI). However, we

do not believe that such a transfer should be permanent. Realized gains or losses upon derecognition of a liability accounted for at amortized cost are recorded in earnings. The ED creates a new accounting model with an unclear conceptual basis for realized gains or losses related to the derecognition of liabilities classified as FVTPL that is inconsistent with the treatment of similar gains or losses for liabilities accounted for at amortized cost.

The IASB has implicitly acknowledged the usefulness and relevance of this information by including a requirement to disclose the amounts that would have been reclassified to earnings if recycling upon derecognition of the liability were required. We believe that presenting this amount in earnings instead of in disclosures will result in more meaningful financial statements. We urge the IASB to reconsider its decision and require recycling of realized amounts from OCI to earnings for liabilities classified as FVTPL.

Alternative Approach in Paragraph BC20

Citi agrees with the alternative approach that would require recording all changes in fair value in earnings in limited circumstances to solve mismatches between the accounting for certain financial assets and liabilities. The alternative approach would be particularly relevant in certain securitization structures where liabilities are secured only by the corresponding financial assets and do not offer recourse to any other assets of the entity. Since such liabilities have no element of own credit risk from the entity's perspective, recording any portion of the changes in fair value in OCI would not produce meaningful results.

Convergence

We realize that achieving convergence in accounting for financial instruments is a priority for the IASB and the FASB. However, in light of the FASB's comprehensive exposure draft on financial instruments issued on May 26, 2010, the differences in critical areas between the FASB and the IASB proposals are significant and convergence seems daunting. We would like to re-emphasize the need for convergence in the accounting for financial instruments if the goal of a single set of global high quality standards is to be achieved. With respect to financial liabilities, we believe that the IASB's overall approach is preferable to the FASB's approach and therefore encourage convergence towards the IASB model.

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We would be pleased to discuss our comments with you at your convenience. Please contact me (1-212-559-7721) or David Minarik in London (+44 207 508 9984).

Sincerely,

Robert Traficanti
Deputy Controller and Head of Accounting Policy