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Via Electronic Mail

Legislative and Regulatory Activities Division
Office of the Comptroller of the Currency
400 7th Street SW
Suite 3E-218
Washington, DC 20219

Ms. Ann E. Misback
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, D.C. 20551

Mr. Robert E. Feldman
Executive Secretary
Attention: Comments/RIN 3064-AE81
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

Re: Revisions to the Supplementary Leverage Ratio To Exclude Certain Central Bank Deposits of Banking Organizations Predominantly Engaged in Custody, Safekeeping and Asset Servicing Activities and support for the eSLR Proposal

OCC: Docket ID OCC-2019-0001
Board: Docket No. R-1659; RIN 7100-AF 46
FDIC: RIN 3064-AE81

Ladies and Gentlemen:

Citigroup appreciates the opportunity to comment on the notice of proposed rulemaking[1] ("Custodial Bank Proposal") issued by the Federal Reserve Board ("Federal Reserve"), the Office of the Comptroller of the Currency ("OCC"), and the Federal Deposit Insurance Corporation ("FDIC") (collectively as "Agencies") to implement section 402 of the Economic Growth, Regulatory Relief, and Consumer Protection Act ("Growth Act"). The proposal would amend the Supplementary

[1] Regulatory Capital Rule: Revisions to the Supplementary Leverage Ratio To Exclude Certain Central Bank Deposits of Banking Organizations Predominantly Engaged in Custody, Safekeeping and Asset Servicing Activities, 84 Fed. Reg. 18175 (Apr. 30, 2019).

Leverage Ratio to exclude certain funds of banking organizations deposited with central banks if the banking organization is predominantly engaged in custody, safekeeping and asset servicing activities ("Custodial Banks").

While Citigroup understands the Agencies' efforts to implement section 402 of the Growth Act, we remain strongly supportive of the notice of proposed rulemaking[2] ("eSLR Proposal") issued by the Federal Reserve and the OCC in 2018. That proposal would have modified the enhanced Supplementary Leverage Ratio ("eSLR") standards for U.S. top-tier bank holding companies identified as global systemically important bank holding companies ("GSIBs") and certain of their insured depository institution subsidiaries. Citigroup believes that the Agencies should move forward with both rulemakings in a manner that: effectively implements Growth Act standards; addresses supervisory objectives to establish leverage capital requirements as a backstop to risk-based capital requirements; and mitigates any adverse market consequences resulting from uncoordinated capital requirement revisions.

Support for the eSLR Proposal

Citigroup fully supports the joint comment letter[3] submitted in June 2018 by The Clearing House Association L.L.C., the Securities Industry and Financial Markets Association, the Financial Services Roundtable, and the International Swaps and Derivatives Association in response to the eSLR Proposal. We write separately to emphasize certain key themes from that comment letter that are still relevant in spite of the Custodial Bank Proposal.

First, the proposed modifications to the eSLR requirements in the eSLR Proposal would better align those requirements with their appropriate role as a backstop to risk-based capital requirements and reduce disparities between the U.S. capital framework and international standards. Citi agrees with the Federal Reserve's and OCC's statement in the eSLR Proposal that "[l]everage capital requirements should generally act as a backstop to the risk-based requirements." The Supplementary Leverage Ratio requires a banking organization to hold capital based on the size of its assets or exposures, without regard for the risk that they pose. When the Supplementary Leverage Ratio acts as a binding constraint, it potentially discourages banking organizations from participating in low-risk, low-return activities that are critical to the functioning of the U.S. banking system. Recalibrating the Supplementary Leverage Ratio as contemplated in the eSLR Proposal would properly restore the Supplementary Leverage Ratio to its role in the U.S. regulatory capital framework as a backstop rather than a binding constraint. Furthermore, the eSLR Proposal would more closely harmonize the effective minimum Supplementary Leverage Ratio requirements in the U.S. with the leverage ratio buffer requirement finalized by the Basel Committee on Banking Supervision in 2017[4].

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[2] Regulatory Capital Rules: Regulatory Capital, Enhanced Supplementary Leverage Ratio Standards for U.S. Global Systemically Important Bank Holding Companies and Certain of Their Subsidiary Insured Depository Institutions; Total Loss-Absorbing Capacity Requirements for U.S. Global Systemically Important Bank Holding Companies, 83 Fed. Reg. 17,317 (Apr. 19, 2018).

[3] Available at https://www.federalreserve.gov/SECRS/2018/August/20180801/R-1604/R-1604_062518_132114_324557859002_1.pdf

4 *See* Basel Committee on Banking Supervision, *Basel III: Finalising Post-Crisis Reforms* (Dec. 2017), at 140, available at https://www.bis.org/bcbs/publ/d424.pdf.

The Federal Reserve and OCC estimated in the eSLR Proposal that it would reduce the amount of Tier 1 Capital required across the U.S. GSIBs by approximately $400 million. Such an amount would represent a de minimis impact when compared with the aggregate amount of Tier 1 Capital held by the U.S. GSIBs and, therefore, would not affect the overall resilience of the U.S. financial sector. Furthermore, recalibrating the minimum Supplementary Leverage Ratio requirements would not necessarily result in increased distributions to shareholders, as it is only one of several capital requirements that limit the amount of distributions to U.S. GSIB shareholders, including the Comprehensive Capital Analysis and Review and Dodd-Frank Act Stress Testing ("DFAST"), among others.

The recalibration of the Supplementary Leverage Ratio set forth in the eSLR Proposal would also potentially provide U.S. GSIBs greater flexibility to allocate capital across subsidiaries consistent with broader prudential and resilience goals. Additional flexibility to allocate capital internally would not necessarily result in greater distributions from U.S. GSIBs to their shareholders. There are a number of regulations that limit distributions of insured depository institution subsidiaries to their holding company parents, including Tier 1 Leverage Ratio requirements, DFAST, and supervisory oversight. Restoring the Supplementary Leverage Ratio to its role as a backstop measure would not result in unregulated distributions of capital from insured depository institutions to their holding company parents, nor from U.S. GSIBs to their shareholders.

We urge the Federal Reserve and the OCC to work together as quickly as possible to finalize the eSLR Proposal.

Concerns with the Custodial Bank Proposal

We appreciate that the Agencies are required to implement section 402 of the Growth Act, and we support the Agencies' efforts to do so. Citi is concerned, however, that implementation of the Custodial Bank Proposal in isolation will introduce significant new externalities into the market for custody services, creating an uneven playing field that does not exist in the current market. The exclusion of central bank deposits in Total Leverage Exposure for companies deemed a Custodial Bank under the proposal is likely to drive different methodologies for attributing capital consumption to custody businesses within those institutions, especially as compared with other institutions significantly involved in the provision of custodial activities but not meeting the Custodial Bank definition. Reducing the capital consumption attributable to custody businesses for only a subset of institutions is likely to promote further concentration in a marketplace that is already concentrated among a few firms within the U.S. Such concentration could have significantly negative pricing consequences for a client base that typically includes endowments, foundations, public pension funds, and other similar clients.

Proposed Way Forward

As discussed above, the eSLR Proposal highlights a number of the Federal Reserve's and the OCC's public policy objectives. Citigroup suggests that the Agencies can effectively address those objectives – implementation of Growth Act standards; effectively establish leverage capital requirements as a backstop to risk-based capital requirements; and mitigation of any unintended adverse market consequences – by moving forward with both the Custodial Bank and eSLR proposals and implementing those proposals with a common effective date. Institutions affected by both proposals, i.e., GSIBs that meet the definition of Custodial Bank under the Custodial Bank Proposal, would be accorded a one-time election to opt-into one of the revised capital regimes.

Providing for a one-time option to choose between the eSLR Proposal and the Custodial Bank Proposal, once finalized, would ensure that no individual bank receives a double benefit, while also retaining flexibility for the Custodial Banks. This approach will also establish a more rational Supplementary Leverage Ratio requirement and a more level playing field for all U.S. GSIBs. It is critical that both solutions are finalized with a common effective date in order to avoid temporary distortions in the marketplace caused by differential treatment for banks engaged in custody, safekeeping and asset servicing activities.

Coherence

Citigroup is fully supportive of the efforts of the Agencies to maintain reforms that ensure that the U.S. financial system is appropriately capitalized and resilient across a range of financial scenarios. We also support the Agencies' efforts to ensure that the U.S. regulatory regime is effective and efficient, appropriately assessing the impact of regulations on institutions and their customers and counterparties. Consistent with that objective, Citi, along with other U.S. GSIBs, has consistently encouraged the Agencies to evaluate each planned regulatory change, individually and in the aggregate, with other evolving standards to ensure coherence across the regulatory capital framework in the U.S., especially as it relates to the wide range of possible enhancements to existing risk-based capital standards. The eSLR Proposal, however, represents a substantial improvement in the calibration of the effective minimum Supplementary Leverage Ratio requirements in the U.S. Such a recalibration would not be incompatible with our previous calls for coherence in the forward rulemaking agenda, as it can be achieved in the near term through relatively straightforward and targeted revisions to the existing Supplementary Leverage Ratio framework.

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We appreciate the opportunity to comment on the Proposal. If you have any questions or seek to discuss any of these issues or recommendations, please do not hesitate to contact me at 212-793-4968.

Respectfully submitted,

[redacted]

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