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February 22, 2008

Ms. Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551
Re: FFIEC 101
*Via E-mail: regs.comments@federalreserve.gov*

Office of the Comptroller of the Currency
Communications Division
Public Information Room
250 E Street, S.W.
Mail Stop 1-5
Washington, DC 20219
Attention 1557-NEW
Re: FFIEC 101
*Via E-mail: regs.comments@occ.treas.gov*

Ms. Valerie Best
Supervisory Counsel
Attention: Comments Room F-1070
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, DC 20429
Re: FFIEC 101
*Via E-mail: Comments@FDIC.gov*

Information Collection Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, N.W.
Washington, DC 20552
Attention: FFIEC 101
*Via E-mail: infocollection.comments@ots.treas.gov*

**Re: Joint Notice of Proposed Advanced Capital Adequacy Framework Regulatory Reporting Requirements Relating to Basel II (FFIEC 101)**

Dear Sir or Madam:

Citigroup welcomes this opportunity to comment on the latest version of the proposed revisions (the "proposal") to the Regulatory Reporting Requirements relating to Basel II ("FFIEC 101"). We are particular pleased that the Agencies have given banks the opportunity to comment for a second time on these reports which reflect the considered response of the Agencies to the comments provided last year following the proposals made in conjunction with the Basel II NPR. In our comments below we have attempted to restrict our views to areas where the requirements have changed or where a clarification from the Agencies has changed the cost benefit analysis of the reports.

**A) Calculation of the 6% scaling factor for Credit Risk Assets:**

On the recently released draft reporting schedules, Schedule B, Line 28 "Total Credit Risk Weighted Assets (Cell G27 x 1.06)" indicates that the total credit risk weighted assets on that schedule would be subject to the 6% gross up. Included in lines 24 to 26 of Schedule B are three types of "Other Assets" which we believe should not be subject to this gross up: "Unsettled Transactions", "Assets not included in a Defined Exposure Category", and "Non-Material

Portfolios of Exposures". These exposures are given Basel I -type risk weightings, as they are calculated based on mandated percentages from the regulators, or conservative estimates, and are not calculated from internal models.

The U.S. Basel II Final Rule defines Credit-Risk-Weighted Assets as "1.06 multiplied by the sum of: (1) Total wholesale and retail risk-weighted assets; (2) Risk-weighted assets for securitization exposures; and (3) Risk-weighted assets for equity exposures". This excludes the "Other Assets" which have mandated risk weights. We believe exposures in the "Other Assets" category should not be included within the x1.06 scalar for the reasons that these exposures (i) are not captured within the defined Basel II credit risk exposure categories (ii) and/or have been mandated to receive Basel I- type risk weightings, (iii) or because banking organizations expect to make use of conservative risk weighting defaults to derive risk weighted assets for certain exposures where the portfolios are either de minimus or where some data elements are not readily verifiable. We believe that the scalar was intended to compensate for the use of internal estimations that are inherent in the Advanced Internal Ratings Based approach introduced by Basel II, and were not intended to adjust other types of exposures.

We request that the Agencies clarify why the application of the 6% scaling factor applies in cases where mandated percentages are used for securitization (RBA) and equity (SRWA) exposures and give consideration on Schedule B to only applying the x1.06 scalar to the sum of (1) Total wholesale and retail risk-weighted assets; (2) Risk-weighted assets for securitization exposures; and (3) Risk-weighted assets for equity exposures.

**B) Disclosure Requirements of Schedules A & B by certain subsidiaries:**

The final rule issued on December 7, 2007 introduced the requirement that all material U.S. banking subsidiaries of a Bank Holding Company ("BHC") would have to implement the advanced approach if their BHC was required to implement the Basel II advanced approach. The instructions for the FFIEC 101 report require public disclosure by all subsidiaries subject to the advanced approach, not just the BHC, of Schedules A and B. However, public disclosure as set out in schedules A and B is not mandated for U.S. banks which are not required to implement the advanced approach. Thus, bank subsidiaries of a BHC where the group does not have to implement the advanced approach are not subject to these public disclosure requirements. The only apparent reason for public disclosure by these smaller subsidiaries is that the advanced approach has been mandated because they are U.S. banking subsidiaries. Therefore, we seek confirmation or clarification that U.S. banking subsidiaries which do not qualify to implement the advanced approach due to their own small size, but which are subsidiaries of "advanced" method bank holding companies, be exempt from publication of schedules A and B to ensure consistent treatment of banks of similar size and not impose additional publication costs.

**C) Schedules C to G require reporting of weighted average LGD before consideration of eligible guarantees (and credit derivatives) and require the effect of PD substitution and LGD adjustment approaches on RWA:**

The impact of guarantees and credit derivatives on the calculation of risk-weighted assets (column I for Schedules C to G.) is a U.S.-only requirement for Basel II. We believe this would be unduly burdensome and would, in our view, be of uncertain value to the extent that it requires a recalculation based on the presence of an eligible guarantee.

The clarification in the notice of January 24, 2008 allows banks to omit the impact of eligible guarantees where the PD substitution approach is taken. While this is welcome, we believe this clarification still requires banks to calculate the impact of guarantees for obligors with part of their facilities guaranteed. This reduces the volume but does nothing to reduce the number of systems changes and complex data analysis required. The identification and calculation are unduly costly in relation to the result. In addition, we believe, as set out below, that there is very limited value in the result.

While eligible guarantees may well cover a specific facility (e.g., a leasing contact where a lessor covers the risk associated with a new item of equipment, or an export credit guarantee, or a wealthy private individual guaranteeing a particular facility for a family-owned company), they may not always cover the whole exposure. In addition, situations arise where a parent will guarantee a subsidiary in a developing world country, and without the guarantee, the rating of the exposure would be capped at the sovereign rating of the country. Banking organizations are asked to strip out the impact of these guarantees and recalculate the risk without the guarantee. Calculating the risks associated without such guarantees would require a re-engineering of credit risk records and could require changes to credit risk practices by allocating risk to the obligor rather than the guarantor. This would require change to established credit risk recording systems as these facilities would currently be aggregated for risk purposes with those of the provider of the guarantee.

We also have doubt about the benefit of such information. While we accept that it may well be relevant to report the impact of credit derivatives, the additional complexity and cost of backing out eligible guarantees seems very uncertain.

For example: We have an exposure of $100mm to a parent rated A which includes a guarantee over $10mm to a subsidiary in a developing country whose rating is capped by the sovereign rating at BB+. We also have $5mm already advanced locally to that subsidiary with all amounts due from the subsidiary secured on local assets. Assuming a maturity of 2.5years and a LGD of 35% unsecured and 20% secured, our calculations would be:

| | **Internal Measurement** | **Adjusted without Guarantee** |
|---|---|---|
| Average LGD | 34.3% | 32.9% |
| RWA | 19.0 | 21.2 |
| Impact of Parent Guarantee | | +2.2 |

We question whether the extra information provided from the calculation of stripping out the impact of the guarantee is of any significant value. In this case, the LGD is reduced but the RWA increases. We believe this information is of little practical value, especially when aggregated across many obligors and particularly as the impact on LGD can be very different from that on RWA, which could result in misleading trends in the information when changes occur with the components giving conflicting messages. We believe it would be far better to look for risk concentrations within the actual RWA numbers as they can result in significant additional risk, rather than require banks to undertake this unnecessary calculation at the cost of considerable additional system requirements and record keeping complexity.

**D) The retail schedules still require weighted average bureau scores, but the agencies acknowledge that banks may not have all the bureau data and so can omit those accounts for which the data is not available:**

Schedules K to O require the weighted average bureau score to be reported to the extent that this is available. However, the bureau score is not always updated, especially where an internal model is used as determinants of original decision making. In addition, the cost of banks maintaining an up-to-date bureau score for all U.S. borrowers would be significantly out of proportion to any business benefit. Since the reporting instructions indicate that the bureau score can be omitted from the average calculation where it is not available (e.g., international portfolios) and because many approximations are allowed, we believe that this information will fail to provide useful data. Even the trend in the average bureau score is unlikely to provide useful data given the limitations of it not being updated and not providing for a wide range of international portfolios. Moreover, since this information will not be updated, it will not necessarily reflect the changes in risk profile within the segments reported. If this were changed to the proportion of the accounts which were (approximately) 30days delinquent, this would use, in delinquency, a better determinant of potential loss and is available for all portfolios no mater where they are located. Thus, we would suggest that the Agencies seriously reconsider the request for average bureau score.

**E) For mortgages, the reporting schedules still require weighted average age based on date of origination not months on book. The Agencies have confirmed in their notice of January 24, 2008 that banks have to obtain the original origination date for mortgages purchased even where that measure is not currently used either to segment the portfolio or to manage the mortgage:**

Obtaining the origination date of all mortgages so that a bank can complete the reporting line on Schedules K, L, and M will be extremely burdensome particularly since this information is not used by banks internally to evaluate the risk of their mortgage portfolios. When managing a mortgage, the months on book is not as good an indicator as to whether a bank will receive full payment for the mortgage as the LTV, the current level of delinquency of the mortgage, how much longer the loan is to remain outstanding in order for it to be paid off, or the financial circumstances of the mortgagee. In addition, the past delinquency profile under that lender's collections policies is probably a more relevant indicator of potential loss (in relation to the time on that lender's books) than the total time since origination. Therefore, we question the Agencies' need for data going back to origination. To obtain this data, banks will need to access files of mortgages purchased from other institutions, which will often be in remote storage, and a typical cost would be approximately $25 per mortgage when taking into account the time to obtain the files and input the data, and the overhead costs which for a recently purchased portfolio of about $9bn could well result in costs of some $0.5mm incurred for no business value. Therefore, we request that the Agencies reconsider this decision.

**F) Schedule S Operational Risk:**

The reporting instructions for Schedule S require the reporting of data "used in calculating the risk-based requirement for operational risk". In Schedule S, capital changes only when the model is updated. Therefore, if the model is not updated from the prior period, the capital is unchanged. Therefore, we recommend that the Agencies require Schedule S to be filed on an annual basis or when the model is updated.

**G) Reporting Due Dates:**

The notice provides that the FFIEC 101 schedules are due 60 days following the end of a quarter during the parallel run period. Once a bank qualifies to use the advanced approaches and enters the transitional floor period, the Agencies believe the bank should have the ability to fully support regulatory capital calculations to coincide with the timing of other financial disclosures. Accordingly, all schedules --- not just Schedules A and B --- must be submitted within the same timeframes set forth in the reporting instructions for the Call Report and FR Y-9C filed by banks and BHCs, respectively.

As permitted by the final rule, a bank may provide a summary table on its website that specifically indicates where all Pillar 3 disclosures may be found, including its Form 10-K. Form 10-Ks are not due until 60 days after year-end. This creates a timing issue for certain disclosures which will be referenced from a disclosure matrix to a Form 10-K. As the Agencies noted, some of the information in FFIEC 101 overlaps with the Pillar 3 requirements. Therefore, such overlapping disclosures should be consistent.

We recommend delaying Basel II year-end reporting due dates to correspond with the later of regulatory or SEC reporting due dates.

**H) Look-back portfolios:**

The Agencies also mention that a separate document will be released for reporting under "look-back" portfolio scenarios. We continue to object to any formal reporting requirements for "look backs". Please refer to our comment letter dated March 26, 2007 previously submitted regarding the NPR for further information.

We believe the above extra requirements add significantly to the cost of reporting and do not provide the Agencies with much added value in terms of understanding the risks within the portfolios or the way business is conducted in practice. We look forward to your consideration of our views.

Yours sincerely,

J. M. Gnt

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