

On July 8, 2004, Mr. Todd Thomson, Chief Financial Officer of CitiGroup, met with Vice Chairman Roger Ferguson. to discuss some Basel II issues. Steve Hoffman, Deputy Director of the Division of Supervision and Regulation, and Ed Ettin, Deputy Director of the Division of Research and Statistics, were also present.

Mr. Thomson noted that large banks were concerned about being at a competitive disadvantage vis-à-vis securities firms under consolidated Basel II supervision, reflecting the possibility of less stringent supervision that may be applicable to the latter relative to the former. He urged that the banking agencies should share best practices with the SEC and seek, in so far as possible, common understandings of application of supervisory policies.

Mr. Thomson also asked for consideration of faster implementation of Basel II for AIRB banks so that the one year delay now proposed would neither slow down the modifications now underway in U.S. banking organizations nor frustrate the internal regulatory application for those institutions that were ready to fully adopt the advanced versions of Basel II. Vice Chairman Ferguson explained the time necessary to complete the NPR and rule making process in this country and the subsequent interval necessary for those institutions awaiting final rules before completing their infrastructure revisions. He agreed, however, to re-visit at least an earlier parallel running schedule for entities that had made substantial progress toward meeting the AIRB prerequisites.

Finally, Mr. Thomson underlined that banking organizations that operated in many jurisdictions remained concerned about the number of supervisory entities from these "host" jurisdictions that were raising questions with such organizations. He expressed concerns regarding the potential that more complex implementation process

might be needed to satisfy potential difference in views among supervisors, particularly on the operational risk capital charge. The Vice Chairman and Mr. Hoffman explained the case studies and discussions among supervisory jurisdictions now going on--both bilaterally and through the Basel Accord Implementation Group (AIG)--to address this so-called home-host issue. The U.S. agencies are aware of the concerns and are doing their best to address them, but, among sovereign states this issue was ultimately going to have to be addressed on a case-by-case basis over a time period that may extend beyond the formal 2008 start date. Vice Chairman Ferguson urged Mr. Todd to prioritize specific issues that the U.S. agencies might raise with other jurisdictions.