

Sallie Krawcheck  
*Chief Financial Officer*

Citigroup Inc.  
399 Park Avenue  
2nd Floor  
New York, NY 10022

Tel 212 793 7913  
Fax 212 793 0408  
sallie.krawcheck@citigroup.com

January 18, 2006

Office of the Comptroller of the Currency  
250 E Street, SW.,  
Attn: Public Information Room,  
Mail Stop 1-5  
Washington, DC 20219  
Docket No. 05-16  
regs.comments@occ.treas.gov  
RIN 1557-AC95

Robert E. Feldman  
Executive Secretary  
Attn: Comments/Legal ESS  
Federal Deposit Insurance Corporation  
550 17th Street, NW.,  
Washington, DC 20429  
comments@FDIC.gov  
RIN 3064-AC96

Jennifer J. Johnson, Secretary  
Board of Governors of the  
Federal Reserve System  
20th Street and Constitution Avenue, NW.,  
Washington, DC 20551  
Attention: Docket No. R-1238  
regs.comments@federalreserve.gov

Regulation Comments  
Chief Counsel's Office  
Office of Thrift Supervision  
1700 G Street, NW.,  
Washington, DC 20552  
Attn: No. 2005-40  
regs.comments@ots.treas.gov  
RIN 1550-AB98

**Re: Joint Advance Notice of Proposed Rulemaking (ANPR)**

**Introduction**

Citigroup is pleased to provide comments on the Joint Advance Notice of Proposed Rulemaking (ANPR) for modification of the existing risk-based capital framework, also known as Basel I-A, as published in the Federal Register on October 20, 2005. As a large, internationally active banking organization, Citigroup is a "mandatory bank"<sup>1</sup> that is

---

<sup>1</sup> For convenience, terms frequently used in this document are defined below

"Basel I" regulations refer to the existing risk-based capital regulation in the US as of October 20, 2005, which represent the implementation of the original 1988 Basel Accord and subsequent modifications as published by the US Agencies

"Basel I-A" regulations refer to the modifications to the existing Basel I regulations as proposed in this ANPR.

"Basel II" regulations refer to the enhancements to Basel I for credit and trading risk and the explicit incorporation of operational risk into the Basel framework, based on the June 2004 Basel Capital Accord as updated Nov. 15, 2005

"A-IRB" refers to the Advanced Internal Ratings Based Approach for credit risk of Basel II.

"Standardized" refers to the Standardized Approach for credit risk of Basel II.

required to implement the Basel II framework on a consolidated basis rather than continue under either the current or Basel I-A frameworks. Basel I-A would therefore not have a direct impact on Citigroup (at the consolidated level or for its US lead or non-lead bank subsidiaries) except if a) it were to be used as the standard (or capital floor) against which Basel II capital would be compared during the proposed transition period before the full implementation of Basel II and/or b) if Citigroup were required to issue Call Reports of Basel I-A measurements. Accordingly, our comments focus on these two potential issues.

### Summary

Citigroup is fully supportive of the broader goals of capital adequacy reform: to create a more risk-sensitive capital framework and provide incentives for banking organizations to improve their risk management and measurement practices. We believe these goals can be pursued in parallel in the US for both Basel I-A and II regimes. We recognize the importance to US regulators of advancing both Basel I-A and Basel II in a timely manner. However, Basel I-A requirements should not create an additional regulatory burden for banking organizations adopting the more advanced Basel II approaches. In particular, we are strongly opposed to the use of Basel I-A capital calculations as a floor for Basel II capital and/or as a reporting requirement for any entity (and its subsidiaries) that adopts Basel II AIRB on a consolidated basis.

- Implementation of Basel I-A for Mandatory Banks Imposes Additional Costs and Puts Timely Implementation of Basel II at Risk As an internationally active bank, with legal vehicles in a number of countries, the adoption of Basel II requires Citigroup to build an infrastructure to calculate Risk Weighted Assets on a consolidated basis and for different legal vehicles in accordance with three different methods (Basel I, Basel II Standardized and Basel II A-IRB). The potential requirement to implement Basel I-A would result in significant additional compliance costs and increased operational complexity by creating another set of capital calculations and additional risk to the timely implementation of the Basel II program.
- Implementation of Basel I-A for Mandatory Banks Creates No Benefit. By design, Basel I-A is less risk sensitive than the Basel II approaches the mandatory banks have to implement (A-IRB for credit risk and the Advanced Measurement Approach for operational risk). As a consequence, there does not appear to be an additional safety and soundness benefit that would justify the cost and operational risk for a Basel II bank to replace the existing Basel I transitional capital floor with a capital floor based on Basel I-A. In addition, one of the stated goals of the Basel Committee and of US regulators was to ensure that the total risk capital in the banking system did not

---

“Mandatory bank” refers to any banking organization with either assets of \$250 billion or more or on-balance sheet foreign exposure of \$10 billion or more that is required to adopt the Basel II regulations.

materially decrease as a result of the implementation of capital adequacy reform. To measure changes in overall capital requirements of US banks, both Basel II and Basel I-A would need to be calibrated against the current Basel I rules. If Basel I-A were calibrated with respect to Basel I, then no additional information would be gained by requiring mandatory banks to use Basel I-A instead of Basel I as a floor during the transition period. If Basel I-A were not calibrated with respect to Basel I then US regulators would have no means of measuring the consequence of Basel I-A on capital adequacy.

- Problems for Implementing Basel I-A for Retail Portfolios outside US. Citigroup is an internationally active bank, with wholesale and retail portfolios in many countries. Some of the risk parameters that Basel I-A requires for retail portfolios, such as FICO scores (or more general credit scores), are not always available outside the US. Consequently, we do not think that all aspects of Basel I-A, as proposed, could be readily or cost-effectively implemented for Citigroup's retail businesses.

We are also opposed to the imposition of unnecessary additional data collection and reporting requirements on mandatory banks as a result of Basel I-A, whether the Basel I-A floor applies or not.

For the reasons outlined in the introduction we have limited our comments to those aspects of Basel I-A that would directly affect our organization. However, we understand the need for US regulators to move along parallel paths in implementing Basel II and Basel I-A. Consequently, Citigroup offers its assistance, in whatever form might be wanted, to provide US regulators with information that would aid in the formulation and calibration of Basel I-A. In particular, we offer our best effort comparative calibration of the impact of Basel I, Basel I-A and Basel II for our wholesale and retail portfolios.

### **Basel I-A capital as the transitional floor for Basel II banks**

*The ANPR requests comment on whether the revisions resulting from this ANPR process should be incorporated into the definition of the Basel II capital floor.*

We oppose application of Basel I-A to the Basel II floor calculation for the following reasons:

- Implementation of Basel I-A for Mandatory Banks Imposes Additional Costs and Puts Timely Implementation of Basel II at Risk. The proposed changes will result in significant additional compliance costs and increased operational complexity by creating another set of capital calculations and additional risk to the timely implementation of the Basel II program.

The ANPR states that information required to implement Basel I-A is “*currently available as part of the organization’s credit approval and portfolio management processes*”. It does not follow, however, that it is straightforward or costless to implement process changes.

A Basel I-A floor would require Basel II banks to implement another capital calculation, using different input data and different methodology. This would generate additional costs, would compete for the same internal resources currently allocated to implementing Basel II and would create a new set of operational risks. The operational risks arise from the introduction of additional processes, systems and data requirements simultaneously across multiple exposure categories.

This is particularly true for an internationally active bank such as Citigroup, which has to calculate and report regulatory capital on both a consolidated basis and for many of its legal vehicles in countries around the world. Over the near term we are building a complex infrastructure to implement Basel II, one component of which are processes for the calculation of risk weighted assets under three different approaches:

- Basel I. Virtually all countries outside the US (e.g. in the EU) will use Basel I as the capital benchmark during the transition period of implementing Basel II.
- Basel II A-IRB. Citigroup is required to implement the A-IRB approach for consolidated reporting as well as for legal vehicle reporting in several countries.
- Basel II Standardized. Citigroup will be required to implement the Standardized Approach in some of the countries in which it operates, at least initially.

To build a fourth regulatory capital methodology (Basel I-A) would be costly and would compete with the same internal resources currently deployed on implementing the other versions of Basel on a consolidated and legal vehicle basis.

Even if the Basel II banks were not required to apply Basel I-A to the floor calculation, but were required to provide some or all of the underlying incremental information needed for the Basel I-A calculation in Call Reports or elsewhere, that reporting requirement would be a similar compliance burden and operational risk. We oppose creating such additional requirements.

These costs and risks can be avoided by simply retaining the Basel I calculation method for the capital floor. Since the floor is temporary, there does not appear to be a compelling need or benefit to justify these additional costs.

Should the supervisors pursue the adoption of Basel I-A as the floor for Basel II banks then firms should have the option to apply a floor based on either Basel I or I-A.

- Implementation of Basel I-A for Mandatory Banks Creates No Benefit. The use of a different methodology to compute the floor is unnecessary. By design, Basel I-A is less risk sensitive than the Basel II approaches the mandatory banks have to implement (A-IRB for credit risk and the Advanced Measurement Approach for operational risk). Thus there does not appear to be an additional safety and soundness benefit that would justify the cost and operational risk for a Basel II bank to temporarily replace the existing Basel I capital floor.

A stated goal of the Basel Committee and of US regulators is to ensure that the total required capital in the banking system does not materially change as a result of the implementation of regulatory capital reform. Given that stated goal, the only means of measuring the change in the regulatory capital requirements of mandatory banks is to compare the capital requirement of Basel II to Basel I. For Basel I-A banks it would be necessary to calibrate Basel I-A to Basel I.

Given the risk insensitivity of Basel I, one should expect a dispersion of the ratio of Basel II required capital to Basel I required capital a) across banks (because of their different product and customer segment mixes) and b) across time (because of the changes in the distribution of risk ratings across the economic cycle). However, even given these sources of potential dispersion, the only means of measuring the changes in the total required regulatory capital is to calibrate the new capital rules (Basel II or Basel I-A) against the current rules (Basel I).

If Basel I-A were calibrated against Basel I then no additional information would be provided to US regulators by requiring mandatory banks to implement Basel I-A as a floor during the transition period. If Basel I-A were not calibrated against Basel I, but was used as a floor during the transition period, then US regulators would not be able to measure the change in the required regulatory capital caused by the capital reform.

- Problems for Implementing Basel I-A for Retail Portfolios outside US. Citigroup is an internationally active bank, with wholesale and retail portfolios in many countries. Basel I-A requires some risk parameters for retail portfolios, such as FICO scores, which are not available outside the US as not all international portfolios are presently scored.

LTV values also present challenges across countries. There are issues with respect to how current LTV ratios could be obtained across different countries and whether index-based adjustments would be available and acceptable in each country.

Consequently, we do not believe that all aspects of Basel I-A, as proposed, could be readily and/or cost-effectively implemented for Citigroup's retail businesses.

Citigroup Inc.  
399 Park Avenue  
New York, NY 10043

Yours sincerely,



Sallie Krawcheck  
Chief Financial Officer

cc: Scott Waterhouse  
Diane Dobbeck  
Teresa C. Brady  
Eric Aboaf  
Jim Garnett  
John Gerspach  
Andrew Jennings  
Evan Picoult