Brian R. Leach
Chief Risk Officer

Citigroup Inc.
399 Park Avenue
New York, NY 10022

Tel 212 793 3250
Fax 212 793 3288
brian.leach@citi.com

citi

April 16th, 2010

Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel
Switzerland

Re: Proposals to Strengthen Capital Regulation

Ladies and Gentlemen:

Citigroup is pleased to comment on the two consultative documents issued by the Basel Committee in December 2009, "Strengthening the Resilience of the Banking Sector", and "International Framework for Liquidity Risk Measurement, Standards and Monitoring" (the Proposals).

Citi shares the Basel Committee objective to strengthen the quality of capital and liquidity in the financial sector. We believe that many of the concepts in the Proposals help address shared goals of improved risk capture, control of excessive leverage, minimization of pro-cyclicality of capital requirements, and more effective oversight of systemic risk in the financial sector globally. We do believe, however, that certain details in the Proposals need to be calibrated to promote a responsible and sustainable financial system. We also have concerns with specific components of the Proposals which we believe require further analysis and discussion in order to ensure that they, in fact, contribute to the shared goal of a healthy financial system.

We also have concerns with the cumulative impact of these Proposals, given their wide range, and particularly when their potential impact is considered in conjunction with the July 2009 proposals on securitization and the trading book. These concerns are increased when the potential impact of these Proposals is taken in combination with other accounting, regulatory and legislative initiatives currently under discussion in the United States and around the world. Substantive capital and liquidity reform cannot be considered and implemented in isolation from other critical initiatives. The cumulative effect of these actions may have unintended consequences that are inconsistent with our shared goals to ensure health and stability in the financial sector and promote sustainable economic growth.

Citi is an active participant in a number of industry groups, including the New York Clearing House Association, American Bankers' Association, the Institute of International Finance (IIF), the Financial Services Roundtable, the International Swaps and Derivative Association (ISDA), the British Bankers Association (BBA) and the Association for Financial Markets in Europe (AFME). Citi supports and has been actively involved in the responses these groups have provided to you on the Proposals.

Among the specific issues that Citi is most concerned with are:

- Changes in the calculation of the leverage ratio, including the proposed treatment of legally-enforceable netting and margin agreements, the treatment of sold CDS contracts and the treatment of both cancellable commitments and wholesale credit commitments;
- Certain deductions from tier 1 capital, including mortgage servicing rights, deferred tax assets, and investments in unconsolidated financial institutions above a 10 percent threshold;
  - While we agree that certain assets should be subject to review and assessment, we believe that home country regulators should have the discretion to determine what deductions, if any, are appropriate based upon, at least in part, the rigor of the applicable accounting standards.
- The new quantitative liquidity proposals, which we believe contain assumptions that may inhibit the ability of financial firms to perform their traditional roles of intermediation and maturity transformation, and may hinder the flow of funding and capital to the private sector. In particular, the restrictions on what types of liabilities can be considered "stable deposits" are concerning, with the proposed elimination of financial institution deposits and the limitations on corporate deposits.
  - Banks provide critical cash management, clearing and custodial services for governments and corporations, which move trillions of dollars around the world every day. The deposits associated with this business generally come from long-standing relationships with financial institutions, such as insurers, pensions, asset managers, dealers, and correspondent banks, and have been shown to be stable and diversified sources of funding for a global bank.
- Further, changes being considered with respect to custodial responsibilities in Europe (through the Alternative Investment Fund Managers Directive), while not a direct consequence of these Proposals, would impose strict liability and immediate restitution requirements on custodians, and may translate into significant additional capital requirements for the custody industry globally.

Citi strongly encourages the Basel Committee to consider the impact of the comprehensive quantitative impact studies ("*QIS*") currently in process, as well as the other important accounting, regulatory and legislative changes under discussion globally. We also believe that the Proposals should include specific levels for the most relevant capital ratios, as well as more detail on the timing of the Proposals as well as the appropriate sequencing of the Proposals. This would facilitate the ability of all stakeholders involved in this complex process to fully evaluate the potential impact of these Proposals and respond constructively. To enable this further evaluation we would warmly welcome a further round of consultation.

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

Sincerely,

Brian Leach
Citigroup Chief Risk Officer

Cc:

Board of Governors of the Federal Reserve; Attn: Norah Barger

Federal Reserve Bank of New York; Attn: Mark Saidenberg

Office of the Controller of the Currency; Attn: Kevin Bailey

Federal Deposit Insurance Corporation; Attn: George French