Citigroup Inc.
399 Park Avenue
New York, NY 10022

September 20th, 2013

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

Re: Revised Basel III Leverage Ratio Framework and Disclosure Requirements

Ladies and Gentlemen:

Citigroup is pleased to comment on the Basel Committee on Banking Supervision's (BCBS) June 2013 consultative document entitled *Revised Basel III Leverage Ratio Framework and Disclosure Requirements* (the Proposal).

Citi supports the use of a leverage ratio as a simple, non-risk based backstop to risk based capital measures. Such a measure supports shared goals of safety and soundness, providing for significant resources to be available during periods of prolonged economic stress.

We do believe, however, that 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 is an active participant in a number of industry groups, including the New York Clearing House Association as well as the Global Financial Markets Association; Citi supports and has been actively involved in each of their respective responses to you on the Proposal.

Among the specific issues that Citi is most concerned with is the treatment of certain items within the leverage exposure calculation. These are:

Derivatives:

- 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 Financed Transactions (SFTs):

- Citi believes that the BCBS should allow legally enforceable netting of SFT receivables and payables.
- The 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 accepting 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.
- Many international banks already effectively utilize legally enforceable netting concepts for most types of SFTs; Citi believes that for such trades, the real exposures are far smaller than the gross amount. Such legal enforceable netting is recognized under both IFRS and U.S. GAAP. The BCBS exposure measure proposal to present SFT exposures on a gross basis overstates the real exposure and may reduce liquidity in the securities financing market, and the market for the underlying government debt collateral (often used in SFT transactions).

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.

Treatment of 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 an important 'shock absorber' function 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 build-up of cash, whereas the proposed treatment under the leverage ratio functions as an explicit penalty, which may impede cash build-up. We therefore request that you consider the intersection with other requirements, and harmonize the incentive tools which for cash, should promote the bias towards building cash without penalty.

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.

Furthermore, the BCBS and its respective national regulators are creating an uneven playing field that will impact which banks can economically provide certain services. For example, the BCBS leverage ratio of 3% is different than the proposed and existing leverage ratio requirements in several North American and European countries. We look to the BCBS to set consistent standards, rather than minimum standards that can lead to an uneven and unfair playing field.

In implementing the suite of pending leverage, capital, liquidity, debt and wholesale funding-related requirements, Citi encourages the BCBS and 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, and that the Committee's stated goals of "simplicity" and "transparency" can be met.

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

Sincerely,

John Gerspach
Chief Financial Officer

Brian Leach
Head of Franchise Risk and Strategy

Cc:

Board of Governors of the Federal Reserve
Federal Reserve Bank of New York
Office of the Controller of the Currency
Federal Deposit Insurance Corporation