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Secretariat of the Basel Committee on Banking Supervision
Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel
Switzerland

Re: Assessment Methodology and Application of Surcharges to Global Systemically Important Banks

To Secretariat of the Basel Committee on Banking Supervision:

Citigroup welcomes the opportunity to comment on the Basel Committee on Banking Supervision's (the "Basel Committee") July 2011 consultative document, *Global systemically important banks: Assessment methodology and the additional loss absorbency requirement* (the "Consultative Document" and, the proposals set forth therein, the "Proposal").

A. Introduction

Citi supports well-calibrated regulatory reform and measures that strengthen global financial institutions and financial markets, including efforts to enhance bank capital requirements. Well-designed reform fosters a safer and more robust environment for all market participants, including banks, central governments, businesses and consumers. While we recognize that constructing a methodology for measuring systemic significance is complex, especially on a global basis, we believe that careful consideration of potential impacts is imperative since the Proposal represents a significant reform – one that will result in the deployment and re-allocation of substantial amounts of capital across the global financial markets.

Citi has played an important role in facilitating global commerce for our customers throughout our 200 year history, and continues to do so today, in 100+ countries in which we operate. Citi was the first major US bank to establish a foreign department (in 1897) and was the first US national bank to open an overseas branch (in 1914). We are proud of our history of facilitating global commerce on behalf of our customers. We are concerned that the Proposal will impede our long-standing commitment to meeting our customer's global banking needs and, as a result, discourage global commerce, an important driver of economic growth. Over the past thirty years, global commerce has grown at a compound annual rate of 7%, to a volume of $18 trillion in 2010, representing 29% of global GDP. Within the US, global trade has reached almost $2 trillion in 2010, or 14% of US GDP. Global banks play a crucial role in facilitating global trade flows through services such as trade finance, which help to intermediate and mitigate risk for international commercial businesses. It is estimated that as much as 80% to 90% of world trade relies on some form of trade finance.

We are concerned that the Proposal will inhibit global commerce by discouraging banks from facilitating global trade and intermediating international flows; such activities are critical to global economic growth. The Proposal, as constructed, designates multiple related factors which, taken in combination, will disfavor global commerce. In addition, as a result of the construct of the Cross Jurisdictional Activity factor, the Proposal encourages banks to structure their international activities in what we believe to be less-prudent business models.

These two considerations, taken in aggregate, will constrain global economic growth and discourage prudent balance sheet and liquidity management. On behalf of our global customers, we support enhancements to the Proposal that would encourage a sound business framework for international trade activities, while preserving their economic viability.

B. Impact of Proposal on Cross-Border Trade

International banks play a critical role in facilitating global commerce, through two fundamental activities: 1) intermediating a broad set of financial activities between parties across geographical borders (e.g., extending cross-border financing for import and export transactions) and 2) supporting the activities of multinational corporations across their global footprint (e.g., assisting a multinational corporation to manage its payroll cash needs across countries by accepting its local currency deposits and placing them with the local central bank). These simple, low risk transactions are critical components of global commerce, and they generate high-quality, low-risk assets such as secured, short-term trade assets in the first example, and central bank deposits in the second example.

For banks engaged in these activities under a locally matched balance sheet model (i.e., local currency liabilities funding local currency assets), they pose a very low risk of failure and are non-systemically disruptive upon failure. Even if the local jurisdiction chose to ring-fence the branch or subsidiary, the global systemic implications would be minimal.

We note that large international banks with presence and experience in multiple geographies tend to be the natural facilitators of these cross-border activities and we believe are uniquely positioned to structure them in the sound model described.

More specifically, we are concerned that the Proposal will unduly discourage banks from engaging in these activities and continuing to carry them out in a sound manner for the following reasons:

The Cross-Jurisdictional Activity Factor Broadly Discourages International Activity and the Sound Practice of Matching Local Assets with Local Liabilities

The proposed cross-jurisdictional activity factor captures the entirety of a bank's international footprint as a contributor to its systemic significance, regardless of its risk profile, its concentration, or its structure. The underlying assumption in the Proposal is that the broader a bank's global footprint the more systemically disruptive will be its global failure. We are concerned that such a blunt measure of international activity does not measure the probability of failure or potential for systemic disruption, and instead bluntly discourages international banking activity and global diversification.

The proposed methodology aggregates cross-jurisdictional assets and cross-jurisdictional liabilities as indicators of cross-jurisdictional activity. One consequence of this approach is that a bank that funds all of its local currency assets, in each host country, through non-local currency liabilities (or "cross-border financing") will have one half the score for this category of a bank that funds all of its local currency assets with local currency liabilities and capital. The methodology double-counts the footprint for a locally match-funded international business versus a cross-border funded business. The result will be that firms will look to reduce their systemic significance under this measure and will do so by favoring cross-border funding over local funding to support their international assets. This is at odds with the industry's, including Citi's, accumulated experiences over recent decades, to closely manage and, in some cases, reduce cross-border exposure to guard against the risk of disruptions to liquidity flows during times of stress and the potential for local government actions (e.g., currency controls).

As a result of the recent crisis, Citi has further reduced its cross-border liquidity dependencies and continued to develop sustainable, local liquidity plans for each of our international markets. We believe that one of the most reliable forms of funding for international assets is locally sourced liabilities in the respective geography. The Proposal, as constructed, will penalize this sound liquidity approach for managing global businesses.

In addition, when combined with other factors in the Proposal, the Cross Jurisdictional Activity factor will have a further chilling effect on cross border commerce. Both transaction types described earlier in the letter (cross border financing and central bank deposits) could impact as many as 6 to 8 of the factors or 60% to over 70% of the cumulative weighting in the scale. We are concerned that, since these are high volume, low margin transactions, significant capital surcharges could deem them economically non-viable.

We respectfully suggest the Basel Committee modify the definition of the Cross Jurisdictional Activity indicator. A more effective indicator would be the cross-border exposure indicator specified by the Federal Financial Institutions Examination Council (FFIEC) regulatory guidelines, which captures the mis-matches in international funding, and is already calculated, and in some cases disclosed, by U.S. banks. While enhancements to the FFIEC metrics can be made to better align the measures with established risk management practices, for purposes of this Proposal, it is a more appropriate measure of cross-jurisdictional activity and would not present the unintended consequences described above.

C. Conclusion

The final version of the G-SIB proposal will be a powerful driver of capital management in banks; it will become embedded in financial institutions capital planning and allocation processes and will inevitably shape their activities. Citi participated in many of the industry groups that will also be providing comments on this Proposal, and is supportive of the considerations raised in these letters, particularly the important methodological concerns, including the calibration of the surcharges on a relative, rather than absolute basis, across banks.

However, Citi also believes that the Proposal will have a particularly damaging impact on international trade, not merited by the risk profile or any potential systemic disruption attributes of these activities. We respectfully ask the Basel Committee to consider the suggestions we make in this letter to more effectively calibrate systemic risk consistent with enabling critical elements of global economic activity.

Sincerely,

Brian R Leach

Brian Leach

Chief Risk Officer, Citigroup