CITIGROUP INC., BRENT MCINTOSH

Proposal and Comment Information

Title: GSIB-Regulatory Capital Rule: Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies; Systemic Risk Report (FR Y-15), R-1889

Comment ID: FR-2026-0009-01-C29

Submitter Information

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Organization Type: Company

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Citigroup Inc. appreciates the opportunity to comment on the proposal issued by the Board of Governors of the Federal Reserve System to modify the methodology used to calculate the risk-based capital surcharges applicable to U.S. global systemically important bank holding companies. Please see our attached comment letter.

June 17, 2026

<u>Via Electronic Submission</u>

Benjamin W. McDonough, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Re: Regulatory Capital Rule (Regulation Q): Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies; Systemic Risk Report (FR Y-15) (Federal Reserve Docket No. 1889, RIN 7100-AH22)

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") to modify the methodology used to calculate the risk-based capital surcharges (the "GSIB surcharge") applicable to U.S. global systemically important bank holding companies ("GSIBs").[2]

We support the Federal Reserve's efforts to improve the measurement of systemic risk and mitigate shortcomings of the current GSIB surcharge rule by adjusting the fixed coefficients in the Method 2 framework to account for changes in the financial system and the economy, applying an annual adjustment to the coefficients based on economic growth and inflation going forward, modifying the short-term wholesale funding ("STWF") systemic indicator, and introducing narrower Method 2 score band ranges.[3]

We encourage the Federal Reserve to finalize the Proposal expeditiously, taking into consideration the feedback and recommendations provided in the comment letters submitted by

[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 (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) [hereinafter Proposal].

[3] *Id.* at 14,910.

industry trade associations of which Citi is a member.[4] Our letter serves to complement and amplify the industry trade association letters and raise additional important issues for the Federal Reserve to consider.

The Federal Reserve should (a) recalibrate the Method 2 coefficients based on nominal gross domestic product ("GDP") growth since the end of 2012; (b) not require U.S. GSIBs to report systemic indicators as the average of values generated more frequently than monthly; (c) allow U.S. GSIBs to report quarter-end values for certain systemic indicators; (d) confirm that if the final rule takes effect in 2027, U.S. GSIBs would be permitted to recalculate their GSIB surcharge based on year-end 2026 data using the revised rule; and (e) cap GSIB surcharge requirements effective on January 1, 2028, at the level of GSIB surcharge requirements effective on January 1, 2027.

The final rule should recalibrate the Method 2 coefficients based on nominal GDP growth since the end of 2012.[5]

We appreciate the Federal Reserve's efforts to reform the calculation of the GSIB surcharge; however, the proposed modifications are insufficient to address longstanding concerns associated with the calculation of the Method 2 surcharge. The Proposal fails to completely correct for a fundamental issue in the framework: its reliance on fixed economic indicators from 2012. We urge the Federal Reserve to adopt a final rule that recalibrates the Method 2 coefficients based on nominal GDP growth since the end of 2012 and annually indexes the coefficients by nominal GDP growth going forward. This would restore the surcharge to its intended role as an accurate, fair measure of a GSIB's relative systemic risk.

Absent adjustment, the Method 2 framework produces mechanically inflated scores and fails to accurately measure an institution's systemic risk profile.

The Method 2 framework relies on fixed coefficients developed from data from as early as 2012–13.[6] That data has not been updated since the current rule's adoption. This static design creates a significant structural problem: Absolute balance-sheet growth—driven by ordinary inflation, GDP growth, and monetary expansion—automatically inflates a GSIB's score. This mechanical increase occurs even when a firm's size, activities, and risk profile *relative to the overall economy* have not changed. The growth of banking-organization balance sheets since 2012 has led to an increase in Method 2 scores for reasons unrelated to an increase in systemic risk.

The Federal Reserve foresaw this issue in 2015 when it finalized the current rule, expressly contemplating periodic reevaluations to ensure that "factors unrelated to systemic risk do not have an unintended effect on a bank holding company's systemic indicator scores."[7] However, no such

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[4] These include, for example, the joint comment letter of the Financial Services Forum ("FSF") and Bank Policy Institute ("BPI") and the joint comment letter of the International Swaps and Derivatives Association, Securities Industry and Financial Markets Association, and Institute of International Finance.

[5] This is responsive to the Proposal's Question 1. Proposal at 14,915.

[6] *See id.* at 14,911.

[7] Regulatory Capital Rules: Implementation of Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies, 80 Fed. Reg. 49,082, 49,085 (Aug. 14, 2015).

adjustment has been made. As a result, the Method 2 score is no longer a valid proxy for systemic importance; instead, it is an artifact of nominal economic growth.

Revising the Method 2 coefficients to reflect nominal GDP growth since 2012 would lead to more accurate risk measurement and correct deficiencies in the current rule.

The Proposal's one-time downward adjustment, based on Method 1–Method 2 score divergence since year-end 2019,[8] does not address the foundational cause of the Method 2 score's distortion. The Federal Reserve explains that this period was chosen because part of the increase in Method 2 scores was attributable to the lack of adjustment following "broad economic changes affecting the banking system since 2020."[9] This implies that because the two scores evolved "largely in parallel" before then, no earlier adjustment is needed.[10] This rationale overlooks the fact that the economic expansion that detached the Method 2 score from the actual systemic risk posed by GSIBs began long before 2019. Indeed, the data currently used to calculate the Method 2 coefficients was, as noted above, sourced in the 2012–13 timeframe and reflects a static view of the economy as it was then.

Resetting the coefficients back to 2012 is necessary to restore the foundational concept that risk is relative to the system, not merely an artifact of nominal growth. Doing so would more comprehensively and accurately reflect the changes in economic conditions since the framework was designed and ensure the surcharge remains a meaningful measure of systemic risk, consistent with the Federal Reserve's initial intent. It would also ensure the final rule is internally consistent. The annual adjustment contemplated in the Proposal would prevent the Method 2 coefficients from producing unduly high GSIB surcharge requirements because of nominal GDP growth occurring in the future; adjusting the Method 2 coefficients back to 2012 would ensure they do not produce unduly high GSIB requirements because of nominal GDP growth that has occurred in the past.

We urge the Federal Reserve to adopt a final rule that recalibrates the Method 2 coefficients to reflect the U.S. nominal GDP growth of approximately 90% between 2012 and 2025.[11] This is the most principled and effective path to ensuring the GSIB surcharge is a fair, accurate, and durable measure of systemic risk and does not generate unduly high surcharges that restrict GSIBs' ability to support the real economy.

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[8] *See* Proposal at 14,912–13.

[9] *Id.* at 14,913.

[10] *Id.* at 14,912 n.31.

[11] *See Gross Domestic Product*, BUREAU OF ECON. ANALYSIS, https://www.bea.gov/data/gdp/gross-domestic-product (last modified June 3, 2026).

<u>The Federal Reserve should reduce the proposed frequency of the systemic indicator values that would be averaged.</u>[12]

The final rule should not require U.S. GSIBs to report systemic indicators as the average of values generated more frequently than monthly.

The Proposal would require U.S. GSIBs to report certain systemic indicators as the average of daily values, including intra-financial system assets, intra-financial system liabilities, notional amount of over-the-counter ("OTC") derivatives, and trading and available-for-sale securities.[13] We urge the Federal Reserve not to require U.S. GSIBs to report systemic indicators as the average of values generated more frequently than monthly.

The Federal Reserve states that reporting systemic indicators as an average of daily or monthly values would result in GSIB surcharges that are more commensurate with systemic risk.[14] However, the marginal improvements that daily data averaging would make to the measurement of U.S. GSIBs' systemic risk profile would be outweighed by the operational complexity that daily data averaging entails. As explained in the joint FSF-BPI comment letter submitted in response to the Federal Reserve's 2023 GSIB surcharge proposal,[15] historical data shows that there have been only modest differences between year-end GSIB scores and hypothetical GSIB scores based on quarterly average values.[16] This suggests that high-frequency data averaging is a solution in search of a problem and that a simple four-quarter average would be sufficient to improve the measurement of U.S. GSIBs' systemic risk profile over a full calendar year, especially when combined with the move to narrower Method 2 score band ranges.[17] At the same time, the control and governance processes associated with the production of daily data for CFO-level attestation would create vast operational complexity. If the Federal Reserve wants to finalize an intra-quarter data averaging requirement in addition to the four-quarter average, requiring U.S. GSIBs to report systemic indicators (with the exception of the indicators we discuss below) as the average of monthly values would represent a better balance between the costs and benefits associated with averaging systemic indicator data over a single quarter.

[12] This is responsive to the Proposal's Questions 13–15 and 37. Proposal at 14,920, 14,929.

[13] *Id.* at 14,917–20.

[14] *Id.* at 14,917.

[15] Regulatory Capital Rule: Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies; Systemic Risk Report (FR Y-15), 88 Fed. Reg. 60,385 (proposed Sept. 1, 2023).

[16] *See* Fin. Servs. F. & Bank Pol'y Inst., Comment Letter on Proposed Rule on Regulatory Capital Rule: Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies; Systemic Risk Report (FR Y–15), at A–8 to A–11 (Jan. 16, 2024), https://www.federalreserve.gov/apps/proposals/comments/FR-0000-0085-01-C32.

[17] *See id.* at A–9 to A–10.

The Federal Reserve should allow U.S. GSIBs to report quarter-end values for certain systemic indicators.

As discussed above, the Federal Reserve should not require U.S. GSIBs to report systemic indicators as the average of daily values. In addition, we call attention to systemic indicators where even monthly averaging would not be appropriate, such that the Federal Reserve should allow U.S. GSIBs to report quarter-end values.

First, the Federal Reserve should permit U.S. GSIBs to report the quarter-end value of the notional amount of OTC derivatives. The Proposal would require U.S. GSIBs to report the notional amount of OTC derivatives as the average of daily values.[18] Requiring U.S. GSIBs to report the notional amount of OTC derivatives as the average of any intra-quarter values (*e.g.*, daily; weekly; monthly) would render the GSIB surcharge rule *less* effective in measuring U.S. GSIBs' systemic risk profile. Specifically, intra-quarter data averaging would not be in line with the market standard for trade compression, which is concentrated at quarter-end. Trade compression formalizes the risk-mitigating effects of existing offsetting trades and helps to present a more accurate profile of a firm's OTC derivatives activities. As a result, requiring the averaging of daily amounts would not only increase operational burden to sustain the controls and governance processes sufficient for CFO-level attestation, but also would overstate the risks associated with OTC derivatives. This would work against the Federal Reserve's overall objective of "better reflect[ing] the risk profile of a firm."[19] The Federal Reserve would more accurately measure the systemic risk of U.S. GSIBs' OTC derivative portfolios by retaining quarter-end, point-in-time reporting for the notional amount of OTC derivatives.

Second, the Federal Reserve should permit U.S. GSIBs to report the quarter-end values of cross-jurisdictional claims and cross-jurisdictional liabilities. The Proposal would require U.S. GSIBs to report cross-jurisdictional claims and cross-jurisdictional liabilities as the average of month-end values.[20] U.S. GSIBs currently leverage the Country Exposure Report, the FFIEC 009, to calculate these indicator amounts. The FFIEC 009 is filed quarterly. Requiring greater-than-quarterly values for cross-jurisdictional claims and cross-jurisdictional liabilities would therefore force U.S. GSIBs to separate the calculation of these systemic indicators from the preparation of the FFIEC 009, which would generate new operational complexity for filing the FR Y-15.

U.S. GSIBs should have at least one year to implement greater-than-quarterly data averaging.

Under the Proposal, the "amendments to the capital rule, FR Y-15 reporting form, and FR Y-15 instructions would take effect two calendar quarters after the date of adoption of a final rule."[21] Two calendar quarters would not be enough time for U.S. GSIBs to implement the data averaging requirements of the Proposal, even if, as we recommend above, the Federal Reserve

[18] Proposal at 14,919.

[19] *Id.* at 14,910.

[20] *Id.* at 14,919.

[21] *Id.* at 14,929.

generally moves to monthly data averaging and excludes certain indicators from requiring an average of intra-quarter values. To provide sufficient time to build the necessary controls and governance processes for CFO-level attestation, the Federal Reserve should give U.S. GSIBs a period of at least one year following the adoption of the final rule to implement changes that require them to report systemic indicators as the average of intra-quarter values.

The Federal Reserve should clarify the mechanics of the transition to the final rule and avoid unnecessary volatility in capital requirements during the transition.[22]

The Federal Reserve should explicitly confirm that if the final 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.

The Proposal states that the "amendments to the capital rule, FR Y-15 reporting form, and FR Y-15 instructions would take effect two calendar quarters after the date of adoption of a final rule."[23] However, it does not provide any further detail as to how U.S. GSIBs would calculate their GSIB surcharge during the calendar year in which the final rule becomes effective.

For example, if the Federal Reserve adopts a final rule in late 2026, the changes to the GSIB surcharge rule would take effect two calendar quarters later, in mid-2027.[24] This 2027 effective date for the final rule may fall after U.S. GSIBs have already calculated their Method 2 surcharge based on systemic indicator data as of December 31, 2026. It is not clear from the Proposal if in that scenario U.S. GSIBs would, after the effectiveness of the final rule in 2027, recalculate their Method 2 surcharge using (a) the systemic indicator data as of December 31, 2026, and (b) the revised GSIB surcharge rule, including the revised Method 2 coefficients, recalibrated STWF indicator, and narrower score band ranges.

We recommend that the Federal Reserve provide clear guidance as to how the final rule will affect the GSIB surcharge calculated in the year of the final rule's effective date, based on systemic indicator data as of the end of the prior calendar year. Specifically, the agency should explicitly confirm that U.S. GSIBs would be permitted to recalculate their GSIB surcharge after the final rule becomes effective, based on the revised rule text and the systemic indicator data as of the end of the prior calendar year.

In the scenario discussed above, regardless of when in 2027 the revised GSIB surcharge rule becomes effective, U.S. GSIBs should be permitted in 2027 to calculate a Method 2 surcharge based on systemic indicator data as of December 31, 2026, and using the revised GSIB surcharge rule, including the revised Method 2 coefficients, recalibrated STWF indicator, and narrower score band ranges. Further, if the GSIB surcharge calculated under the revised rule in 2027 (using systemic indicator data as of December 31, 2026) is lower than the GSIB surcharge calculated under the current rule in 2026 (using systemic indicator data as of December 31, 2025), then the

[22] This is responsive to the Proposal's Questions 37–38. *Id.* at 14,929–30.

[23] *Id.* at 14,929.

[24] We reiterate our recommendation that the Federal Reserve provide U.S. GSIBs with a period of at least one year after adoption of the final rule to comply with any greater-than-quarterly data averaging.

GSIB surcharge calculated under the revised rule in 2027 (based on systemic indicator data as of December 31, 2026) would take effect on January 1, 2028.

This confirmation would ensure that U.S. GSIBs have a clear and consistent understanding of how the final rule will impact GSIB surcharge requirements during the transition to the new GSIB surcharge framework. Allowing U.S. GSIBs to calculate their GSIB surcharge requirement under the revised rule would also be conceptually consistent with the rationale for issuing the Proposal in the first place—namely, that the shortcomings of the current GSIB surcharge rule have made the Method 2 surcharge an inaccurate measurement of a firm's systemic risk profile.

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.

In addition to providing clarity around the precise mechanics of the transition to the final rule after it is adopted and becomes effective, the Federal Reserve should take steps to smooth potential volatility in U.S. GSIBs' capital requirements during the transition to the revised capital framework. Specifically, the final rule should avoid a scenario in which a U.S. GSIB's effective GSIB surcharge requirement temporarily increases after the adoption of the final rule during the transition to the fully phased-in amendments to the Method 2 framework.

As discussed above, it is not clear from the text of the Proposal how exactly the Federal Reserve expects U.S. GSIBs to transition to the revised rule, including whether and how they would calculate their GSIB surcharge requirements using the new rule once it is effective. If the final rule becomes effective in 2027 but U.S. GSIBs are unable to benefit from the adjusted Method 2 coefficients and the recalibrated STWF indicator for the GSIB surcharge calculated in 2027 (based on systemic indicator data as of December 31, 2026), then it is possible that their GSIB surcharge requirements effective on January 1, 2028 could increase relative to their GSIB surcharge requirements effective on January 1, 2027. However, U.S. GSIBs would then use the revised Method 2 framework, including the adjusted coefficients and recalibrated STWF indicator, to calculate their GSIB surcharge in 2028 based on systemic indicator data as of December 31, 2027; this would likely result in reduced GSIB surcharge requirements—relative to the GSIB surcharge requirements effective on January 1, 2028—becoming effective on January 1, 2029.

The Federal Reserve should take steps to prevent this potential "up-then-down" dynamic and avoid any outcome where GSIB surcharge requirements rise on January 1, 2028, relative to their level as of January 1, 2027. It would be inconsistent with the Federal Reserve's rationale for issuing the Proposal to make U.S. GSIBs adhere to a higher GSIB surcharge requirement calculated under the current rule following the finalization of the Proposal. In the preamble to the Proposal, the Federal Reserve acknowledges the shortcomings of the current GSIB surcharge rule and how it does not properly reflect U.S. GSIBs' systemic risk.[25] By continuing to require U.S. GSIBs to comply with a higher GSIB surcharge requirement calculated under the current rule, the Federal Reserve would be continuing to hold U.S. GSIBs to a capital requirement generated under

[25] *See* Proposal at 14,911.

an out-of-date and admittedly inaccurate methodology, even after the agency would have already moved to finalize changes designed to update it.

In addition, this outcome would run counter to the efforts of the Federal Reserve, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation (together, the "Agencies") to consider the joint effects of various changes to the capital framework, including the Agencies' Basel III proposal, proposed reforms of the Federal Reserve's supervisory stress testing framework, and the Proposal's changes to the GSIB surcharge.[26] Specifically, if the Agencies' Basel III proposal takes effect in 2028, U.S. GSIBs could see an increase in their capital requirements as a result of the increase in risk-weighted assets ("RWAs"), without the full offsetting benefit of a lower GSIB surcharge requirement from the Proposal's holistic improvements to Method 2.[27] Instead, the increase in capital requirements in 2028 as a result of the increase in RWAs under a new Basel III rule could be compounded by the application of an increased GSIB surcharge requirement calculated under the current GSIB surcharge rule. A jump in capital requirements resulting from the interplay of a new rule (the Basel III proposal) and a current rule (the existing GSIB surcharge rule) would conflict with the Agencies' goal of considering the impacts of the new rules together in calibrating the revised framework.[28]

We recommend that the Federal Reserve cap a firm's GSIB surcharge requirement that is effective on January 1, 2028, at the level of that firm's GSIB surcharge requirement that is effective on January 1, 2027. Such a cap would prevent against the up-then-down dynamic described above, avoiding volatility during the transition to the revised GSIB surcharge framework. In addition, because GSIB surcharge requirements would not increase on January 1, 2028 in this scenario—as they would be capped at January 1, 2027 levels—the Agencies would avoid introducing a higher-RWA regime at the same time that U.S. GSIBs may be subject to incrementally higher GSIB surcharge requirements during the transition to the new Method 2 calculation.

Conclusion

A well-calibrated regulatory capital framework is critical to financial stability, the health of the U.S. economy, and the ongoing ability of banking organizations to support their clients. We support the Federal Reserve's efforts to improve the calibration of the GSIB surcharge. We encourage the Federal Reserve 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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[26] *See* 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, 15,097–105. (proposed Mar. 27, 2026).

[27] *See id.* at 15,098.

[28] *See id.* at 15,101.

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.