



Comptroller of the Currency  
Administrator of National Banks

880 Third Avenue, Fifth Floor  
New York, New York 10022  
212-527-1020

September 23, 2004

Mr. Kenneth D. Tremain  
Managing Director, Fixed Income Derivatives  
Citibank, N.A.  
390 Greenwich Street, 4<sup>th</sup> Floor  
New York, N.Y. 10013

Dear Mr. Tremain:

Attached is a copy of our conclusions and recommendations from our Fixed Income Derivative examination conducted during February. Our objectives were to evaluate the quantity of risk and the associated quality of management covering both price and transaction risks across three desks: Interest Rate Options; Swaps; and Hybrids. Our approach to transaction risk focused on Product Control activities, given that ARR was conducting an audit of derivatives operations at the time of our exam.

The level of price risk is high, due primarily to the inherent size and complexity of the Interest Rate Option Book. Transaction risk is also high, due to the presence of continuing technology and systems issues. We found the quality of management processes and controls to be less than satisfactory. A number of recommendations were generated, and indicate that activities of the desk are not sufficiently transparent to control groups and regulators. Further, some of these issues represent previous criticisms, a situation that needs to be promptly corrected. We also found a lack of sufficient independence surrounding the price verification process. The complexity of the desks risks and products necessitates the maintenance of a strong control environment. We acknowledge that your team has already begun to focus on these recommendations, and we look forward to your formal response.

Please provide a detailed response to our recommendations, to include projected dates for corrective action, within 30 days of the receipt of this letter. Please feel free to contact either National Bank Examiner Daniel Staehle or me at (212) 527-1020 if you have any questions or comments. We appreciate the level of cooperation extended to us by management during this exam.

Sincerely,

Ronald H. Frake  
National Bank Examiner

Cc: D. Bushnell; M. Helfer; D. Peterson; C. Prince; T. Thomson; R. Willumstad  
R. Druskin; E. Green; T. Maheras, R. Coley; J. Palmer; E. Duke