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March 30, 2007

VIA EMAIL

Ms. Jennifer J. Johnson
Secretary
Board of Governors of the
Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
regs.comments@federalreserve.gov
Docket No. R-1274

Ms. Nancy M. Morris
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090
rule-comments@sec.gov
File Nos. S7-22-06, S7-23-06

RE: Regulation R; Release No. 34-54946; Release No. 34-54947

Dear Ms. Johnson and Ms. Morris :

Citigroup Inc. (“Citigroup”) appreciates the opportunity to comment on proposed Regulation R jointly issued by the Board of Governors of the Federal Reserve System (the “Board”) and the Securities and Exchange Commission (the “SEC”, and collectively with the Board, the “Agencies”). Regulation R sets out proposed exceptions for banks from the term “broker” as defined under Section 3(a)(4) of the Securities Exchange Act of 1934 (the “Exchange Act”), as amended by the Gramm-Leach-Bliley Act (“GLBA”). We also comment below on the SEC companion proposal to Regulation R to exempt banks from the term “dealer” as defined under Section 3(a)(5) of the Exchange Act.

Representatives of Citigroup participated in the preparation of the letters by the ABA Securities Association (“ABASA”), The Clearing House (“TCH”), the Institute of International Bankers (“IIB”), and the Securities Industry Financial Markets Association (“SIFMA”, and collectively with ABASA, TCH and IIB, the “Associations”). Citigroup generally supports the analysis and

views set forth in the Associations' letters. We are writing separately to highlight certain issues set forth in the Associations' letters that are of particular importance to Citigroup.

Cooperation Between the Agencies

We commend the Agencies for their collaborative efforts in issuing Regulation R, and believe that such efforts have produced a proposal that represents a significant improvement over its predecessor, proposed Regulation B. While we believe the exemptions from the push-out provisions of GLBA set out in Regulation R continue to raise certain issues, Regulation R provides banks with considerably more flexibility in meeting the exemptions from broker registration. We strongly recommend that the collaborative effort between the Board and the SEC continue after Regulation R is finalized, particularly in connection with any enforcement actions, interpretations or guidance related to Regulation R.

Referral of High Net Worth and Institutional Customers

Proposed Rule 701 of Regulation R allows a bank to pay its employee more than a nominal fee for referrals of high net worth or institutional customers to a broker-dealer, subject to certain conditions. In order to qualify for this institutional referral exemption, Rule 701 requires a broker-dealer to conduct a suitability determination of the securities transaction the high net worth or institutional customer intends to undertake.¹ While we support the institutional customer referral exemption, we believe it is inapposite to impose additional suitability requirements upon a broker-dealer beyond those that may already be required. We also view as inappropriate a "back door" attempt to impose additional suitability requirements on a broker-dealer through regulation intended to implement provisions of GLBA. Citigroup does not believe that the payment of more than a nominal referral fee to an unlicensed bank employee needs to be restricted in this way, and submits that existing suitability requirements applicable to broker-dealers to whom the referral is made are sufficient to protect customers, particularly sophisticated high net worth and institutional customers.

In addition to the suitability requirements, proposed Rule 701 would require both the bank and the broker-dealer to qualify the referred customer as either "institutional" or "high net worth" prior to the bank paying the referral fee to the bank employee.² We question why both parties are required to perform such determination, and believe that the bank and the broker-dealer should be allowed to allocate the responsibility of making the determination between them. Further, in making the determination, Regulation R should make clear that either the bank or the broker-dealer should be allowed to rely upon a signed acknowledgement from the customer.

We also believe that the definition of "high net worth" customer should be aligned with an existing standard. It is unclear why yet another legal standard of the concept of a "high net worth" person needs to be promulgated beyond those that already exist in the securities laws.

¹ Proposed Exchange Act Rules 701(a)(3)(ii)(A) and 701(a)(3)(ii)(B).

² Proposed Exchange Act Rules 701(a)(2)(ii) and 701(a)(3)(i)(B).

We believe that the standard for “high net worth” customers should be aligned with the recently proposed amendments to the “accredited investor” definition contained in Rule 501(a) of Regulation D under the Securities Act of 1933. This recent proposal recognizes that potential investors in private pools of capital (e.g., hedge funds) that invest in potentially complex financial products must possess a certain level of sophistication to adequately understand their investment; we question why a higher threshold is necessary in the context of Regulation R. We further believe that the definition of “institutional” customer should be aligned with Rule 501(a)(3) of the Securities Act so that it encompasses any corporation, partnership, limited liability company, trust or non-natural person that possesses total assets in excess of \$5 million.

Duplicative Employee Qualification Should not be Required

Proposed Rule 701 further requires that, before the referral fee is paid, both the bank and the broker-dealer must determine that the referring bank employee is not subject to a statutory disqualification as defined in Section 3(a)(39) of the Exchange Act.³ We believe that only one such review is required, and that the bank and the broker-dealer should be allowed to allocate that task between them.

Flexibility in Calculation of the Chiefly Compensated Test

We also have concern with the application of the “chiefly compensated” test under the trust and fiduciary exemption of proposed Rule 722⁴. We believe that Regulation R should provide a bank the option of calculating this test based on a business-line, operating-unit, or regional basis, instead of only a bank-wide or account-by-account basis. A large bank’s overall asset management activities, including its component trust and fiduciary operations under the wealth management, private bank and personal trust divisions, may function in a significantly different manner from one another, and operate completely apart from the corporate trust and related fiduciary services offered by the bank’s securities custodial, clearing and funds transfer service divisions, which may themselves be equally diverse. For this reason, flexibility in the calculation of the “chiefly compensated” test could significantly facilitate complying with this test, while meeting Regulation R’s goal of ensuring that compensation arising from a bank’s trust and fiduciary securities activities be primarily from “relationship compensation.” The Agencies have already proposed similar flexibility in permitting a bank employee’s bonus to be determined by reference to the bank on a stand-alone or consolidated basis, any of the bank’s affiliates (other than a broker or dealer) or operating units, or a broker-dealer (subject to certain limitations). Also, Regulation R allows the average base salary for purposes of calculating the nominal referral fee to be determined by reference to a job family. Given the relative complexity of calculating the “chiefly compensated” test, we believe that additional flexibility in how a bank may calculate this test would be appropriate, particularly in light of the flexibility proposed by the Agencies in other areas.

³ Proposed Exchange Act Rule 701(a)(3)(i)(A).

⁴ Proposed Exchange Act Rule 722(b).

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We further join ABASA and TCH in urging the Agencies to clarify that fees earned on trust and fiduciary accounts held in a foreign branch of a U.S. bank are excluded from the chiefly compensated calculation. As noted in both the ABASA and TCH responses, trust and fiduciary functions in foreign jurisdictions operate differently than in the U.S., have different infrastructures, and utilize different markets and currencies. The operational and administrative burdens associated with determining which sources of revenue earned on such accounts should be included/excluded from the chiefly compensated calculation significantly outweigh the marginal benefit its inclusion would have in achieving the goal of the trust and fiduciary exemption.

Expansion of the Repurchase Transaction Exemption

Citigroup urges the SEC to allow banks to engage in repurchase and reverse repurchase transactions in debt securities that are not “exempted securities”, such as corporate debt or privately issued mortgage-backed securities. Given the economic equivalence between repurchase and reverse repurchase transactions and the traditional bank activity of secured lending, it is unclear why the exemption from dealer registration has been limited to transactions involving only exempted securities. Citigroup supports expanding this exemption.

Regulation S

In addition to supporting the comments from the Associations with respect to the Regulation S exemption from the definitions of “broker” and “dealer”,⁵ we ask that the Agencies clarify that the definition of “eligible security” includes securities issued by the bank or its affiliate. While we recognize that the Agencies have excluded securities sold from the inventory of a bank or its affiliate from the definition of “eligible security”, we do not believe that securities issued by the bank or its affiliate should be considered to be in the “inventory” of the bank or its affiliate.

We appreciate your consideration of our comments and those of the Associations as contained in their respective comment letters. If you have any questions regarding the matters raised in this letter, please contact the undersigned at (212) 559-2938 or at howardc@citigroup.com.

Very truly yours,



Carl V. Howard
General Counsel – Bank Regulatory

CVH/vs

⁵ Proposed Exchange Act Rule 771(b)(2), proposed amendments to Exchange Act Rule 3a5-2(b)(2).