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Jerold
FREIER/NY/FRS@FRS
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To Carol A Evans/BOARD/FRS@BOARD
cc Alan Dombrow/NY/FRS@FRS, Robert
Gutierrez/NY/FRS@FRS, Brian
Drolet/BOARD/FRS@BOARD, Michael
bcc
Subject Question on Citi COIC matter

On April 3, 2007 Citigroup's Senior Risk Officer (David Bushnell) and General Counsel (Michael Helfer) were briefed by the FRBNY examiners on the annual rollup findings for 2006. As indicated in the attached presentation notes, this included alerting them that the COIC matter was being considered for possible referral to the Department of Justice.



Outline_Bushnell Helfer_3 April 07.doc

The violation was discussed in the attached 2006 Citigroup "Summary of Supervisory Activity and Findings" delivered to Citigroup on April 9, 2007
The management response to this violation is in their attached letter dated June 8, 2007



Citi_Rollup 2006.pdf Citi Rollup 2006 Mgt Response.pdf

The referral to Department of Justice is noted in the attached 2007 Citigroup "Summary of Supervisory Activity and Findings" delivered to them on April 15, 2008
The management response referring to this matter is in their attached letter dated June 16, 2008



Citi Rollup 2007.pdf Citi Rollup 2007 Mgt. Response.pdf

Jerold Freier
(212) 720-2136

Outline for Discussion with Bushnell & Helfer

(April 3, 2007)

1. Introduction (Dianne):

- Introduce team members
- Indicate that ratings remain unchanged relative to last year (R = 2, F = 1, I = Limited)
- Describe aim of high-level discussion to tie together key supervisory work conducted over past year; Welcome comments / questions as we move through topics.

2. Risk Management

- Compliance MTR (Will): The compliance MTR program is on a solid footing with corporate compliance staff providing the appropriate level of oversight. Good communication exists between corporate and business staff to execute on the compliance directives and elevate issues in a timely manner as they arise. When we last met, we spoke about the need for a strong testing platform to be implemented globally. We recognize the testing processes (particularly in the CIB) have been substantially ramped up with efforts to leverage expertise across business sectors.
- AML (including technology) (Will & Glen): In 2006, we completed an exam of the oversight provided by the Global AML (GAML) function. We view favorably the AML governance changes made with an emphasis on the need for GAML to not only develop policy but oversee how it is being implemented. We see the stock taking exercises to assess the strength of AML monitoring controls as important, and encourage efforts to keep those assessments accurate and current. As a next step, we expect GAML to ensure that timely and appropriate solutions are put into place where control weaknesses have been identified. We also view as critical management efforts to rollout AML technology enhancements.
- Informational Security (Glen): As you know, we conducted a review of progress being made in the area of information security. We made a 'point-in-time' assessment of the fixes that had been put into place, recognizing that a significant amount of work was slated for completion at the end of 2006. The transaction testing conducted by examiners raised questions about the quality and consistency of the program enhancements. Approximately 1.5 months ago, we met with O&T staff and combed through work papers to better understand how the identified weaknesses were being addressed. We were comforted by the fixes completed or in process, and would like to take the opportunity to re-emphasize the need for program development and quality assurance to go hand-in-hand for IS systems to be relied upon for risk management. Overall, we see considerable improvement in the IS area relative to prior years. Similar to AML, we think it may take some additional time to change the culture such that businesses see themselves as the first line of defense in maintaining information security. As you may know in April, we'll be assisting the OCC in their review of the IS area. In terms of how Citi stacks up relative to other firms, we've shared with Kevin the results of a GLBA 501(b) exam. Firms included in the review were in similar stages of refining their information security program. (Glen and Rinku to point out areas where other firms had made advancements.

- Regulatory Reporting Review (Katheryn): Briefly highlight intent of review and where Citi's regulatory reporting process was found to be more problematic. This would include need for improved controls around data compiled at business line level, and general ledger descriptions at the bank-level.
- ALLL: We'll plan to discuss in the prior meeting with Bushnell.
- Fair Lending (Will): Acknowledge where we are in the process with Alan D and Mike C evaluating the 'notes' spouses are required to sign, as well as looking to speak with the P.R. law firm. Accordingly, we will not be assigning a 'Consumer Compliance' rating to the P.R. subs of COIC, and are awaiting the outcome of the additional work before making a decision on a DOJ referral.

3. Financial Stability-Related Efforts

- Results of Horizontals (Bill & Cathy): Spend a few minutes putting the collateral management and stress testing horizontals into perspective. Acknowledge that the collateral management review follows an OCC-related review with similar outcomes. Namely, need for more detailed analysis of disputes and portfolio reconciliations. For the stress testing review, note the lack of a 'top-of-the-house' stress testing regime at all firms; recognizing management's arguments as to why that may not be a useful metric to which to manage. Indicate the direction stress testing work is likely to head in with emphasis on (a) counterparty credit risk, (b) intersection between credit and market risk, and (c) improving upon credit risk stress testing to get more comprehensive (but separate views) of wholesale and retail stress testing. Cathy also will mention 'Phase 2' of the multilateral effort, with Bill closing with a preview of other horizontals slated for 2007: ECH, Intraday Liquidity, and Securitization.
- Subprime Lending (Lou): Acknowledge Citi's participation in subprime lending survey with emphasis on likelihood of additional requests to follow. As we are aware has been discussed with the Audit Committee, also interested in understanding not only Citi's subprime originations, but its wholesale and trading exposures as well.
- Other Topics (Antonio & Katheryn): Make reference to deepening our understanding of Citi's practices related to Leverage Lending, and EC methodology (with emphasis on diversification benefit).

4. International Efforts

- Assessment of COIC (Kyle): Remind everyone of the need to assign a CAMEO rating to COIC, and briefly touch upon it. Indicate that rating is motivated by a number of factors, including exam work done in Japan and Brazil. Give a sense of where we are headed during the course of 2007. Also touch upon our increased involvement in the applications process, and desire to get more clarity around the expectations for supervising Reg K subs for which Citi does not have financial control. Appreciate updates from Rich Stanley and M. Wong & company to keep us up-to-date on challenges / progress being made.

- Basel II (Lou): Clarify different supervisory stance taken in the context of credit and operational risk. For credit, exam work can be characterized as improving our understanding of your processes. For operational risk, since AMA is currently being used for economic capital, we've conducted formal examinations. Another aspect of our BII effort relates to home-host interaction. We are not working to resolve policy issues, such as differing definitions of default. Rather, we've been interacting with host supervisors in an effort to understand their needs. Worth taking a moment to highlight the discussions with UK FSA and BaFin. In the first case, we have started a dialogue to understand their expectations around EPE for counterparty credit risk and will endeavor to provide you with as much feedback as we can in light of current status of US rulemaking process. As you may know, the BaFin has asked us to participate in their exam process related to Citi's application to use the ARIB for retail. We see this as an opportunity to work with host supervisors. More generally, we are in the process of confirming expectations for the on-site team (assuming the current timing does not change) in approving Citi's implementation of Basel II.
5. Financial Condition (Katheryn):
- Briefly highlight no change in ratings with Citi's financial condition considered strong. Make reference to our involvement in capital discussions concerning TRUPS issuances to obtain rating agency credit, as well as Tier 1 leverage discussions around secured financings. Also make note of increased focus on strength of earnings factoring into our discussions, including work around volatility of revenues.