Meeting Between Federal Reserve Board Staff
and Representatives of Citigroup Inc.
March 30, 2015

Participants: Jordan Bleicher, Thomas Boemio, Christine Graham, Anna Lee Hewko, Eric Kennedy, Mark Savignac, and Holly Taylor (Federal Reserve Board)

Joseph Bonocore and Nora Slatkin (Citigroup)

Summary: Staff of the Federal Reserve Board met with representatives of Citigroup to discuss the Board's proposed rule to establish risk-based capital surcharges for systemically important banking organizations under section 165 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The Board's proposed rule includes two methods for calculating risk-based capital surcharges, one of which includes a component tied to short-term wholesale funding. The Citigroup representatives proposed that the short-term wholesale funding component give a lower weighting to certain wholesale deposits in light of the treatment of those deposits under the Board's Liquidity Coverage Ratio rule. A presentation provided by Citigroup that describes these issues in greater detail is attached.

Attachment

Short-Term Wholesale Funding Component of US G-SIB Surcharge: Treatment of Non-operating Deposits vs Repo

Discussion with Federal Reserve Board
March 30, 2015

Executive Summary

- Citi proposes that the Short-Term Wholesale Funding ("STWF") component of the proposed U.S. G-SIB surcharge calculation be revised with respect to weightings ascribed to non-operating deposits, which are overly punitive relative to other funding instruments, particularly repo.

- Significant changes in liquidity regulatory requirements (as included in the U.S. LCR rule) already require highly-liquid assets to be held to support non-operating deposits, which effectively eliminates the liquidity risk of actual outflows.
  - The current proposed weighting of non-operating deposits (100% for deposits with financial institutions and 50% for deposits with non-financial institutions) is not consistent with the LCR rule and, therefore, not reflective of actual outflow risk.

- Underlying assumptions used to determine weightings should consider the degree to which instruments are funding highly-liquid assets that could be monetized quickly and without market disruption in the event of funding outflow
  - An important inconsistency exists between the weightings ascribed to non-operating deposits and the weightings ascribed to repo (50% for Level 2b and 25% for Level 1), as repo are financing either equivalent or less liquid assets, yet the weightings are lower.
  - Weightings should be consistent among instruments that are funding assets with similar liquidity value.

- Further demonstrating the overly punitive treatment of non-operating deposits in the STWF calculation is the fact that these deposits, which carry a high outflow assumption under the U.S. LCR rules, require a higher balance sheet to cover the zero liquidity value. This higher balance sheet will be captured in an institution's G-SIB buffer score through the "Size" component of the calculation.

STWF Risk Weighting: Repos vs. Deposits

STWF*	Level 1 Repo	Level 2b Repo	Non-operating Deposits - non FIs	Non-operating Deposits - FIs
Business Use	Dealer repo of Treasury Position	Dealer repo of Equity Trading Invetory (2b)	Corporate deposits into transactional accounts	Asset Managers' deposits
Assets / Liabilities	Assets: 100 units of Treasuries Liabilities: 100 units of Treasury Repos	Assets: 100 units of Level 2b Assets Liabilities: 100 units of repos	Assets: 40 units of Cash, 60 units of loans Liabilities: 100 units of non-FI corporate deposits	Assets: 100 units of Cash at Central Bank Liabilities: 100 units of FI deposits
STWF Weighting	25%	50%	50%	100%

Equivalent assets held – repo receives 25% weighting while deposits receive 100% weighting

- Non-operating deposits receive significantly less favorable treatment than repos under the US G-SIB Surcharge proposal.
- Despite being invested in cash/HQLA, Financial Institution non-operating deposits receive a 100% risk-weighting vs. 25% for repos invested in equivalent assets.
- Both Level 2b repo and non-operating deposits with non-Fis carry the same weighting, while Level 2b are funding less liquid assets.

* Assumes maturity of 30 days or less for Level 1 repos and deposits. Level 2b repos assumed to be 45 days.

Deposit Impact on Balance Sheet and Liquidity

Non-operating Deposit with FI

Balance Sheet		LCR value	
Cash	100	HQLA	100
Deposit	100	Outflow	(100)
		LCR Value	-

Required Additional Liquidity

Balance Sheet		LCR value	
Cash	100	HQLA	100
LCR-eligible Funding	100	Outflow	-
		LCR Value	100

Net Impact

Balance Sheet		LCR value	
Cash	200	HQLA	200
Funding	200	Outflow	(100)
		LCR Value	100
STWF Weighting		100%	

Retail Deposit

Balance Sheet		LCR value	
Cash	100	HQLA	100
Deposit	100	Outflow	-
		LCR Value	100

Required Additional Liquidity

Balance Sheet		LCR value	
Cash	-	HQLA	-
LCR-eligible Funding	-	Outflow	-
		LCR Value	-

Net Impact

Balance Sheet		LCR value	
Cash	100	HQLA	100
Funding	100	Outflow	-
		LCR Value	100
STWF Weighting		0%	

- If an institution opts to hold Non-operating deposits with FI's, incremental balance sheet is required to cover the zero liquidity value, which is captured as part of the "Size" component of the G-SIB surcharge calculation AND included as a 100% weighting in the STWF calculation.

- Retail deposits require no incremental balance sheet given the qualification as good liquidity – no incremental impact to the "Size" component of the G-SIB surcharge calculation AND no impact to the STWF calculation.

- This further demonstrates the overly punitive treatment of Non-operating deposits with FI's.

Recommendation

- Citi proposes that the Short-Term Wholesale Funding (“STWF”) component of the proposed U.S. G-SIB surcharge calculation be revised with respect to weightings ascribed to non-operating deposits, which are overly punitive relative to other funding instruments, particularly repo.

- Citi believes that the underlying assumptions used to determine weightings should consider the degree to which instruments are funding highly-liquid assets that could be monetized quickly and without market disruption in the event of funding outflow, in a manner that is consistent with the U.S. LCR rules.

- Conceptually, Citi believes that this should result in a 0% weighting for any short-term wholesale funding instrument associated with assets that carry a 100% liquidity value.

- Citi understands the FRBs position that some weighting should be applied to all STWF transactions regardless of the liquidity value of associated assets.

- At a minimum, the STWF weightings should be consistent amongst funding transactions (e.g., repos and non-operating deposits) that are associated with assets possessing the same liquidity value under the U.S. LCR rules.
  - In the case of non-operating deposits with FI’s, this would result in a 25% weighting, consistent with Level 1 repo, as opposed to the currently proposed 100% weighting.