CITIGROUP INC., BRENT MCINTOSH

Proposal and Comment Information

Title: Regulatory Capital Rule: Category I and II Banking Organizations, Banking Organizations with Significant Trading Activity, and Optional Adoption for Other Banking Organizations, R-1887

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Submitter Information

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Citigroup Inc. appreciates the opportunity to comment on this proposal issued by the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation. Please see our attached comment letter.

June 17, 2026

Via Electronic Submission

Benjamin W. McDonough, Secretary
Board of Governors of the Federal Reserve System
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Washington, DC 20551

Jennifer M. Jones, Deputy Executive Secretary
Attention: Comments/Legal OES (RIN 3064-AF29)
Federal Deposit Insurance Corporation
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Chief Counsel's Office
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Re: Regulatory Capital Rule: Category I and II Banking Organizations, Banking Organizations With Significant Trading Activity, and Optional Adoption for Other Banking Organizations (Federal Reserve Docket No. R-1887, RIN 7100-AH20; FDIC RIN 3064-AF29; Docket ID OCC-2026-0265)

Ladies and Gentlemen:

Citigroup Inc. ("Citi")[1] appreciates the opportunity to comment on the above-referenced proposal (the "Proposal") issued by the Board of Governors of the Federal Reserve System (the "Federal Reserve"), the Office of the Comptroller of the Currency (the "OCC"), and the Federal Deposit Insurance Corporation (together with the Federal Reserve and the OCC, the "Agencies").[2]

[1] Citi is a global diversified financial services holding company whose businesses provide consumers, corporations, governments, and institutions with a broad, yet focused, range of financial products and services, including consumer banking and credit, corporate and investment banking, securities brokerage, trade and securities services, and wealth management.

[2] Regulatory Capital Rule: Category I and II Banking Organizations, Banking Organizations With Significant Trading Activity, and Optional Adoption for Other Banking Organizations, 91 Fed. Reg. 14,952 (proposed Mar. 27, 2026) [hereinafter Proposal].

We strongly support the Agencies' efforts to make the capital framework simpler, more consistent, and more risk-sensitive. We also commend the Agencies for more closely aligning to the standards agreed by the Basel Committee on Banking Supervision (the "Basel Framework") and their implementation in other major jurisdictions. Among other elements of the Proposal, we are supportive of how it would adopt a "single-stack" framework,[3] improve the calibration of the capital framework to underlying risk, and eliminate areas of the 2023 proposal to amend the capital framework (the "2023 Basel III Endgame Proposal") that would have been super-equivalent to the Basel Framework and its implementation in other jurisdictions.[4]

We encourage the Agencies to finalize the Proposal expeditiously, taking into consideration the feedback and recommendations provided in the comment letters submitted by industry trade associations of which Citi is a member.[5] Our letter serves to complement and amplify the industry trade association letters and raise additional important issues for the Agencies to consider.

The final rule should (1) reduce the over-calibration of capital requirements for operational, market, and credit valuation adjustment ("CVA") risk, which would result from overlap in the capital framework, by making key changes to the Proposal; (2) retain the existing definitions of "commitment" and "unconditionally cancelable"; (3) provide for a period of at least one year between the publication of the final rule and its effectiveness; and (4) eliminate the advanced approaches as soon as the final rule is published. In addition, the Federal Reserve should clarify the mechanics of the transition to the final rule amending the global systemically important bank holding company ("GSIB") surcharge.

The Agencies should reduce the over-calibration of capital requirements for operational, market, and CVA risk resulting from overlap in the capital framework.[6]

The application of the stress capital buffer ("SCB") requirement to the expanded risk-based approach ("ERBA") would result in the over-calibration of capital requirements.

Under the Proposal, banking organizations would calculate a single set of risk-based capital ratios, using ERBA to calculate risk-weighted assets ("RWAs") instead of the current standardized

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[3] In addition to the elimination of the advanced approaches, we are supportive of how the Proposal does not include the internal models methodology ("IMM") for measuring counterparty credit risk. *Id.* at 14,964. The elimination of IMM would help simplify the capital framework and improve the consistency and comparability of capital requirements across banking organizations. This is responsive to the Proposal's Question 42. *Id.* at 14,985.

[4] Regulatory Capital Rule: Large Banking Organizations and Banking Organizations With Significant Trading Activity, 88 Fed. Reg. 64,028 (proposed Sept. 18, 2023).

[5] These include, for example, the joint comment letter of the Bank Policy Institute, American Bankers Association, Financial Services Forum, U.S. Chamber of Commerce, and Consumer Bankers Association and the joint comment letter of the International Swaps and Derivatives Association ("ISDA"), Securities Industry and Financial Markets Association ("SIFMA"), and Institute of International Finance ("IIF").

[6] This is responsive to the Proposal's Questions 1 and 198–99. Proposal at 14,957, 15,150–51.

approach and advanced approaches.[7] The capital conservation buffer requirement would apply to risk-based capital ratios calculated using ERBA in the same manner as it applies to those calculated using the standardized approach today.[8] Importantly, this would include the application of the SCB requirement, which is set using firm-specific results from the Federal Reserve's supervisory stress test, to risk-based capital ratios calculated using ERBA.

As discussed in our comment letter on the 2023 Basel III Endgame Proposal, the application of the SCB requirement to risk-based capital ratios under ERBA would result in the concerning outcome of banking organizations capitalizing for the same risks via both ERBA *and* the SCB requirement.[9] Below we discuss how this overlap results in over-calibrated capital requirements.

- **Operational Risk:** Unlike the current standardized approach, ERBA would introduce a standardized methodology for the calculation of operational risk RWAs. The proposed approach is designed to capture the "risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events (including legal risk but excluding strategic risk)."[10] At the same time, the Federal Reserve's supervisory stress tests independently incorporate severe, scenario-driven operational risk losses, which flow directly into the SCB requirement.[11]

- **Market Risk:** The Proposal would introduce a new framework for the calculation of market risk RWAs that is intended to better account for extreme losses.[12] However, the global market shock component of the severely adverse scenario in the Federal Reserve's supervisory stress test, and therefore the SCB requirement, similarly captures losses under extreme conditions.[13]

- **CVA Risk:** Whereas the current standardized approach does not require banking organizations to calculate CVA risk RWAs, the Proposal would require them to calculate CVA risk RWAs in ERBA. This would introduce overlap with the Federal Reserve's

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[7] *Id.* at 14,957–58.

[8] *Id. at* 14,958.

[9] *See* Citigroup, Comment Letter on Proposed Rule on Regulatory Capital Rule: Large Banking Organizations and Banking Organizations With Significant Trading Activity (Jan. 16, 2024), https://www.federalreserve.gov/apps/proposals/comments/FR-0000-0086-01-C258.

[10] Proposed § __.101(b).

[11] *See, e.g.*, Enhanced Transparency and Public Accountability of the Supervisory Stress Test Models and Scenarios; Modifications to the Capital Planning and Stress Capital Buffer Requirement Rule, Enhanced Prudential Standards Rule, and Regulation LL, 90 Fed. Reg. 51,856, 51,863 (proposed Nov. 18, 2025) [hereinafter Stress Testing Proposal].

[12] Proposal at 15,016.

[13] *See, e.g.*, 12 C.F.R. pt. 252 app. A; Stress Testing Proposal at 51,858–59.

supervisory stress test, and thus the SCB requirement, which already captures the CVA losses from firm counterparty exposures.[14]

We disagree with the Federal Reserve's conclusion that it has resolved the overlap between the new RWA framework and the agency's supervisory stress testing framework.

We appreciate the Federal Reserve's acknowledgement of the issue of the overlap between the Proposal and the SCB requirement. However, we disagree with the conclusion that because the Proposal is expected to generally increase capital requirements and the Federal Reserve's outstanding stress testing proposal is expected to generally decrease capital requirements, the Federal Reserve has effectively resolved the overlap issue.[15]

First, the Federal Reserve is in the process of revising its supervisory stress testing framework with the explicit aim of enhancing its transparency, public accountability, and effectiveness.[16] While we strongly support the Federal Reserve's efforts, this is an entirely separate objective from ensuring the proper calibration of firms' aggregate capital requirements.

Second, the expected decline in firms' SCB requirements would not resolve the conceptual issue of applying the SCB requirement set by the supervisory stress test to RWAs calculated using ERBA. Even after the finalization of the Federal Reserve's proposed stress test reforms, firms would still apply an SCB requirement capturing operational, market, and CVA risk under severe conditions to an RWA base reflecting the same risks.

Third, the Federal Reserve's conclusion that the overlap issue would be resolved without the need for further changes to the Proposal is contrary to its own empirical analysis. Taking operational risk as an example, the Agencies state that, "[t]aking both the Basel III and the proposed stress test changes together, the requirement for operational risk would increase by about 14.9 percent."[17] This runs counter to the notion that the impacts of the two proposals would offset.

The Agencies should address the resulting over-calibration in capital requirements by making important changes to the Proposal.

In the final rule, the Agencies should reduce the over-calibration of capital requirements for these risk stripes by making targeted changes to the Proposal.

To improve the overall calibration of operational risk capital requirements, the Agencies should hold constant the coefficient used to convert the business indicator (the "BI") into the business indicator component (the "BIC"). Under the Proposal, a banking organization's BI would

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[14] *E.g.*, Stress Testing Proposal at 51,865.

[15] *See* Proposal at 14,959–60.

[16] *See* Stress Testing Proposal at 51,856–57.

[17] Proposal at 15,104. The Agencies attempt to resolve this contradiction by noting that, "operational risk requirements would be substantially lower than those that currently result from banking organizations' internal models under the advanced approaches." *Id.* However, elsewhere in the Proposal, the Agencies acknowledge that the advanced approaches generally have not been binding. *See id.* at 15,127.

be multiplied by a coefficient to generate its BIC.[18] This coefficient would increase from 12% to 15% and 18% as the banking organization's BI rises.[19] In the final rule, the Agencies should hold this coefficient constant at 12%, regardless of the magnitude of a banking organization's BI. This would better calibrate banking organizations' overall operational risk capital requirements, mitigating the effect of the overlap between the Proposal and the Federal Reserve's stress testing framework.

To improve the overall calibration of market and CVA risk capital requirements, we urge the Agencies to implement the recommendations contained in the ISDA-SIFMA-IIF comment letter. In addition to better calibrating individual components of the Proposal's market and CVA risk frameworks to underlying risk, these recommendations, if implemented, would help reduce the over-capitalization for these risks resulting from duplicative risk capture across ERBA and the SCB requirement.[20]

The Agencies should retain the existing definitions of "commitment" and "unconditionally cancelable" in the capital rule.[21]

We urge the Agencies to retain the current definitions of "commitment" and "unconditionally cancelable" in the capital rule. As compared to the current definition, the proposed definition of "commitment" would introduce substantial uncertainty into the capital framework, result in more inconsistent treatment across banking organizations, and likely require banking organizations to newly capitalize for a broad spectrum of arrangements that are distinct from the concept of a true commitment. Revising the definition of "commitment" in the manner contemplated in the Proposal would work against the Proposal's objective of "[i]mproving the consistency of the regulatory capital framework,"[22] as well as the Agencies' specific rationale for revising the definition of "commitment"—namely, improving the consistency of its application.[23] Significant increases in required capital for arrangements that to date have not been considered

[18] *Id.* at 15,013–14.

[19] *Id.*

[20] In addition, given that the Federal Reserve has said its stress testing reforms are a necessary step to resolve the overlap between that framework and the Proposal, we encourage the Federal Reserve to finalize its stress testing reforms taking into consideration feedback we and our industry trade associations have provided. *See* Citigroup, Comment Letter on Proposed Rule on Enhanced Transparency and Public Accountability of the Supervisory Stress Test Models and Scenarios; Modifications to the Capital Planning and Stress Capital Buffer Requirement Rule, Enhanced Prudential Standards Rule, and Regulation LL (Feb. 20, 2026), https://www.federalreserve.gov/apps/proposals/comments/FR-2025-0063-01-C36; Bank Pol'y Inst. et al., Comment Letter on Proposed Rule on Enhanced Transparency and Public Accountability of the Supervisory Stress Test Models and Scenarios; Modifications to the Capital Planning and Stress Capital Buffer Requirement Rule, Enhanced Prudential Standards Rule, and Regulation LL (Feb. 20, 2026), https://www.federalreserve.gov/apps/proposals/comments/FR-2025-0063-01-C11.

[21] This is responsive to the Proposal's Question 30. Proposal at 14,978.

[22] *Id.* at 14,954.

[23] *See id.* at 14,977 ("[T]the agencies have observed an inconsistent application of the current definition of commitment.").

commitments, and against which banking organizations have not been required to maintain capital, would serve as a strong disincentive for banking organizations to engage with clients of all sizes on the potential availability of future liquidity.

The proposed definition of "commitment" overlooks fundamental differences between commitments and non-binding arrangements.

The significant expansion in the scope of arrangements that would be captured by the definition of "commitment" under the Proposal appears to result in large part from the Agencies equating arrangements that are *not* commitments with arrangements that are *unconditionally cancelable* commitments. Specifically, the proposed definition provides that a commitment would be unconditionally cancelable if the banking organization is not obligated to extend credit, purchase assets, or issue credit substitutes.[24] However, an obligation of this sort is a necessary condition for the existence of a commitment in the first place, as reflected in the current capital rule.[25] If a banking organization is not under an obligation to extend credit, purchase assets, or issue credit substitutes, it is not the case that there exists a commitment that is unconditionally cancelable; there is simply no commitment at all.

By conflating arrangements that are not commitments with arrangements that are unconditionally cancelable commitments, the Agencies overlook basic differences between non-binding arrangements and commitments. Whereas true commitments involve a legally binding obligation to extend credit that may or may not be cancelable in the future, the proposed definition would scope in as "commitments" numerous arrangements deliberately structured to provide banking organizations complete and total discretion to advance or withhold funds in the first place. A banking organization may choose not to advance credit to a would-be obligor for any number of reasons, including, for example, concerns about its creditworthiness, insufficient and/or inadequate collateral, or stress in the macro environment.

The scope of the proposed definition of "commitment" is broad and uncertain.

Whereas the current definition of "commitment" in the capital rule requires the presence of a *binding* arrangement that *obligates* a banking organization to either extend credit or purchase assets,[26] the proposed definition would require that a banking organization merely agree on *terms applicable* to a *future* extension of credit, purchase of assets, or issuance of a credit substitute. We disagree with the Agencies' view that this change in definition would clarify which arrangements qualify as "commitments."[27]

[24] Proposed §§ 3.2, 217.2, 324.2.

[25] The capital rule defines commitment as "any legally binding arrangement that obligates a [banking organization] to extend credit or to purchase assets." 12 C.F.R. §§ 3.2, 217.2, 324.2.

[26] 12 C.F.R. §§ 3.2, 217.2, 324.2.

[27] *See* Proposal at 14,977 ("The proposal would better capture the risk of certain off-balance sheet exposures relative to the current standardized approach by revising the definition of commitment to clarify the off-balance sheet exposures that would be subject to risk-based capital requirements . . . .").

The proposed definition is less clear and administrable than the current definition. Rather than being able to look to the presence of a legally binding obligation to extend credit or purchase assets as a clear marker of a "commitment," banking organizations would need to adopt their own, individual practices and policies for identifying "commitments" as defined by the Proposal. This would result in disparate approaches among banking organizations and, in all likelihood, different capital treatment.[28]

Although the exact boundaries of the proposed definition are uncertain, it is clear that the proposed definition would represent a vast expansion of the scope of arrangements that may qualify as "commitments" relative to the current definition. Banking organizations have numerous arrangements with prospective obligors involving communications about potential extensions of credit in the future; not all of them result in an actual obligation to lend, purchase an asset, or issue a credit substitute. Indeed, as discussed above, banking organizations intentionally structure many of these arrangements to ensure they are under no obligation to lend, purchase an asset, or issue a credit substitute. Thus, the proposed definition would not represent a clarification of the existing definition, but rather a wholesale transformation.[29]

The proposed change in definition would result in substantial increases in capital requirements for these arrangements, with deleterious effects on the real economy.

Categorizing a wide range of non-binding arrangements as "commitments" under the Proposal would not just represent a conceptual shift in the capital framework; it would also require newly capitalizing against these arrangements. Because non-binding arrangements could be considered "commitments" and such "commitments" would be considered unconditionally cancelable if there is no obligation to extend credit, purchase assets, or issue credit substitutes, various non-binding arrangements would be subject to the new 10% CCF the Proposal would assign to the unused portion of a commitment that is unconditionally cancelable.[30] The existing capital rule assigns a 0% CCF to such off-balance sheet exposures.[31] The combination of the new definition of "commitment" and the new, greater-than-zero CCF for unconditionally cancelable commitments would result in banking organizations newly assigning a positive exposure amount

[28] This issue would be especially pronounced as banking organizations attempt to make the critical determination of the dollar value of the off-balance sheet component to be multiplied by the credit conversion factor ("CCF") to generate an exposure amount. In many cases, banking organizations may not have agreed or even disclosed (officially or otherwise) potential amounts of any future extensions of credit, let alone included figures in signed documentation, leaving the Proposal unclear as to how the off-balance sheet component should be calculated in certain non-retail contexts. Any potential mechanisms to determine the off-balance sheet component for "commitments" in these situations—for example, using certain internal records or a methodology to measure hypothetical usage—would likely result in inconsistent treatment.

[29] We also note that the proposed definition would be broader than the relevant definition in the Basel Framework, meaning more types of arrangements would be categorized as "commitments" than required by international standards. *See* Basel Framework CRE20.94, https://www.bis.org/basel_framework/chapter/CRE/20.htm ("[C]ommitment means any contractual arrangement that has been offered by the bank and accepted by the client to extend credit, purchase assets or issue credit substitutes.").

[30] Proposed § __.112(b)(1).

[31] 12 C.F.R. §§ 3.33(b)(1), 217.33(b)(1), 324.33(b)(1).

to a range of non-binding arrangements. This positive exposure amount would be risk-weighted, and banking organizations would be required to maintain capital against the resulting RWAs.

Given the uncertain but likely vast range of non-binding arrangements that would be newly scoped into the definition of "commitment," assigned a positive CCF, and risk-weighted, the revision of the definition would result in substantial increases in credit risk RWAs, and therefore capital requirements, for such arrangements.[32] The large increase in capital requirements due to the change in definition of "commitment," combined with confusion about its precise scope, would lead to banking organizations retreating from a wide array of client arrangements to avoid triggering the applicability of the proposed definition, and the resulting capital requirements, for arrangements where a banking organization has no legally binding obligation to a potential obligor. Such a pullback would create uncertainty for a range of clients around the credit potentially available to them from banking organizations in the future and how banking organizations may participate in corporate, trade and supply chain, and securities finance to support real economic activity. This may also lead to more financial activity migrating to non-bank financial institutions, despite the Proposal's intent, as recently discussed by Federal Reserve Vice Chair for Supervision Michelle Bowman, to "ensur[e] that regulatory requirements do not lead to activities leaving the regulated banking sector."[33]

The Agencies should ensure an orderly transition to the amended capital framework.[34]

The period between the publication of the final rule and its effectiveness should be at least one year.

The Proposal does not include an effective date for the final rule. Instead, the Agencies solicit comment on the "appropriate amount of time between the publication of any final rule and its effective date."[35] We recommend that the period between the publication of the final rule and its effective date be no less than one year. Although the Proposal simplifies the capital framework and is less complex than the 2023 Basel III Endgame Proposal, it would still require banking organizations to make significant changes to their systems, data, processes, and controls.

The Agencies should eliminate the advanced approaches as soon as the final rule is published.

The Proposal would eliminate the advanced approaches framework and subject banking organizations to just one set of risk-based capital ratio requirements.[36] We strongly support this

[32] The proposed change in definition would also result in an increase in firms' GSIB scores, which is another way it would increase firms' capital requirements relative to maintaining the existing definition.

[33] Michelle W. Bowman, Vice Chair for Supervision, Bd. of Governors of the Fed. Rsrv. Sys., When Regulation Reshapes Markets: The Migration of Corporate Lending (May 8, 2026), https://www.federalreserve.gov/newsevents/speech/bowman20260508a.htm.

[34] This is responsive to the Proposal's Questions 1–2, 5, and 198. Proposal at 14,957, 14,959, 15,150.

[35] *Id.* at 14,957.

[36] *Id.* at 14,957–58.

structural element of the Proposal, which would simplify the regulatory capital framework. In addition, we encourage the Agencies to eliminate the advanced approaches immediately upon finalization of the Proposal. In the period between the final rule's publication date and its effective date, banking organizations should only be required to calculate risk-based capital ratios under the standardized approach.

Requiring banking organizations to maintain the advanced approaches in the period between the publication of the final rule and its effectiveness would create needless burden for banking organizations tasked with simultaneously implementing the final rule. However, the greatest burden of the continued applicability of the advanced approaches would fall on the Agencies. For example, pursuant to the Federal Reserve's Basel Coordination Committee Bulletin 14-2, banking organizations must provide information to their supervisors to support review of model changes, and supervisors are expected to review materials and provide feedback.[37] Continued review of internal models that would already have been permanently eliminated by the final rule would direct agency resources away from "the most important risks threatening the safety and soundness of banking organizations."[38]

The Federal Reserve should clarify the mechanics of the transition to the final GSIB surcharge rule and avoid unnecessary volatility in capital requirements.

An unsynchronized transition to the revised capital framework risks upsetting the Agencies' careful consideration of the interplay between the Proposal and the Federal Reserve's proposal to amend the GSIB surcharge rule (the "GSIB Surcharge Proposal"[39]) in producing U.S. GSIBs' aggregate capital requirements. We urge the Federal Reserve to clarify how U.S. GSIBs would transition to the final GSIB surcharge rule and take necessary steps to smooth volatility in U.S. GSIBs' capital requirements during the transition.

Specifically, the Federal Reserve should explicitly confirm that if the final GSIB surcharge rule takes effect in 2027, U.S. GSIBs would be permitted to recalculate their GSIB surcharge using the revised rule, based on year-end 2026 data. In addition, the Federal Reserve should cap a firm's GSIB surcharge requirement that takes effect on January 1, 2028, at the level of the firm's GSIB surcharge requirement that takes effect on January 1, 2027.

These recommendations would provide firms with necessary clarity around the transition to the revised capital framework; ensure that U.S. GSIBs are not held to GSIB surcharge requirements calculated under the existing framework, which inaccurately measures systemic risk;

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[37] BD. OF GOVERNORS OF THE FED. RSRV. SYS., BCC 14-2, GUIDANCE RELATING TO NOTIFICATIONS OF MATERIAL CHANGES TO ADVANCED SYSTEMS AND MODELING CHANGES (2014), https://www.federalreserve.gov/bankinforeg/basel/files/bcc1402.pdf.

[38] DIV. OF SUPERVISION & REGUL., BD. OF GOVERNORS OF THE FED. RSRV. SYS., UPDATED STATEMENT OF SUPERVISORY OPERATING PRINCIPLES 1 (2026), https://www.federalreserve.gov/supervisionreg/files/statement-of-supervisory-operating-principles-20260430.pdf.

[39] Regulatory Capital Rule (Regulation Q): Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies; Systemic Risk Report (FR Y-15), 91 Fed. Reg. 14,908 (proposed Mar. 27, 2026).

prevent unnecessary volatility in capital requirements during the transition; and avoid a scenario in which an increase in capital requirements in 2028 resulting from the increase in RWAs under the Proposal could be compounded by the application of an increased GSIB surcharge requirement calculated under the current GSIB surcharge rule.

We discuss these issues in greater length in our separate comment letter to the Federal Reserve on the GSIB Surcharge Proposal.

Conclusion

A well-calibrated capital framework is critical to financial stability, the health of the economy, and the ongoing ability of banking organizations to support their clients. We applaud the issuance of a proposal that better calibrates capital requirements to risk and aligns more closely with global standards. We urge the Agencies to finalize the Proposal expeditiously, carefully considering the comments set forth in the aforementioned industry trade association letters and the recommendations we raise above.

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We appreciate the opportunity to comment on the Proposal. If you have any questions, please do not hesitate to contact the undersigned.

Sincerely,

Brent J. McIntosh
Chief Legal Officer & Corporate Secretary
Citigroup Inc.