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Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, DC 20551

Re: Regulation W – Docket No. R-1330

Dear Ms. Johnson:

We write to provide comments on the interim final rule, effective September 14, 2008 (the “Rule”), creating a regulatory exemption for member banks from certain provisions of Section 23A of the Federal Reserve Act and Regulation W as promulgated by the Board of Governors of the Federal Reserve System (the “Board”). The exemption increases the capacity of member banks to enter into securities financing transactions with affiliates.

Citigroup fully supports the intention of the Board in promulgating the Rule. However, we believe that there are aspects of the Rule that impede its efficiency and effectiveness in accomplishing its intended goals.

Simply stated, we have three comments, each of which is expanded on below:

1. *Limitation to U.S. triparty repo market:* The Rule should not be based upon the U.S. triparty repo market, as such condition has had the negative consequences of preventing the use of non-U.S. dollar (“non-USD”) collateral and preventing non-U.S. affiliates from engaging in securities financing transactions with their bank affiliate.
2. *Affiliate-by-affiliate limitation based on transactions conducted in week of September 8-12:* The Rule should permit securities financing transactions by any affiliate on any collateral that is eligible for financing in a relevant triparty repo market.

3. *Aggregate risk profile condition:* The Rule should not contain the unworkable “aggregate risk profile” condition, as that has only served to frustrate implementation of the Rule by banks. Alternatively, the Board should provide considerably more guidance on the meaning of this condition so that the Rule may be self-effecting, particularly in emergency situations – if it cannot be utilized without significant discussion with Board staff, then the Rule does not accomplish its purpose in these times of significant market turmoil and credit contraction.

Limitation to U.S. triparty repo market

The Rule requires that an asset have been out for financing in the U.S. triparty repo market during the week of September 8-12, 2008. By limiting the base reference transactions to those on the U.S. triparty repo market, the Rule has the negative effects of preventing (a) affiliates from posting non-USD collateral to the bank (because the U.S. triparty repo market does not have many transactions conducted in non-USD collateral assets, although they are acceptable) and (b) non-U.S. affiliates from posting any collateral to the bank (because non-U.S. affiliates likely use non-US triparty markets).

The rule should be expanded to allow (a) any affiliate to post non-USD denominated collateral and (b) non-US affiliates to post any eligible collateral (whether or not non-USD denominated).

Affiliate-by-affiliate limitation based on transactions conducted from September 8-12

The Rule requires that assets that can be posted to a bank from its affiliate must be assets that the specific affiliate had out for financing in the U.S. triparty repo market during the week of September 8-12, 2008. Federal Reserve staff has indicated that, in order to comply with the Rule, the analysis must be performed on an affiliate-by-affiliate basis (*i.e.*, if an affiliate only had government bonds out in the triparty repo market during the reference week, then that specific affiliate could only post government bonds to the bank; similarly, if no affiliate had corporate bonds out in the triparty repo market, then no affiliate could post corporate bonds to the bank for financing).

The Rule should be expanded to allow any affiliate to post to the bank any asset that is eligible for financing in an appropriate triparty repo market (non-USD denominated or not), provided that the asset has available pricing acceptable to the custodian for daily marking to market. The expansion of the Rule should be made without regard to an affiliate-by-affiliate analysis and without regard to whether any affiliate had such an asset out for financing during the reference week.

Aggregate risk profile condition

The Rule has a requirement that the “aggregate risk profile” of the affiliate facing the bank must be no greater than the aggregate risk profile of that affiliate’s securities financing transactions as of September 12, 2008. Discussions with Board staff have provided little guidance or clarity on this condition, and thus this condition (a) prevents the Rule from being efficient and self-effecting, as it cannot be used quickly without discussion with Board staff, and (b) makes the Rule very narrow, where only “replacement or substitution” trades (*i.e.*, trades that were done with a third party and terminated can be perfectly replaced with the exact same trade with the bank) can occur.

Further clear guidance on this condition would be helpful. Our preferred suggestion would be to remove the requirement. Alternatively, the analysis of the risk of the affiliate’s book of securities financing trades should be performed in the aggregate for the entire group of affiliates, rather than on an affiliate-by-affiliate basis. A further suggestion would be to permit performance of the analysis based on Risk Management’s internal view of the bank’s limits, rather than keying off of a single September 12 reference snapshot.

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Thank you for the opportunity to comment. We would be happy to have further discussions with the Board or its staff to clarify any of the matters discussed in this letter.

Very truly yours,



Carl V. Howard