



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON, DC 20551

October 22, 2024

Brent McIntosh, Esq.  
Chief Legal Officer and Corporate Secretary  
Citigroup Inc.  
388 Greenwich Street  
New York, New York 10013

Dear Mr. McIntosh:

This is in response to your correspondence, most recently of January 25, 2024, to the Board on behalf of Citigroup Inc. (“Citigroup”), New York, New York, the parent of Citibank, N.A. (“Citibank”), Sioux Falls, South Dakota, requesting relief under the Board’s Regulation Q (the “capital rule”).<sup>1</sup> Specifically, Citigroup requests authorization for purposes of calculating the risk-weighted assets of Citigroup under the capital rule to treat the transaction by Citibank named “U.S.\$ [REDACTED] Credit Linked Notes due 2029” and “U.S.\$ [REDACTED] Credit Linked Notes due 2029” (together, the “CLN transaction”)<sup>2</sup> as a synthetic securitization.

In the CLN transaction, Citibank has issued debt obligations, the principal and interest payments on which are calculated based on the performance of a pool of loans held by Citibank. Specifically, payments on the obligations are calculated as if a credit default swap were in place.<sup>3</sup> Citibank has received cash from purchasers in consideration for the issuance of these debt obligations.

To be a securitization exposure under the capital rule, an exposure must arise from or reference a “traditional securitization” or a “synthetic securitization,” as defined in the capital rule.<sup>4</sup> If the transaction meets certain operational criteria, a Board-

---

<sup>1</sup> 12 CFR part 217.

<sup>2</sup> The debt obligations issued as part of each component of the CLN transaction refer to the same pool of financial exposures.

<sup>3</sup> The transaction has been documented as if a credit default swap were in place under a 2002 Master Agreement and Schedule, as published by the International Swaps and Derivatives Association, Inc., between Citibank and a hypothetical counterparty.

<sup>4</sup> 12 CFR 217.2 s.vv. securitization exposure, synthetic securitization, traditional securitization.

regulated institution may, in the case of a traditional securitization, exclude the underlying exposures from the calculation of its risk-weighted assets or, in the case of a synthetic securitization, recognize for risk-based capital purposes the use of a credit risk mitigant to hedge the underlying exposures.<sup>5</sup> A Board-regulated institution that meets these conditions must hold risk-based capital against any credit risk of the exposures it retains in connection with the securitization.<sup>6</sup> Citigroup requests that the Board permit it to compute its risk-weighted asset amount under the capital rule as if the CLN transaction were a synthetic securitization that met the operational criteria for synthetic securitizations.

For a transaction to meet the definition of a synthetic securitization under the capital rule, among other requirements, at least a portion of the credit risk of one or more underlying exposures must be transferred to one or more third parties through the use of one or more “credit derivatives” or “guarantees,” as defined in the capital rule.<sup>7</sup> Moreover, to meet the operational criteria for a synthetic securitization, a Board-regulated institution must use a qualifying credit risk mitigant in the form of “financial collateral,” a guarantee that meets certain requirements, or a credit derivative that meets certain requirements.<sup>8</sup> Citigroup has not demonstrated that the CLN transaction satisfies either of these elements of the capital rule.

Under the CLN transaction, as represented by Citigroup, a portion of the credit risk of the underlying exposures is transferred to the obligation holders by use of contractual provisions that incorporate standard industry credit derivative documentation. In addition, Citibank received the value of the purchased credit protection at issuance in the form of cash proceeds; the proceeds serve to mitigate credit risk of the protection providers. The amount of cash that Citibank owes to the obligation holders depends on the credit performance of the pool of reference assets. Thus, the credit protection is pre-funded rather than backed by collateral. Apart from the two elements identified above—(1) the use of a credit derivative or guarantee to transfer credit risk, and (2) the reliance on financial collateral, a guarantee, or a credit derivative that meets the requirements under the capital rule—Citigroup contends that the CLN transaction meets all other definitional requirements and operational criteria for synthetic securitizations under the capital rule.<sup>9</sup> It is expected that the capital requirement produced under the securitization framework under the capital rule would be commensurate with the risk of the exposures

---

<sup>5</sup> 12 CFR 217.41(a) and (b); .141(a) and (b).

<sup>6</sup> Id.

<sup>7</sup> 12 CFR 217.2 s.vv. credit derivative, guarantee, synthetic securitization.

<sup>8</sup> 12 CFR 217.41(b)(1); .141(b)(1); see also 12 CFR 217.2 s.vv. eligible credit derivative, eligible guarantee, financial collateral.

<sup>9</sup> Under the CLN transaction, Citibank has the right to terminate the transaction early under certain circumstances. Citigroup has committed to cause Citibank not to exercise these early termination rights, or similar rights under any other substantially identical transaction that is currently outstanding, unless the contractual right is exercised only under circumstances where a contractual right that meets the definition of an “eligible clean-up call” under the Board’s capital rule could be exercised. See 12 CFR 217.2 s.vv. clean-up call, eligible clean-up call.

that arise from the transaction if the CLN transaction as represented by Citigroup were treated as a synthetic securitization that meets the operational criteria for a synthetic securitization.

Based on all the facts of record, the Director of the Division of Supervision and Regulation, acting pursuant to section 217.1(d)(3) of the capital rule under authority delegated by the Board,<sup>10</sup> and after consultation with the General Counsel, has determined that Citigroup may calculate its risk-weighted asset amount under the capital rule as if the CLN transaction were a synthetic securitization, under the capital rule, that met all the operational criteria for a synthetic securitization. This action also permits Citigroup to treat other credit-linked-note transactions as synthetic securitizations for purposes of calculating risk-weighted assets under the capital rule, so long as any such other credit-linked-note transactions are structured and documented in a substantially identical manner to the CLN transaction and do not deviate from the definitional requirements and operational criteria for synthetic securitizations in the capital rule other than with respect to the use of a “credit derivative” and the presence of a qualifying credit risk mitigant. In addition, this action applies only to the CLN transaction and other substantially identical CLN transactions up to an aggregate outstanding reference portfolio principal amount of the lower of 100 percent of Citigroup’s total capital or \$20 billion.<sup>11</sup> Citigroup may not apply this treatment to less than the entirety of all the exposures arising out of any given CLN transaction.<sup>12</sup>

This action is based on the specific facts and representations in the request and in communications with Board staff, as well as any commitments provided by Citigroup. Any change in these facts or representations should be communicated immediately to Board staff and could result in a different conclusion. This action also is limited to this transaction and like transactions as described above and does not apply to any other transaction.

Very truly yours,

*(Signed) Michele Taylor Fennell*

Michele Taylor Fennell  
Associate Secretary of the Board

---

<sup>10</sup> 12 CFR 265.7(k)(1)(ii)(C).

<sup>11</sup> 12 CFR 217.2 s.v. total capital.

<sup>12</sup> Citigroup represents that certain of the reference exposures may be denominated in a currency other than the currency of denomination of the notes issued through the CLN transaction. When treating a transaction as a synthetic securitization for purposes of this determination, Citigroup must reduce the protection amount to reflect any mismatches between the currency of the debt obligations and the currency of the underlying assets in the manner of an eligible guarantee or eligible credit derivative under 12 CFR 217.36(d) and (f) or 217.134(d) and (f), as applicable, and consistent with 12 CFR 217.45 or 217.145, as applicable.