



October 21st, 2013

Legislative and Regulatory Activities Division
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Robert de V. Frierson – Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Robert E. Feldman, Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

Re: Regulatory Capital Rules: Enhanced Supplementary Leverage Ratio Standards for Certain Bank Holding Companies and Their Subsidiary Insured Depository Institutions

Ladies and Gentlemen:

Citigroup is pleased to comment on the August 20, 2013 joint agency notice of proposed rulemaking (NPR) entitled *Regulatory Capital Rules: Regulatory Capital, Enhanced Supplementary Leverage Ratio Standards for Certain Bank Holding Companies and Their Subsidiary Insured Depository Institutions* ("the Proposal").

Citi supports the US regulatory approach on many key elements of the supplementary leverage ratio, as it appropriately measures real risk exposure, and prudently reflects the established legal framework (e.g., adjustments to derivatives and securities financing transactions for legally permissible netting agreements and recognition of collateral). However, certain elements of the Proposal, if implemented as written, will create negative impacts on the markets, will further exacerbate existing differences across jurisdictions, and will not contribute to the shared goal of reducing risk in the system as a whole. Citi's key areas of concern were outlined in a letter dated September 21st, 2013 to the BCBS ("the BCBS comment letter") and reference is made herein to that letter.

As indicated in the BCBS comment letter, Citi is concerned with the following elements, which are also contained in the Proposal's Exposure Measure for the Enhanced Supplementary Leverage ratio:

Wholesale Committed Lines of Credit:

- The treatment of wholesale off-balance sheet commitments at a 100% draw-down is beyond "appropriate conservatism" standards, as evidenced by wholesale borrower behavior during the 2008 crisis, and goes well beyond the effective Basel III risk weightings and the Basel III liquidity drawdown assumptions, thereby creating inconsistency within the Basel III framework.
- The current 100% draw down assumption creates a disincentive (and is more punitive versus the risk-based capital measures) for banks to make such committed lines available to corporations and, as such, will likely impact the cost and availability of wholesale credit to support economic expansion.

Cash on Hand and Cash Placements with Central Banks:

- In support of aligning incentives, the calculation of the measure should exclude cash on hand as well as cash placed with central banks (collectively "cash") so as to promote a bank's willingness and capacity to hold such cash. This is particularly important during stress events, when deposit inflows to banks may increase, and the banks' ability to accept that cash serves as an important 'shock absorber' in the financial markets.
- While regulators may assert that they could reduce leverage requirements under stress conditions, any bank facing an idiosyncratic stress will feel market pressure to improve leverage and any regulatory relaxation would likely be ineffective.
- Other supervisory metrics (e.g. the Liquidity Coverage Ratio) promote the increase of cash reserves, whereas the proposed treatment under the leverage ratio functions as an explicit penalty, which may impede cash accumulation. We therefore request that you consider the intersection with other requirements, and harmonize the incentives to promote the building of cash without penalty.

Further, while the Proposal seeks only to address the calibration (e.g. the numerator) and the corresponding required thresholds, Citi remains concerned that such measures should not be finalized without full consideration and understanding of the impact of any subsequent alterations in the Exposure Measure. The Proposal makes note that final US supplementary leverage ratio standards will take into account the final implementation by the Basel Committee on Banking Supervision's (BCBS) definition of the Exposure Measure. We request that US regulators refrain from firmly setting required thresholds until the components of calculation are agreed and understood. Citi is concerned with certain elements of the BCBS approach (noted below, and outlined in Citi's BCBS comment letter), and believes that the US Final Basel III capital requirements issued on July 2nd 2013 more adequately reflect the applicable legal construct, real risk exposure, and historical experience during stress events. Concerns specific to the BCBS approach are:

- **Derivative Adjustments**

Citi believes that legally enforceable netting of derivative positions should be permitted, consistent with the legal construct; further, the leverage exposure measure should allow for the netting of cash collateral received or placed pursuant to legally enforceable credit annexes, as such cash collateral is effectively a 'partial payment' of amounts owed under a derivative contract.

- **Securities Financing Transactions (SFTs) Adjustments**

The BCBS Proposal puts forth a gross presentation approach to SFTs, which Citi believes could have the unintended consequence of increasing systemic risk, as it does not create a risk-mitigation incentive for firms to run a "matched repo book" strategy. Further, as banks may be discouraged from entering into SFTs due to leverage constraints, the cash-long investment firms may seek to place those cash balances with the "shadow banking system", thereby shifting liquidity risk to less well-regulated entities.

If the US were to elect to adopt the BCBS approach on these elements, while maintaining required thresholds at 5% (and 6% for IDIs), well above the proposed international (3%) standard, U.S. banks and markets would be placed at a competitive disadvantage, exacerbating an already uneven playing field for US financial institutions.

Adoption of the BCBS approach on the above elements is also likely to cause the U.S. Enhanced Supplemental Leverage Ratio to function as the binding constraint for U.S. banks, altering the provision of certain types of financing, and could cause international pricing dislocations, ultimately curbing certain real-economy financing activities.

The above concerns are increased when the potential impact of these Proposals is taken in combination with other accounting, regulatory and legislative initiatives currently under discussion around the world. The interaction of different leverage, capital, liquidity, debt and wholesale funding-related requirements is not well-understood, but in fact may lead to incentives that increase risk in the system, as banks seek to 'optimize' their balance sheet structure across these different requirements.

In implementing the suite of pending leverage, capital, liquidity, debt and wholesale funding-related requirements, Citi encourages the US regulatory authorities to adopt a comprehensive and holistic approach in the determination and calibration of requirements, to ensure that incentives are not distorted when requirements are viewed together. Such an approach would enhance simplicity and transparency in the marketplace.

We look forward to further substantive and constructive dialogue with you on these important issues.

Sincerely,

Handwritten signature of John Gerspach in black ink, featuring a stylized 'JG' and a long horizontal stroke.

John Gerspach

Chief Financial Officer

Handwritten signature of Brian Leach in blue ink, written in a cursive style.

Brian Leach

Head of Franchise Risk and Strategy

Cc: