NY CAPITAL MARKETS APPROVAL COMMITTEE (CMAC)
DECEMBER 17, 2002

Attendance (see below)

Coventree Capital – Liquidity Put Option

Summary
North American Credit Derivatives is seeking approval to enter into a Liquidity Put Option transaction with Coventree Capital, a sponsor of several multi-asset multi-seller securitization conduits. The conduits issue commercial paper (CP) to fund securitization transactions. To satisfy rating agency considerations, this CP must be backed by some form of acceptable liquidity backstop.

Much of the CP issued by Coventree to fund securitizations has been in the form of Extendible CP (ECP). ECP gives Coventree the ability to extend the maturity of the CP from a typical 30-day duration to as long as 1 year in the event of a market disruption. Market disruption is generally defined as the inability of the conduit to roll the CP at a predetermined spread to the Canadian BA rate. While the use of ECP has been successful for Coventree, their conduit's ECP has become a large percentage of the total ECP market in Canada.

Coventree has a significant pipeline of securitization deals, and they wish to reduce reliance on the use ECP as a liquidity backstop and develop other sources of liquidity. Therefore, they are seeking to structure the Liquidity Put Option (the Liquidity Put Option transaction is summarized in the original CMAC transaction document.)

Credit Risk
Coventree Capital is a Canadian entity partially owned by Caisse des Depot, a AAA-rated Canadian financial institution. Due to the large notional of the transaction, and the limited relationship with Coventree, additional due diligence was deemed prudent. Credit Risk Management and the Transactors has performed new client checking and obtained references. It was noted at the CMAC that Coventree was a sophisticated counterparty and has the same outside legal counsel as Citibank. Subsequently, due diligence was conducted with Coventree's customers and it was determined that Coventree is regarded as a reputable financial institution.

Treasury
Originally, Citibank Canada was to be used as the booking vehicle. Based on further analysis, it was determined that Citibank NA (Canada Branch) would be used in the transaction. The funding would be obtained from NY Treasury in USD and converted to CAD through the FX desk. The CAD funding would then be transferred to Citibank NA (Canada Branch).

Legal/Regulatory
The transaction will be done under an ISDA agreement.

Tax
The withholding tax treatment will differ based on the legal entity used in the transaction. Since Citibank NA (Canada Branch) is a Canadian resident entity, there will be no Canadian withholding tax on premium payments to Citibank.

Market Risk
Initially, the underlying collateral in the transaction was to include certain senior Commercial Mortgage-Backed Securities (CMBS). However, upon further due diligence, Credit Derivatives determined that such CMBS tranches were not appropriate for this transaction initially. All underlying collateral placed into the transaction would be reviewed between Coventree and Citibank on a deal by deal basis. Only collateral acceptable to Citibank would be included. This would include residential mortgage-backed securities, asset-backed securities and corporate loans and bonds.

**Accounting**

Accounting Policy has reviewed the transaction and determined that the SPE’s should not be consolidated onto Citibank’s books. However, Saul Bernstein stated that Citigroup assets should not be sold into the Coventree conduits covered by the Liquidity Put Option since it will likely cause accounting consolidation by the Citigroup entity selling the assets. Any proposal to sell Citigroup assets into the conduits should be reviewed with Accounting Policy.

Subsequent event: APG will also work with business to understand the fee income recognition for the transaction.

The Committee approved the transaction. The approval is granted subject to the completion of the follow-up items listed below:

1. Citibank Canada will not be used in this transaction. Transactors will work with Treasury to determine the appropriate Legal Vehicle to use (Jon Koerner, Joe Martinelli)

2. Withholding tax treatment will differ based on Legal Vehicle used in the transaction. Transactors will obtain Tax Department approval once the Legal Vehicle has been identified. (Jon Koerner, Jack Burns)

3. Transactors will confirm with Financial – Regulatory that the transaction will not be considered a Long Term Commitment. (Jon Koerner, Bill Aprigliano)

4. Additional due diligence required. Credit/Transactors will perform new client checking and obtain references. (Rick Caplan, Martin Lifschutz)

5. Initial approval is granted for two transactions. After two transactions have been completed, Transactors will review the results with Committee Chairperson. (Rick Caplan, Eleanor Wagner)

6. Accounting to review consolidation & other accounting issues surrounding SSB/Citibank selling assets to the Coventree conduit related to the liquidity put option (Jon Koerner, Saul Bernstein)

Subsequent Event: Given the requests by Credit Derivatives and other desks in Fixed Income to provide CP liquidity backstops and committed repo facilities, the Fixed Income business has worked with Treasury and presented its consolidated request to the Market Risk Committee. Also, the business will work with Credit Risk Management to ensure that the liquidity risk is captured in Credit’s systems. Based on follow-up, approval is granted for this initial transaction, further review required for additional transactions.

**ATTENDANCE**

**NY Committee Members:**

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<tr>
<td>Jack Burns</td>
<td>Tax</td>
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<td>Chris Foskett</td>
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<td>Michael O’Donnell</td>
<td>North America Credit Center</td>
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<td>Eleanor Wagner</td>
<td>Global CMAC Coordinator, NY CMAC Chairperson and Credit/Market Risk Management</td>
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**NY Committee Members Absent (Represented by):**