C O N F I D E N T I A L

FINANCIAL CRISIS INQUIRY COMMISSION

Interview of DAVID BUSHNELL

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A P P E A R A N C E S:

FINANCIAL CRISIS INQUIRY COMMISSION
1717 Pennsylvania Avenue NW, Suite 800
Washington, DC 20006

BY: BRADLEY J. BONDI, Assistant Director
and Deputy General Counsel
GREG FELDBERG, Research Team
RYAN SCHULTE, Research Team
SCOTT GANZ, Assistant to the Vice Chair

JONES DAY, ESQS.
On behalf of the Witness
222 East 41st Street
New York, New York 10017

BY: HENRY KLEHM, III, ESQ.
-and-
EMILY A. POSNER, ESQ.

JONES DAY, ESQS.
On behalf of the Witness
51 Louisiana Avenue, N.W.
Washington, D.C. 20001

BY: PETER J. ROMATOWSKI, ESQ.

PAUL, WEISS, RIFKIND, WHARTON & GARRISON, LLP
On behalf of the Witness
1285 Avenue of the Americas
New York, New York 10019

BY: BRUCE BIRENBOIM, ESQ.
BRAD S. KARP, ESQ.
JANE O'BRIEN, ESQ.

BY MR. BONDI:

Q Good morning, Mr. Bushnell. My name is Brad Bondi. I am with the Financial Crisis Inquiry Commission in Washington, D.C. We were formed by Congress to investigate the causes of the financial crisis and to do a report for the President and Congress by December 2010. I am joined by my colleagues, Greg Feldberg, Scott Ganz and Ryan Schulte from the Financial Crisis Inquiry Commission?

This interview is being transcribed. You are not under oath, but I am obligated to tell you that we are federal agents, so 18 USC 1001 applies, and that is a statute your lawyer can tell you about. That just basically says it is a crime to knowingly provide false information to a government agent, but I have no reason to believe that you are not going to be truthful with us today.

Could you please state your full name for the record?

A David Colton Bushnell.

Q What is your address, Mr. Bushnell?

A 91 Western Drive, and that is Short Hills, New Jersey.

Q Are you currently employed?

A I am retired. I guess I would say I am a member of the board of directors of a public company called Renaissance Re, and I have my own modest consulting operation, Bushnell Consulting LLC.

Q I have seen on the Internet a reference to an EEWC or an acronym similar to that, affiliation with eastern European something? Are you affiliated with an organization along those names?

A No.

Q The Internet is sometimes wrong.

MR. KLEHM: Different Bushnell.

THE WITNESS: Must be.

BY MR. BONDI:

Q Maybe a different Bushnell.

Could you tell us your educational background?

A Sure. I have a B.A. from Amherst

College in English.

Q What year did you graduate?

A 1976.

Q Could you take us through your employment history with Citigroup or its predecessor, starting from the beginning and going through your last day with Citigroup?

A Okay. So, brief start, after graduating from Amherst College, I was a commercial banker in Boston with a regional bank called Bay Banks for about nine years.

After that I was, came down and worked for Salomon Brothers initially in what was called its financial institutions resource group covering commercial banks, rose up to run that group covering not only banks but insurance companies, pension funds, et cetera.

Then in '93, after running that, was moved to run the finance desk, which at Salomon Brothers was a combination of a sort of, if you will, the treasurer almost of Salomon Brothers, responsible for funding

the firm as well as trading its match books, trading short term derivatives, forward rate agreements, and its prime brokerage operations. I did that from '93 through '98, which is the merger or the purchase of Salomon by Travelers. At that time I became the risk manager for Salomon Smith Barney, the combined entity under the Travelers umbrella.

And then shortly thereafter, of course, Travelers merges with Citigroup, and I had increasing responsibilities in risk management, becoming the risk manager for what ultimately becomes the corporate and investment bank, and then in December of 2003 I became the chief risk officer for Citigroup.

In August, September of '07 I took on the additional responsibilities of chief administrative officer, and then I retired from Citigroup effective at the end of December in '07.

Q And when you became chief administrative officer, did you replace Lou

Kaden?

A Yes.

Q When was your first role, though, in risk, as a risk officer? What year would that have been?

A It was June of '98.

Q While at Salomon Brothers, did you have any role in high yield or junk bonds?

A No.

Q While at Salomon Brothers, did you interact with Thomas Maheras?

A Yes.

Q What was your interaction with Mr. Maheras while at Salomon Brothers?

A Well, Tom was -- I have to get my time right. Tom ran high yield, and then was moved after the '93, '94, if my memory serves correct, big disruption in the mortgage market, large changes there. So he became head of the mortgage desk after a stint in high yield.

I was still running the finance desk, so remember, we are financing all of the traders' positions and the mortgage

desk, so I would have had interaction in in essence financing his positions.

And then right at the end of all of this -- by the end I mean just prior to the purchase by Travelers, Tom -- I am trying to even remember. I guess Tom didn't become head of fixed income until after the merger, at which time I simultaneously kind of -- he moved to become head of the fixed income area and I moved to become risk manager. So for a while there we were sort of, I was funding his position and two trading, large trading desk heads that reported to, as a peer, if you will, that reported to the head of fixed income.

Q How long have you known Mr. Maheras?

A Since that time. That would have been -- /

Q '93?

A -- '93, '94, yeah.

Q Would you characterize your relationship as being a friend of Mr. Maheras?

A Yeah. To give you a sense, I

probably see, I have seen Tom twice in the last two years, so somewhere friend and acquaintance.

Q What about Randolph Barker, Randy Barker?

A Uh-huh.

Q How long have you known Mr. Barker?

A About the same time as Mr. Maheras, more when I became risk manager, not even necessarily -- it wasn't too much. I knew who he was, he knew who I was when I was running the finance desk and he was in high yield capital markets in the investment bank, but then when I became Salomon Smith Barney's chief risk officer, more interaction at that time, and personal.

Q Would you consider yourself a personal friend of Mr. Barker?

A Yeah, I would describe that relationship as a close personal friend; lives in the same town as I do, our families vacation together. So I will see Randy a couple times a month, you know, easily.

Q There was a New York Times

article that described a fishing trip that you had with Mr. Barker where you ran out of gas on the lake. Is that a true story?

A Yes, it is. It wasn't a lake, it was off of Montauk, and I didn't do a good job, I didn't do a good risk management job of checking the gas tank. So we had to call for a gas-up.

Q I would like to take you to your duties and focus you on your duties as chief risk officer of Citigroup. I understand you said you assumed that position in December of 2003?

A Yes.

Q And you were appointed by Chuck Prince to that position?

A I was.

Q What was your role as chief risk officer?

A I think the role at that time, broadly defined, was, first of all, the head of a division that we called independent risk management, so a reporting structure for those people.

The entire division is a control

function, one of the control function, compliance, legal, finance being the others in Citi's organizational structure, or was at that time.

And risk management had the responsibilities for, I think first and foremost, translating the seniormost management, Chuck's in this instance, and the board of directors' risk appetite into, through policies, procedures, limits, et cetera, to the businesses, and somewhat vice versa, that conveying to the seniormost management businesses' desires for, you know, what they wanted to do in verbiage that both Chuck and the board would understand, help them understand that; probably almost, if not the primary regulatory contact on risk, it was certainly probably tied with the general counsel's job, another function as the chief risk officer; at least that is a summary version of it.

Q During your tenure as chief risk officer, did your duties ever change?

A I picked up the compliance responsibility in -- so I didn't have that in December of 2003, the entire compliance division, and I picked that up I think it was the summer of 2005, if my memory serves me correct.

Q And when you picked up the compliance responsibility, what additional duties, responsibilities, did you assume?

A Well, one, the reporting structure of the compliance division, so that was another large control division of Citigroup, and responsible for the implementation of compliance function; again policies, compliance testing, regulatory relationships, all of that came under my responsibilities.

Q How did your duties change vis-à-vis the investment bank?

A Well, I picked up the compliance function within the investment bank also, you know, reported in to me, as did the compliance area of the consumer bank and

consumer area of global wealth management, et cetera.

Q While chief risk officer, to whom did you report?

A Initially I reported to Chuck from December 2003, and then we hired Lou in -- I am sorry, I can't remember the time frame. Somewhere I think it was maybe 2006, late 2005, we hired Lou, and I then reported to Lou.

Q And by Lou, Lou Kaden, the chief administrative officer?

A Yes.

Q Did you also have a reporting duty or line to the board of directors?

A Not a, not a direct line. I mean lots of interaction directly with them, particularly in the audit and risk committee of the board and its various subcommittees, but not a direct line.

Q Were you a member of the Business Heads group?

A Yes.

Q What was the Business Heads group?

A The Business Heads group was the

seniormost management group of Citi. It was comprised of the people who actually ran the business. So again in this general area that we are talking about, that would have been the head of the corporate and investment bank, the head of the consumer bank, the head of global wealth management, the head of Citi alternative investments, those were the four major business units, and myself and the chief financial officer, Chuck, and the president. So it have would have Bob Willamstead for a while or Bob Druskin later, depending on which time period we are at .

Q How often did the Business Heads group meet?

A Generally weekly, and we fell into a weekly for a couple of hours and then once a month for a full day.

Q The once a month for a full day would have been in addition to the weekly meetings?

A It usually sort of took the place of one of the weekly meetings.

Q The weekly meetings were on

Monday morning?

A Yeah, I believe so. That is my recollection.

Q Usually in the library outside Mr. Prince's office?

A Yes.

Q And during those meetings, would you give an update on the risk conditions that Citigroup faced?

A I might. It was a little bit more a fairly unstructured agenda, so that certain of them might have been devoted a lot to risk issues coming from both myself as well as business, and other instances, you know, I might not have said anything.

Chuck usually kind of, as I say, very, more casual, would go around, have one or two agenda items that we wanted to talk about, go around the room to anybody: What do you want to notify your fellow Business Heads about, or questions coming up, or something you want everybody to be aware of.

Q Who had a direct line of report

to you?

A My direct lines were organized in a business structure with a geographic overlay, so the head of the corporate and investment bank, or co-heads, as again that evolved. Independent risk management for the corporate investment bank reported to me. The head of risk management for global wealth management reported to me. The head of consumer reported to me. The head of -- we had a corporate level function we called risk architecture, he reported to me.

And then I had a geographic overlay in a person in Europe and a person in Asia that also reported directly to me, and I had a chief of staff.

Actually alternatives, because it was a relatively modest size at the end, we had that reporting to the corporate investment bank risk managers who then reported to me.

Q Did Mr. Maheras report to you?

A No.

Q But a risk person in the

investment bank would have reported to you?

A The head of risk management for the corporate and investment bank reported directly to me.

MR. BIRENBOIM: These are people within your group.

THE WITNESS: Yeah, and they then had hundreds or thousands of people who reported to them, all within the independent risk division.

At the end that would have been Pat Ryan and BeBe Duke for the corporate and investment bank. Yasmine Anavi as head of the consumer bank, Collin Church in Europe, Jim in risk architecture, Jim Garnett in risk architecture. Sue Locke was my chief of staff. Global wealth management was Tom Schwartz. That was the direct reports' names as of 2007.

BY MR. BONDI:

Q You used a term that I am not familiar with, risk architecture. What is that?

A Risk architecture, that was a

combination of the overarching risk systems of Citi, our credit risk systems, our market risk systems, our compilations of VAR, our computations of economic capital, our corporate-wide liquid risk management, country risk management; by that I mean we had businesses in a hundred different countries, so we had a risk management function that viewed individual countries and the risk that was inherent in that.

All of that was in this risk architecture function, as well as we called it risk aggregation. Certain types of risk, real estate risk, et cetera, had a corporate level function that would work with these business unit risk management and roll up system, so all of that was housed under this department we called risk architecture.

Q I didn't hear liquidity in there.
Was there a liquidity --

A I think I said liquidity risk was at the corporate, and that was under the risk architecture function. That

responsibility was sort of co-shared with the chief financial officer.

Q I see. What was your relationship like with BeBe Duke, Ms. Duke?

A Fine. BeBe was, as I said, co-head of corporate and investment bank risk management structure; I promoted her to that position. And she had -- when I was down at the corporate and investment bank, she was my head of market risk management when I was running the corporate investment bank, so a long-standing colleague in risk management.

Q How often would you meet or interact with Ms. Duke?

A Several times a day.

Formal, that group that I described, we had formal staff meetings once a week with all of those reporting heads to that, but the, as I said, day-to-day or several times during a day, near constant interaction, not only with Ms. Duke and Mr. Ryan, both co-heads at that time, but the same would have been true for Ms. Anavi or

the others.

Q How was the responsibility divided between Mr. Ryan and Ms. Duke?
A They were co-heads. They did not try, when we set up them as co-heads, which was Jessica Palmer prior to that in the first part of this time was head of risk management. She retired in 2006, so when we set up co-heads, they really didn't want to divide their responsibilities that much.
That having been said, I think Pat had more of a credit background and BeBe had more of a market risk background within sort of risk disciplines.
Q Who is Murray Barnes?
A Murray Barnes was a risk manager in, was a risk manager in the corporate and investment bank.
Q And how often do you interact with Mr. Barnes?
A That would have been sporadically. As I say, he was one level down, one or two levels down. He reported in to Pat and BeBe and their structure, and

I usually sort of honored corporate

structure, although occasionally with any different of the risk managers I may go directly to them if I had a specific question that was in their area of expertise or something.

Q What is your opinion of Mr. Barnes as a risk manager?

A I think he is an excellent risk manager.

Q Have you ever heard the term in risk management called the black swan?

A Yes.

Q What is a black swan?

A Generally speaking, I would say it is outliers in a statistical norm.

Q As a risk officer, how do you protect the institution against a black swan?

A I am not sure you can ultimately protect against a black swan. It is hard enough to try to identify that there might be an outlier. What the magnitude of that outlier might be is also difficult to discern. And finally, in terms of

protections, mitigation efforts or just not, you know, doing the business, are also difficult propositions.

So, I think it is very hard to protect against black swans.

Q Is one mechanism to protect against a black swan maintaining sufficient capital or reserves?

A Well, yes, but black swans kind of even go from the, sort of to the unimaginable happening, and at some level you have to put even the very difficult in these very rare occurrences or never had happened before, you can put -- the question is of how much capital and then what is the, as you say, probability of that. You have to make some sort of risk/reward determination for that.

Q Are there any models that you can use to protect against black swans?

A I personally don't think that models with assumptions, correlations, statistics, are adequate protection against things that may have never happened.

Q So I take it, then, historical

data then is of little use in predicting a black swan?

A I think that is right. I think that you run into, from a risk management standpoint you run into historical occurrences or data problems that could be useful but are just difficult to apply.

To give you a sense of what I am trying to say, if we had great data about the Dutch tulip craze or the South Sea Island bubble -- these are going back three and four hundred years -- those were black swan-like events that would be interesting, but there is no data. And if you had some of that data, it might give you a little bit more knowledge about what potentially could occur, and even those instances are things that did occur, much less things that have never occurred. So it is difficult.

Q Do you see a role as the chief risk officer in warning companies about potential black swans?

A I think there is -- again, there is a balance of trying to make reasonable awareness of the organization of what potentially could happen versus -- I mean it is easy to say the sky is falling all the time and you would never do anything and you would never take any risk. So it is that balance that's the art of risk management.

Q Was there ever a time that you warned Mr. Prince or Mr. Kaden about a potential black swan on the horizon?

MR. BIRENBOIM: In any context?

MR. BONDI: In any context.

THE WITNESS: Sure. I can give you an instance of, we were quite concerned about Venezuela -- let's talk about country risk -- that Venezuela would nationalize our entire bank, there is a distinct possibility.

It never happened in Venezuela, it happened in other instances, so we would talk, I would say everything from here's what our political risk and our country risk people were saying about Venezuela, what could we do to potentially mitigate that.

That is an instance of -- I think there is numerous instances of things in either a country risk management, an individual obligor, you know, going completely up that we would discuss if it was appropriate.

BY MR. BONDI:

Q Are there stress tests that you can do or scenario analyses that you can do to try to see how prepared a company would be for an unforeseen event?

A There is. You can try to do some of those. Stress tests for like 9/11 happening again, you would perform a stress test for entire areas of our infrastructure being wiped out and what would we have to do with that.

Q I would like to turn your attention to the CDO positions at Citigroup. What stress tests were done over time on the super senior positions that Citigroup held?

A The stress tests that were involved in that, we did two types of stress

tests on a regular basis that rolled up

eventually to consolidated reports to the board of directors. One were model-driven stress tests, and the others were what we called risk manager stress tests.

The model-driven stress tests used historical data, worst case ever historical data, limits, and different correlation assumptions to come up with loss results.

The risk manager estimates supplemented that kind of basic, almost mathematical model with kind of worst case, what if, or it has never happened before but that is okay, I want to put a number in here. In that sense, the CDO positions would have been rolled up into this aggregated stress test.

Q You said rolled up, so there would be, CDO positions were part of a larger stress test?

A Yes. We would have rolled it up from at a trading desk level, so structured credit would have had a, here's its limits,

et cetera, we would apply historical data, as I said, with different correlations assumptions in it, and then built that up because that would have been one done for the structured credit, one done for secondary corporate bond trading, one done for the mortgage desk trading, one done for high yield trading, all of those being built up to an entirety for fixed income division and an entirety for the corporate and investment bank, and finally for all of Citigroup in that fashion.

Q And you said these were presented to the board of directors?

A Yes.

Q And I am trying to get a chronology, Mr. Bushnell, sort of when the stress tests were done?

A They were done every quarter, they were shown to them. What was shown to the board was a summary of the results that said here are the stress test results. We presented them with correlations and without correlations -- I will come back to that in

a minute -- as well as a risk manager estimate.

So they saw three aggregated Citigroup-wide numbers that says here is how much money on a mark-to-market basis we could lose based on these stress tests, and, as I said, they saw the aggregated version. Buried within that, if you will, was a stress test on something that included the CDO positions.

Q So the board of directors, when they saw the stress tests, they didn't see CDOs as broken out?

A You are being much, much too granular.

To give you again a sense, so there is, the structured credit area actually had, if I remember correctly, two or three different trading desks within it, each of which had limits to them and each of which had a stress. Structured credit was one, I think the number was probably in excess of two hundred different trading desks. So, FX trading in Malaysia, Eurobond trading in London, JGB trading, you think of

all of those things happening, all of them having an individual unit stress test, statistically based as well as an individual risk manager element.

Then you have to add those all up. If you added those all up, that would be what we would call a no correlation event because a lot of times you will sit there and say, well, if this Eurobond position is, we are stressing it to its worst case ever as a long, historical correlations would show that JGBs, Japanese government bonds, move fairly similarly to that, or that oil prices or interest rates, raw interest rate risk might move opposite to that.

Risk models build correlation assumptions and/or diversification benefits -- that is an and/or -- into them. If you really want to show the worst case, you assume that the worst case happens to every different risk factor, there is no correlation, you add them up across, which we showed to the board.

Then we had done a lot of work on what is the historical correlations between credit risk and market risk, between interest rate factors and oil prices, between country risks happening and stock price movements. That would be the historical correlation numbers.

And then the third one was kind of the risk managers throwing out all of this data and/or saying yeah, but I still want to put the case that Venezuela is going to nationalize its banking industry. Even if it has never happened and it is not in the data, I still want to put it down and make an estimate to that.

Q When did these quarterly stress tests begin?

A They had been -- I am trying to remember if they were even implemented before I became chief risk officer. Certainly pretty soon upon my becoming that, we started to use them and refine them.

Q Let's take these models or these two types of stress tests that you described separately.

On the model-driven stress test

for super senior CDO tranches, what went into that model specifically?

A Right. The model would have looked at -- this was a triple A rated security, super triple A rated -- would have looked at what is the most deterioration over a time period that you wanted to model: Is this stress test in a day, is it for a week, is it for a month, for a year, for ten years, what are we talking about? So what is the biggest change in price that we have seen for a triple A rated security over time?

That is my -- you know, I am making this up but trying to give you an example. It's somewhere in 1962 there was a wide spike for this one, we are going to use that as the worst case, and then stress the position for that.

Q If I can get this right, you said a triple A rated security. So you would look at what was the worst case scenario that happened to any triple A rated security over time?

A Yeah. And that one, within the

bowels of risk architecture, what the exact stress, whether it was an aggregation of the worst movement of an index of triple A issues or a specific one, you know, I can't exactly recall what it was.

But it was, you were trying to capture price movements, the worst price movement in a class of bonds, triple A rated bonds, and apply that to the triple A rated CDO bonds.

Q So right off the bat, though, you were assuming that the ratings on the super senior tranches were correct?

A That is correct, in this stress test, yes.

Q Was there another stress test, then, that you didn't assume that the ratings were correct?

A Well, as I said, you had the potential risk manager overlie on any of this that could have said I can see that the biggest price movement in a year was, you know, a ten-point drop in a triple A rated

bond. I am going to put in 15 points

because I feel like it, or I think it could be worse, or there is something inherent in this. And that could have been, as I say, in risk manager adjustments, if you will, or enhancements to or a scenario stress that had never occurred in their results.

Q And the model-driven stress test was based then on, entirely on historic data?

A Correct.

Q And it also made the assumption that the super senior tranche would perform in a similar fashion as a different type of debt instrument rated the same, though, is that correct?

A Yes.

Q What was the worst case scenario, then, that was assumed in the model-driven stress test?

A I can't recall for triple A rated bonds what that was.

Q Any ballpark estimate?

A I wouldn't even wager a ballpark.

Q Were the models independently

verified?

A Yes.

Q And was that true throughout time?

A Yes.

Q Who independently verified the models?

A Within that risk architecture area, we had a model validation and verification unit who was responsible for doing that.

Q Who in that unit was responsible for verifying the models that were used for the super senior tranches?

A I can't recall. It would have been again under Jim Garnett's area.

Q The risk manager estimates that would have been plugged in in the second type of stress test, who was responsible for the risk manager estimates that were plugged in with respect to the super senior tranches?

A It would have gone hierarchically down, so Murray and Dominick Wallace in London because, as I said, we were down almost at the desk level that starts to roll

up this. They would have made estimates for the desks that they are responsible for.

And it wouldn't have just been for the super senior positions. They were a part of a desk that was structured credit, so we did it at the desk level so that it would have been, again, buried in there would have been if they wanted to make adjustments for index-linked notes, that is another structured credit, or CDO super senior pieces or single A tranches of super senior pieces, they would have built that up and that would have gone up to Pat and BeBe as we go up to the next hierarchical level aggregating these, all of these different desks into a fixed income level and then ultimately a corporate investment bank level, and then given to risk architecture along with the consumer banks and along with the global wealth management and along with CAIs to get the aggregated positions.

Q Were you responsible for ultimately approving the models?

A Yes.

Q Were you responsible for

approving, then, the model that was applied to the super senior tranches specifically?

A Ultimately everything reported up to me.

Q Mr. Bushnell, I am trying to get at what, sort of your involvement was with respect to the models themselves and the stress testing of the super senior positions. Would you have been involved in those stress tests? Would you have been consulted on those stress tests? Were you an active or passive recipient of that information?

A I would describe myself as a passive recipient with -- large model issues might have been brought to me for my adjudication, if you will. But again, what data was used in the stress test, whether we should use S&P's data or Moody's data, I wouldn't have been involved in that. Jim Garnett, and underneath Jim several of his people would have, in essence, made that decision. Same thing with the risk manager

stress tests, I am going to be a recipient of this work that is aggregated up to me.

I wasn't involved in an individual discussion, and again I am talking through time here, an individual discussion. I couldn't have been. As I said, in the corporate investment bank alone there is 220 different desks with 50 to 60 different risk managers, all making quarterly assumptions, et cetera. I didn't sit down with each of them personally and go through what their assumptions were and how they changed their assumptions this quarter from last quarter or anything like that.

Q Was liquidity risk factored into either of these two stress tests that you've described, the model-driven stress test or the risk manager estimates, with respect to the super senior tranches and CDOs?

A I don't know because, as I said, I don't know what was in the mind of the individual risk manager who might have adjusted their risk manager stress test off of that.

In the models off of that -- I

actually can't recall. I know we had discussions about putting further liquidity in a formulaic sense, in a data-driven sense, putting further stress tests for large positions. It says, well, you know, to try and give you an example, if we had to move, you know, what is the most that a particular stock has ever moved or a group of stocks?

Well, you know, the most that IBM stock has moved -- I am making all of this up -- is 25 points in day. Well, that is true if you have, you know, a hundred shares of IBM to move, you could use that as reasonable stress. But if you have ten percent of all IBM shares to move, even that historical data is probably not pertinent, so you might want to even make it worse because you have such a large position that it would move the market more than historical because no amount has ever been put on that.

So I know that we talked about

that.

Q When did you talk about that?

A Several times with Jim Garnett, that would be the type of kind of aggregate model questions that we might discuss.

Q But in what year? How early do you remember talking about that in the context of having additional liquidity --

A Since being a senior risk officer.

MR. BIRENBOIM: To be clear, you are now talking just generally.

THE WITNESS: Yes, I am talking about general, what I would call liquidity enhancements to stress.

MR. BIRENBOIM: For any kind of security.

THE WITNESS: Any kind, and I would say that has been, since I became a risk officer, that has been a common question for risk officers to try and think about.

BY MR. BONDI:

Q And was anything done in response to those discussions?

A I can't recall if we did try to put some factors in for what we would have called concentrated positions.

Q When was the first time that you recall presenting any stress tests that were broken out specifically for super senior tranches of CDOs to the board of directors?

A My recollection is probably in October of 2007 specifically for the super senior positions.

Q And was that done at the request of a board member, the board, or a member of senior management?

A I can't recall a specific request. It was as much my desire to show it. I don't think we had a specific request.

Q When was the earliest you remember discussing super senior positions on CDOs at the Business Heads meetings?

A Late August, early September of 2007.

Q Who raised the super senior

tranches at the Business Heads meeting?

A I probably did.

Q And what do you recall saying?

A That there were valuation -- we could have mark-to-market volatility in super senior positions affecting third quarter results.

Q And why did you express that?

A Because I felt there could be mark-to-market volatility in our third quarter results.

Q What prompted you, though, to reach that opinion? Was there an event?

A The continued illiquidity in markets worldwide. We had a large concentrated position. Mark-to-market methodology for illiquid positions was very difficult to attain, and we had started to see deterioration in the underlying RMBS and the mortgages which underlied the underlying RMBS, the CDOs.

Q Was Mr. Prince at that meeting?

A I can't recall the meeting specifically.

MR. BIRENBOIM: I don't think

the meeting has been identified.

MR. BONDI: I had asked earlier when was the first Business Heads meeting that you raised that at, and I thought you said late August, early September.

MR. BIRENBOIM: I heard that as a time period.

THE WITNESS: As a time period, you asked what time. I said my recollection is somewhere in late August or early September. I don't recall which specific meeting it was that we started to address this.

BY MR. BONDI:

Q When is the earliest you remember raising the super senior tranches of CDOs with Mr. Prince, either directly or at a meeting with Mr. Prince?

A Probably in that same time frame.

Q Do you recall him having a reaction when you raised the super senior tranches?

A No, I don't recall.

(Thereupon, document marked Citi 7657, "Presentation to the Securities and Exchange Commission regarding overall CDO business and subprime exposure," dated June 2007, was marked DB Exhibit 1 for Identification, as of this date.)

BY MR. BONDI:

Q Mr. Bushnell, I have shown you what has been marked Citi 7657. It is entitled "Presentation to the Securities and Exchange Commission regarding overall CDO business and subprime exposure," dated June 2007.

Do you recognize this document?

A Not that I can recall.

Q Flip to the third page of the document, which is Citi 7659. It says "Overview of subprime exposure in the global structured credit product business, April 2007."

A Page three?

Q Flip back one.

Do you recognize this document?

A No.

Q Do you recall having any meetings with the SEC in the late spring, early summer of 2007 concerning the CDO business or the subprime exposures?

A No.

Q Do you have any understanding of the document that I have just shown you? Have you ever seen it?

A Not that I can recall.

Q Do you know who would have been involved in this presentation to the SEC in June of 2007?

A No.

Q I would like to draw your attention to Bates number 7662, and the bottom bullet there. It says "In our trading books." If you could read that bullet, that entire bullet to yourself, if you could, I will have some questions about it.

A Okay.

Q The last sentence has a statement, "Therefore, a significant amount of the risk is hedged through short

positions on tranched product and on various

ABX indices."

Do you have any understanding of what that sentence means?

A I think so.

Q What is your understanding?

A I think that they had, in this secondary trading desk they would take positions in different tranches of CDOs, triple B, single A, double A positions, to facilitate customer liquidity and customer inquiries. If they happened to be holding a position and they wish to hedge its price volatility, they would use another instrument, ABX indices which traded, in an attempt to hedge the price volatility of the position that they had.

Q And would you have been involved in the decisions as to what hedged positions would be taken, or would that have been a decision of someone below you?

A Neither. This would have been a business decision.

Q I draw your attention to page

7673. The top of that page says "Excluded from analysis." The first bullet says "Super senior book."

I want to draw your attention to the bullet, the second bullet there: "This so-called super senior tranche is viewed by the rating agencies to have an extremely low probability of default, less than 0.01 percent."

What is meant by that bullet?

MR. ROMATOWSKI: Well, he is not the author and is not familiar with the document, so he can't tell you what was intended by what is written here.

But if you have an interpretation, if it means something to you, you can say what it, what your understanding is.

BY MR. BONDI:

Q Do you understand what that means?

A I can understand what it means to me or what was, I think, attempting to be conveyed.

Q What was that?

A What a, what the rating agency's

equation of a super triple A security's probability of default was.

Q And was your understanding that Citigroup relied on the rating agency's determination of the probability of default in terms of deeming the probability to Citi of its exposure to that super senior tranche?

A Yes.

Q The next bullet says, "The primary risk in the portfolio is mark-to-market movement."

What is your understanding of that bullet?

A The position is accounted for under mark-to-market accounting and as such has price volatility, depending on movements of market.

Q Do you know why the super senior tranches were classified or accounted for as mark-to-market as opposed to held to maturity?

A I don't know.

Q Do you know whether they were accounted for as mark-to-market versus held to maturity?

A My understanding is that they were mark-to-market.

Q Did you ever ask anyone why it was mark-to-market versus a different classification?

A No.

Q The next bullet says, "We actively seek to hedge this book through buying protection from highly rated counterparties."

Do you have an understanding of what is meant by that statement?

MR. KLEHM: Same --

THE WITNESS: Other than what it says?

BY MR. BONDI:

Q Do you know what is meant by that? How do you interpret that bullet?

A I would interpret it that it says the business seeks to hedge its position, and in doing, in order to execute that, it can buy protection from highly rated counterparties.

Q In June of 2007, was it your

understanding that Citigroup hedged its position on super senior tranches of CDOs through buying protection from highly rated counterparties? Was that your understanding in June of 2007?

A No.

Q Was it not your understanding because you disagreed with that statement, or did you just not have an understanding as to what was done with respect to hedging on super senior positions?

MR. BIRENBOIM: Are you asking whether he understood that the entire super senior position was hedged or whether there was any hedging at all?

BY MR. BONDI:

Q Did you understand there was any hedging at all in June of 2007 on the super senior tranches?

A I did not understand that there was any hedging.

Q I would like to draw your attention to the next group of, next major

bullet on the page. It says "Liquidity

puts."

The first bullet says, "Citigroup devised an innovative program to enable high grade ABS transactions to finance the super senior position of their issuance in the CP market."

What is your understanding as you read that bullet that that statement means?

A It means that the business found a way to finance its positions in super seniors.

Q Are you aware that Citigroup issued liquidity puts associated with commercial paper secured by super senior positions?

A Yes.

Q And when did you first have that understanding?

A Somewhere in the summer of 2007.

Q So prior to 2007, is it fair to say that you had no knowledge that liquidity puts were being issued in connection with commercial paper security secured by super

senior tranches?

A Yes.

Q Tell me, how did you first gain the understanding about the liquidity puts?

A I can't recall.

Q Do you recall if someone told you? Did you read something?

A I just can't recall.

Q Do you recall your reaction in learning about the liquidity puts?

A No.

Q When do you recall the liquidity puts, if at all, being discussed at the Business Heads meeting?

A I can't recall a specific meeting that the liquidity puts were discussed with the full Business Heads.

Q Do you recall having any discussions with CEO Chuck Prince concerning the liquidity puts?

MR. BIRENBOIM: Just to be clear, because the liquidity puts are part of a super senior position or a kind of super senior position, are you asking whether he recalls discussions about the liquidity puts in particular as opposed to super seniors?

BY MR. BONDI:

Q I want to know sort of when is your recollection of the first discussion that you had with Chuck Prince specifically about liquidity puts, or where the concept of liquidity puts first came up?

A And I can't recall a specific one.

We were having concerns with the asset-backed commercial paper market, of which the liquidity puts are a subset, if you will, of that. We also issued other types of asset-backed commercial paper at Citigroup around credit card issuance, for example, an active trader of that. Our SIVs issued commercial paper which was related, if you will, to asset-backed commercial paper. So the general freeze-up of financing markets, which was of extreme concern in August of 2007, we definitely discussed in late August early September.

Whether -- I don't recall

identifying specifically the liquidity puts themselves, if you will, as an identification. The Canadian commercial paper market had completely frozen asset-backed as well as underlying. I was talking with the Bank of England, the Federal Reserve, about the freeze-up of markets. We were discussing that with Chuck, et cetera.

But the specificness of this program, I don't recall specifically sort of identifying that.

Q What is your recollection of the first time, if any, that liquidity puts associated with CDOs, super senior tranches, was discussed with the board of directors?

A You know, I can't recall the specific meeting where we would have presented that issue, just can't recall the exact timing of it.

Q Do you remember the year?

A 2007, fall of 2007.

Q And when I mentioned the board of directors, I also was including in the committees of the board of directors, would

there ever have been an instance where you would have discussed either liquidity puts connected with the super senior CDOs or the super senior CDOs at an earlier time than the fall of 2007 with any committee of the board of directors?

A Not that I can recall.

(Thereupon, document FCICE 641146, e-mail chain dated July 26, 2007, was marked DB Exhibit 2 for Identification, as of this date.)

BY MR. BONDI:

Q Mr. Bushnell, I am showing you what has been marked Citi FCICE 641146. I will represent to you that this was an e-mail produced by Citigroup to the Financial Crisis Inquiry Commission. It is an e-mail chain, two e-mails. The first e-mail is from Ellen Duke to yourself, Thursday, July 26, 2007, subject "Update," and then there is a response from you to Ms. Duke same day at 10:25 p.m..

Do you recall receiving the e-mail from Ms. Duke that is at the bottom

of this page and then replying?

A No.
Q Do you recall Ms. Duke in July of 2007 raising a concern about the ABX index?
A Not specifically.
Q I would like to draw your attention to the bottom e-mail, her e-mail to you. The second sentence says -- well, the first sentence says, "Please call me on my cell for today's update."
A Uh-huh.
Q Did Ms. Duke provide periodic or daily updates to you on certain issues?
A Yes.
Q And what type of issues would she have provided daily updates to you on?
A Could have been any number of things. As I think I spoke earlier, I was in constant communication with my direct reports in risk management, to and including BeBe. We could have been talking about market movements, specific market movements, we could have been talking about personnel issues, we could have been talking about

lots of things, so, you know, constant

interaction with her.

In the time frame that we are referencing here there is, you know, starting to be major market disruptions around the world, as I said. Markets including short-term financing markets, some of these ABX indices, the leveraged loan market has blown out, the high yield market has blown out, so we were talking all the time.

Q The second sentence in her e-mail to you says, "Briefly, MBS spread out 9 to 10 BPS, high yield out 40 dash 50, high grade out 12 dash 15 BPS," and then she says "double A and A ABX down 8 to 10 points, paren, yes, comma, points."

What is your understanding as to those two sentences there? What is your interpretation of those sentences?

A She is giving me information about different segments of the fixed income markets, price movements.

Q She talks about the triple A and

the A ABX index. What is the ABX index?

A It is a synthetic index that trades in the market.

Q And is that index relevant to CDOs?

A It's actually relevant to underlying tranches of both RMBS and CDOs, so different rated tranches of those.

Q When she says that double A and A, ABX down 8 to 10 points, and she says "yes, comma, points," was that a significant movement in the double A and A ABX index?

A Yes.

Q Why was that significant? What was significant about it? Was that a big move?

A The magnitude of the points -- the ABX index is an indication, relatively thinly traded, and had been in existence for, I'd hazard a guess, nine months, a year. So it's something that we don't have a lot of historical data on, and also could be because of its newness and in essence lack of size, could have, would be expected to have more volatility than a much bigger,

longer used, more liquid market.

But it is still an indication of price movements, and I think that's what I took from all of this, is across a wide variety of product we are seeing major widening of spreads, price deterioration in various types of securities.

Q And these widening of spreads on the double A and A ABX index, would that have caused you concern in July of 2007?

A Yes.

Q What would you have been concerned about?

A Risk managers are always concerned. This is one in 15 to 20 different items that I am concerned about at this point in time.

Q Now, her next sentence says, "Chad and Raynes now in agreement after meeting with Dominick and Murray that super seniors need close look."

What is your understanding of what is meant by her sentence to you there that "Chad and Raynes now in agreement after

meeting with Dominick and Murray that super seniors need close look"?

A I don't know. I didn't write it, so I didn't know what was intended. I would be sort of putting my spin on what I thought that was.

Q Well, you did receive this e-mail?

A Yeah.

MR. BIRENBOIM: Just note, you did interview Ms. Duke, so you could have asked her what she meant.

BY MR. BONDI:

Q I am asking you, Mr. Bushnell, when you received that e-mail, what was your reaction when Ms. Duke said "Chad and Raynes now in agreement after meeting with Dominick and Murray that super seniors need close look"?

MR. ROMATOWSKI: He explained to you he doesn't recall the e-mail.

BY MR. BONDI:

Q Do you have any understanding of what is meant by that sentence, as you sit here today?

A Other than what it says, that

they are going to have, they are in agreement with Dominick and that they are going to have a, that super seniors need a close look.

I viewed this as an update to me of interaction with the appropriate risk managers and the appropriate senior business leaders about that position, super senior position, in light of this market volatility that is taking place around the world.

Q Let break down the sentence here. Who is Chad?

A Chad Leat.

Q Who is Raynes?

A Michael Raynes.

Q Who is Dominick?

A Dominick Wallace.

Q Murray?

A Murray Barnes.

Q And Murray Barnes and Dominick Wallace were in independent risk, is that correct?

A Right.

Q And they reported up eventually

to you, through Ms. Duke?
A Yes.
Q And the super seniors needing a close look, do you interpret that as meaning super senior positions, super senior tranches of CDOs?
A Yes.
Q And you responded in the e-mail at the top: "Thanks. I will call in a.m. We may want to institute a daily call for certain worldwide risk managers to update and share observations and get instructions. Let's talk tomorrow."
Do you recall instituting a daily call for worldwide managers along the lines that you describe in that e-mail?
A Yes.
Q And when did that call get instituted?
A I can't remember the specific time; shortly thereafter.
Q Shortly thereafter, late summer of 2007?
A Uh-huh.

Q What was the purpose of those calls and how often did they occur?

A They started occurring every day, and the purpose was to update me as well as update each other in terms of what was going on in their respective markets.

As I say, this is starting to be an unprecedented time in worldwide markets, and the more communication that we could have, the better.

Q When did you personally become concerned about Citigroup's exposure in its super senior tranches of CDOs?

A Can you repeat the question?

(Thereupon, the record was read back by the reporter as recorded above.)

THE WITNESS: I can't recall a specific date, so I am going to take an estimate that says, again, late August, early September.

MR. ROMATOWSKI: If we are going to change topics, it has been about an hour and 15 minutes. Can we take a break?

MR. BONDI: Sure. Take a five-minute break.

(Brief break.)

BY MR. BONDI:

Q Going back on the record.

Mr. Bushnell, in the summer of 2007, do you recall anyone ever at Citigroup expressing to you that the super senior tranches were being overvalued on the books of Citi?

A No.

Q Do you recall anyone in the summer of 2007 expressing to you concerns over the valuation of the super senior tranches?

A No.

Q I believe you testified earlier that in late August of 2007 you became concerned over the super senior positions.

What I would like to know is what caused you to have concern in late August of 2007 versus in July of -- July 26, 2007, when you received this e-mail that we were

just talking about? What changed in your mind?

A My initial concern about the super senior positions was a valuation concern of the methodologies that we would use. And the reason why that came to my attention at that point in time was that there was a lot of press noise, if you will, about the industry's valuation issues of large illiquid positions.

Those included leveraged loan positions, because the leveraged loan market was imploding at the same time, as well as, as I said, other large positions. And there had been, if my memory serves correctly, there was even some SEC inquiries about methodologies back and forth.

So my first one was kind of putting two and two together that said I think we should be concerned about our valuation techniques for a large illiquid position because of this, I would call it this market noise; by that I mean everything from sort of newspaper articles to SEC

concerns, et cetera, over this, coupled with e-mails like this that says market movements.

So the concern at that point in time is let's get our valuation over this, our house, make sure we are really in order.

MR. KLEHM: At which point in time?

THE WITNESS: This is late August.

BY MR. BONDI:

Q Was Citigroup's total position in super senior tranches of CDOs, was that a large illiquid position?

A I would say so, yes.

Q What is the danger with large illiquid positions?

A Very difficult to determine their value.

Q Did Citigroup's super senior positions, were they always in your opinion illiquid or did they suddenly become illiquid over time?

A I am not sure I thought about it at the time.

If you are asking me kind of to

look back and make an estimation or make an ascertation of that, I think my look back would be the super senior market was not a very liquid market in comparison to, say, the U.S. Treasury market or the JGB market or even a single name corporate bond market, regardless of size of position. So just as an instrument, it didn't trade that much. There wasn't a lot of secondary trading in it.

That coupled with the size, I think in, as you say, in retrospect now I would have said it was always a relatively illiquid position. But I don't ever, I wasn't thinking about that at the time.

Q If the super senior positions were always illiquid positions, why, then, did the concern over valuation come about so late, in late August 2007?

A Because of market movements and liquidity being even further withdrawn from all markets.

Q How were the super seniors valued? What was the process to go about to value the super senior positions on Citi's

books?

A I am not completely sure. That was the responsibility of the chief financial officer.

Q Were you involved at all in the models used to value those positions?

MR. BIRENBOIM: When?

MR. BONDI: At any time.

THE WITNESS: At some time, yes.

BY MR. BONDI:

Q At what point did you become involved in the models used to value those positions?

A We started working with finance in September, reviewing models in different -- not only models but different valuation techniques, I guess I would describe it.

Q Is valuation of a particular position such as the super senior positions, is it important to you as a risk manager?

A Yes.

Q Why is valuation important in terms of a risk manager?

A Because the overall enterprise

risk management is based on the accuracy of our financial statements.

Q So from your standpoint, knowing how much an asset is worth on the balance sheet is only significant from a risk standpoint vis-à-vis what the disclosures are, not in terms of your own management of those positions?

MR. BIRENBOIM: If you understand that question, you can answer.

THE WITNESS: I am not sure I understand the question or what you are driving at.

BY MR. BONDI:

Q I will try to restate it.

From a risk manager standpoint, isn't it important to know how much an asset is worth on your balance sheet to know how much exposure is faced by that company vis-à-vis that asset?

A I am sorry; could you repeat the question?

(Thereupon, the record was read

back by the reporter as recorded above.)

THE WITNESS: I would actually answer the question more broadly.

Asset valuations, a risk manager is concerned about more than just assets on the balance sheet. They are concerned about exposure, and exposure can be off balance sheet. It can be done in derivatives format, it can be done in different areas.

So I guess I would say risk managers are concerned with overall exposure levels. One part of it might be represented by a valuation on a balance sheet.

BY MR. BONDI:

Q Is valuation important in terms of knowing how to hedge potential exposure?

A Sure, or what I would call exposure size is important.

Q Is valuation important in terms of knowing how to dispose of a potential asset, how to sell it?

A You need to have a price for a

sale. I think that is, goes without saying.

(Thereupon, document FCICE 639388, e-mail chain dated August 30, 2007, was marked DB Exhibit 3 for Identification, as of this date.)

BY MR. BONDI:

Q I would like to show you what has been marked number three.

I would like to show you what has been Bates labeled Citi FCICE 639388. It is an e-mail chain with two e-mails. The first e-mail is from Ellen BeBe Duke to yourself, cc Patrick Ryan, subject "super senior," and it is dated Thursday, August 30, 2007. Then there is a response at the top from yourself to Ms. Duke to that e-mail dated also August 30, 2007.

Could you take a look at the e-mail chain that I have just provided you, and tell me when you are ready.

A Okay.

Q First of all, do you recall receiving in or about August of 2007 this e-mail from Ms. Duke?

A Not specifically.

Q The first sentence has three names in it, I think we have talked about two of the three. Leat I assume is Chad Leat, Raynes is I assume Michael Raynes. Who is Watson?

A I can surmise who the name is, but my memory right now is escaping me. He is the head of the business in London, the business side. Mark Watson I think is his name. Sorry.

Q And who is Cliff referenced in that first sentence?

A That is Cliff Varen (phonetic).

Q Who is Mr. Varen?

A Mr. Varen was the CFO of the corporate and investment bank at that time.

Q There is a reference in the first sentence about Ms. Duke saying that she met with these individuals to discuss SS marks; does that mean super senior marks?

A I assume that is what that means, yes.

Q And that is, and do you

understand this e-mail to pertain to the

super senior tranches of the CDOs that
Citigroup had?

A Yes.

Q There is a reference here to Randy. Is that Randy Barker?

A I assume so, yes.

Q What do you understand as you sit here today that Ms. Duke was trying to convey to you by this e-mail?

A Sitting here today, I assume she was giving me an update of their work, their discussions down in the corporate and investment bank.

Q Discussions about super senior marks?

A Super senior marks and valuation techniques and SEC accounting meetings.

Q There is a statement in her e-mail to you, "Range of outcomes from four possible approaches was quite wide as expected."

How do you interpret that sentence, "Range of outcomes from four

possible approaches was quite wide as

expected"?

MR. BIRENBOIM: Are you asking him sitting here today reading this how he interprets it or whether he actually remembers anything about this?

BY MR. BONDI:

Q You got this e-,mail Mr. Bushnell, right?

A Uh-huh.

Q And you said "Thanks for the update."

MR. BIRENBOIM: He said he didn't remember the e-mail. That is actually relevant to the questioning. There is no foundation for any recollection.

BY MR. BONDI:

Q What I am asking you is, what is your interpretation of her statement to you about "Range of outcomes from four possible approaches was quite wide as expected"?

MR. BIRENBOIM: Do you recall anything?

THE WITNESS: No, nor can I

even recall today what she meant by that.

MR. BIRENBOIM: I will just note again that Ms. Duke was interviewed, could have been asked these questions.

MR. BONDI: You noted it once. Thank you.

MR. BIRENBOIM: I am going to note it each time you ask Mr. Bushnell about an e-mail he doesn't remember, with respect to an e-mail written by someone you already interviewed and didn't ask about it.

BY MR. BONDI:

Q Do you recall, Mr. Bushnell, discussions with Ms. Duke concerning four different approaches that were being contemplated for valuation of the super senior tranches of CDOs held by Citigroup?

A Yes.

Q What do you recall of those discussions?

A My recollection of a discussion

was that we had a meeting in my office with Cliff and BeBe and Gary Crittendon, and a presentation was made; it wasn't even a discussion, a presentation was made that reviewed four possible valuation techniques. That is what I recall.

Q What time frame do you recall that meeting taking place?

A Early September.

Q And was there any decision made at that meeting as to which valuation technique would be used for Citi's super senior tranches?

A Not that I can recall.

Q Did you ever convey to the Business Heads meetings any difficulties concerning the valuation of super senior tranches of CDO positions held by Citigroup?

A I can't recall discussing that at a specific Business Head meeting.

Q Why was there difficulty valuing the super senior tranches of CDOs?

A Because they didn't trade very frequently.

Q And do you recall how wide of a spectrum these valuations ranged from?

A No.

Q Do you have any figure or estimate in terms of what was the lowest they were valued at and what was the highest they were valued at?

A I can't recall.

Q Do you recall in early September 2007 Mr. Prince, CEO of Citigroup, convening meetings to discuss the super senior positions that Citigroup held?

A I don't -- Chuck convened some meetings on the fixed income division of the corporate and investment bank's performance, and the CDO and the entire business of CDOs was discussed, but it wasn't a, my recollections of those meetings, they weren't specific to the super senior positions of CDOs.

Q Do you recall in any meetings in September of 2007 or thereabouts, Mr. Maheras expressing that Citigroup would

never lose a penny from its super senior positions?

A I don't recall that.

Q Do you recall Mr. Barker ever expressing in any meetings in September 2007 or thereabouts that Citigroup would never lose a penny from its super senior positions?

A I don't recall that.

Q Do you recall either Mr. Maheras or Mr. Barker expressing at any meetings that you attended that the super senior positions should not be written down?

A I don't recall that.

Q Do you ever recall any conversations in September 2007 with Mr. Prince concerning the valuation of the super senior positions?

A I don't recall specific conversations off of that.

Q Do you recall generally any conversations that you personally had with Mr. Prince concerning the valuation of super senior positions on CDOs?

A My general recollection was that

I informed Chuck that Gary and I had this presentation about valuations and there were different ways to value it.

Q Did there come a time in the fall of 2007 that you had a different viewpoint with respect to valuation of the super senior positions of CDOs than Mr. Maheras or Mr. Barker?

A I don't know because I never really talked with them about what their views on the valuation was.

Q Did you have conversations with Mr. Crittendon concerning valuation of the super senior tranches of CDOs?

A Yes.

Q And did you and Mr. Crittendon disagree as to the way to go about valuing the super senior positions?

A Not that I recall.

(Thereupon, document Citi FCICE 31582, e-mail chain dated September 26, 2007, was marked DB Exhibit 4 for Identification, as of this date.)

BY MR. BONDI:

Q Mr. Bushnell, I have shown you

what has been marked Bates numbered Citi FCICE 31582. It was an e-mail produced by Citigroup to the Financial Crisis Inquiry Commission. It's an e-mail chain with the e-mails dated September 26, 2007.

I will note for the record that you are not copied or not sent these e-mails from the face of the e-mail, but I am showing this to you because I want to ask you if you recall a discussion along the lines that is referenced in the e-mails.

There is an e-mail at the bottom, which I will represent for the record was from George David, who I understand is a member of the board of directors or was a member of the board of directors of Citigroup, to Mr. Crittendon and Mr. Prince concerning a three- or four-Sigma event affecting these. He is talking in his e-mail I will represent about CDOs.

And there is a, the top of the e-mail chain is from Mr. Prince to Ms. Lowe instructing her to have you attend a 4:30

meeting it appears on September 26, 2007,

and be prepared to respond.
My question to you is: Do you recall having a conversation with Mr. Prince or anyone else concerning a question from George David with respect to whether or not the models at Citigroup could have captured or caught what had occurred with respect to the CDOs?
A No.
Q Do you recall having any conversations with Mr. Prince concerning three or four Sigma events in connection with CDOs?
A No.
Q Do you recall any conversations with Mr. Prince concerning why Citigroup's models did not catch the movement in the CDO positions?
A No.
Q Do you recall any conversations with respect to the models at all with Mr. David, Mr. George David?
A No.
Q He poses a question, it appears,

to Mr. Crittendon in his e-mail, and he says: "Recognizing I am way short of my banking knowledge, the problems in the quarter seem to me at 100,000 feet to be too large a warehouse in getting caught with a three- or four-Sigma event affecting these.

"Warehouse could also be broadly defined to include subprime held directly, subprime held indirectly as in CDOs, subprime held pending CDO placements to others, leveraged lending commitments, the 70 billion we have been talking about, and presumably some trading inventories of fixed income securities. The rate spikes of the last three to four months and associated illiquidity were the three or four six Sigma event. So the question is whether how our models missed this."

What would your answer be to Mr. David's e-mail to Mr. Crittendon and Mr. Prince concerning why Citigroup's models may have missed the events as they happened to the CDOs?

A You are asking me to answer that

now, at my understanding now?

Q Sure.

A I think we would have discussed again the statistical techniques embedded in our stress scenarios and what degree of probability they entailed, and whether at this point in time, talking still in September 26th, whether that was a three or four standard deviation or higher. Our rate, the board of directors' presentation, if I remember correctly, has a confidence interval that is assigned to it. The question is just whether it was in some instances paid attention to. So I think there is three or four parts of that, as we discussed.

Data issues, confidence issues, whether models would have described at this point in time in September still adequately had price movements, house price depreciation, et cetera, was still in historical data, which or whether they are, this is stress that has never been seen and

you need to incorporate that, whether they were incorporated in risk managers.

So I guess that is the kind of thing that I would have, in retrospect if this ever came up, that is what I would have talked to him about.

Q But you don't recall it ever coming up?

A No.

Q In retrospect, were there problems with Citigroup's models with respect to the super senior positions of CDOs that Citigroup held?

MR. BIRENBOIM: To be clear, the e-mail that we are talking about is not about super seniors.

MR. BONDI: I am asking a different question.

THE WITNESS: Could you repeat the question?

BY MR. BONDI:

Q In retrospect, were there problems with Citigroup's models in terms of evaluating the risk associated with the

super senior positions of CDOs?

A In retrospect, I think the answer to that is yes.

Q And what are the problems with the models in retrospect? What were the problems?

A Problems in terms of lessons learned, correlation factors were too high, data sets were not pervasive enough, and risk manager's stress test imagination -- this goes back to the three models that we talked about -- didn't go far enough in imagining something that had never happened, happening.

Q I am going to ask you to explain a few of the things you said there to a non-risk officer. Correlation factors too high, what do you mean by that?

A I mean that too much benefit was given in our risk models for correlations, that in times of extreme stress markets became not offsetting but totally correlated.

Q And how did you come up, how did Citigroup come up with whatever correlation factor it used?

A Those were based off of historical data.

Q Historical data on what? Home prices?

A No, of many different factors, of which home prices is just a piece: Correlation factors of interest rates to currencies to commodities to real estate prices to stock prices, of market risk to credit risk to operational risk. All of those are, have correlation factors.

Q How did these correlation factors that Citigroup applied to the super senior tranches, how did those differ from correlation factors that rating agencies apply?

A I am not sure that they did. I don't know what the rating agencies' correlation factors were.

Q I believe you said the data sets were not pervasive enough. Can you explain what you mean by that?

A Yeah. As we discussed previously, it would have been interesting to try and get or even approximate data for price movements in major times of stress throughout history, not just easily obtained securities prices in the last ten or 20 years.

Q I believe I understand what you meant by the risk manager's stress test imagination didn't go far enough.

How far should it have gone, though? Should it have gone to the point of assuming a complete failure in the market, complete illiquidity, complete what? How far does one have to assume on stress test?

A As I said, this is, the art of risk management is to somehow convey something that's indeed never happened and decide whether the outcomes of that stress test are worthy of consideration and indeed action off of that.

Q What sort of role does the business line, the business personnel play in the stress test that Citigroup had done with respect to super senior tranches?

A Not much. None.

Q None.

And with respect to valuation, what sort of role do business personnel or did business personnel play with respect to valuing the super senior tranches of CDOs?

A Well, they put a value on it. As outlined in the CFO's Citi valuation process for mark-to-market positions, the trader puts a -- trader, that is a business -- puts a price on position to and including a super senior position, and then it is up to the financial division to validate, verify, modify, that price in their area of responsibility, as their area of responsibility, and if they need assistance in any of that, they can ask for assistance from risk management if we might be helpful or anything. But that is the chain of responsibility.

Ultimately it the financial division's and the CFO's responsibility for what gets put into the books and records, but the first link in the chain, if you

will, of any position, whether it is super senior or not, is the trader's mark.

(Thereupon, document Bates numbered Citi FCICE 644389, cover e-mail and a presentation to the board of directors, dated October 15, 2007, was marked DB Exhibit 5 for Identification, as of this date.)

BY MR. BONDI:

Q Mr. Bushnell, I am showing you what is Bates numbered Citi FCICE 644389. It is a cover e-mail and a presentation it appears, it says to the board of directors, dated October 15, 2007. I will represent to you that this was produced to us by Citigroup. You were a recipient of this presentation.

I draw your attention to the first page of the presentation there. Do you recall, Mr. Bushnell, presenting information to the board of directors on October 15, 2007, that is represented in this presentation? Was this your presentation, I should say?

A No.

Q Did you participate in this presentation?

A Yes.

Q And what was your role in this presentation?

A The presentation was divided up in pages 37, 38, 39, 40, 41, 42 and 43 were my pieces of the presentation.

Q Let's take 37, then, you said.

A Uh-huh.

Q This page is entitled "Lessons learned." Number four says, "Aggregate risk more effectively across Citi."

Is that something you presented on?

A Yes.

Q What did you present on with respect to aggregating risk more effectively across Citi? What did you say?

A I can't recall specifically what I said.

Q What do you understand to be meant by "Aggregate risk more effectively across Citi"?

A I think what I meant and may have

discussed was looking at stress events and looking at our exposures, what I would call primary exposures, secondary exposures, tertiary exposures, and have a better means of aggregating those across Citi.

Q Why was that important to do, and why is that a lesson learned?

A Well, I think at this point in time we were still in the middle of an unprecedented market movement, and we had exposures that were coming to light all across Citi in different regions, desks, businesses, structures, that all had kind of common themes. Some of them as I said were what I would call primary exposures, others are related exposures, and still others are tertiary exposures. And to somehow gain a vision of that in its entirety would have been helpful.

Q And how does that lesson learned apply to specifically the super senior tranches of CDOs? Is there anything with respect to this lesson that can be applied

to the super senior tranches?

A Well, not -- I wouldn't think of it that way, specifically to the super senior tranches as much as we were trying to convey, if we looked at subprime exposure, subprime exposure direct on our own books, and by that I mean loans originated by us to subprime borrowers, held in portfolio. We had whole businesses in the consumer area that did that.

We traded mortgage bonds, some of which whose underlying loans were subprime mortgages. We had the CDO business, which by that time it evolved mostly to that, to RMBS whose underlyings were subprimes.

We had credit exposures to New Century, to WaMu, to other market participants who were heavily involved in offering subprime products.

We had investor relationships and credits. I will give you an instance of IKB Bank, a European bank that failed. The primary failure was due to its over-concentration in subprime-related and

mortgage-related assets. Put that into the mix.

We had exposure to, in a derivatives market to counterparties; Ambac comes to mind. Trying to get a handle on all of that, lessons learned, is to try and do a better job of that, and to that instance the super seniors are sort of a piece of a theme. But it wasn't aimed specifically at the CDO, the super senior position.

Q The next number says "Enhanced independent risk management practices in light of increasingly complex structures."

What did you mean by that statement?

A I think two-fold: One is to, we needed to do more underwriting investigation of our own of complex structures and not rely on others. Some of that is code word for the rating agencies, don't rely on the rating agencies for complex structures, and some of that is also we need to put enhanced resources, more resources into examining

those if that's, if we are going to be

involved in complex structures.

Q If you turn to page 40 of this document, there is a reference to CDOs at the bottom of the page in terms of action steps.

A Uh-huh.

Q First it says "Supplement independent risk management measures and limits in leveraged finance and credit structuring activities."

Putting aside leveraged finance and credit structuring activities, what do you mean by supplement independent risk management measures and limit credit structured activities?

A I know you don't want me to go that way, but I think it is meant to be a contrast off of that between leveraged finance and CDOs.

We primarily used in leveraged finance, for example, credit-based metrics in trying to bound from a control standpoint, from a risk management

standpoint, that business, how much single obligor exposure do we want to have. But we didn't use a market risk technique that would say how wide can credit spreads get with our position warehouse and what is the likely impact of that going to be?

So in that instance we needed to enhance the risk factors, the limits, if you will, applied to the leveraged finance business by adding more market-based risk factors in addition to the credit base.

In the credit structuring business it is just the opposite. We had a whole limit package around the structured credit business, but it was heavily market risk based type of risk factors and not credit type of risk factors. So we needed to add more credit-based factors in bounding that business. That is what I was trying to say.

Q Directing your attention to that last bullet then, is that what you mean by "move credit structuring warehouse exposures, e.g., CDOs, away from spread and

interest rate based market risk metrics to outstandings based credit risk metrics"?

A Yes.

Q What is outstandings based credit risk metrics?

A It means underwrite these positions as you would a loan, buy and hold underwriting outstanding position as opposed to a trading position.

Q What is the benefit, then, of holding it as a buy and hold versus a trading position? What is the benefit from a risk standpoint?

A Well, I mean, the benefits of any position in terms of trading versus a buy and hold, there may be many in terms of customer relations with the ultimate creditors, whole business strategies. It is just match your risk metrics with your holdings intent, or better match your risk factors that you limit the business with with the intent of the business.

Q Mr. Bushnell, there is several lessons learned in there from Citi's

standpoint. Have you had a chance to

reflect back in terms of personal lessons learned in terms of what you might, could have done better as a risk manager?

A I haven't really had a chance to think about it from a personal standpoint as opposed to an overarching risk standpoint. I haven't thought about what should I have done less of and what should I have done more of. So I really would kind of have to give it some thought to give you a well thought out answer.

Q With respect to your role as chief risk officer, and specifically speaking of the CDOs, do you feel like you made any mistakes as a chief risk officer vis-à-vis the CDOs?

A Personally, as mistakes to the specifics of the CDO positions, I wouldn't couch it that way. I think we have discussed some of these lessons learned or improvements that we had done.

As the senior risk officer you are responsible for doing that, and that

might have helped either people that work for you or the business or other interested parties to realize that, if you had these following metrics. The ultimate responsibility resides with me, but it is not, I wouldn't point to a specificity of the super senior position as there was something unique about that one as opposed to the leveraged loan position or as opposed to other positions like that.

Q Was there any information that you feel should have been conveyed to you earlier with respect to Citi's CDOs?

A No, I wouldn't have expected information to have come to me any earlier from within my chain.

Q With respect to credit rating agencies and the CDO positions that Citigroup held, would you say that credit rating agencies had a minor role, a role, a significant role, or no role at all with respect to Citigroup's problems associated with its super senior CDO positions?

A It is definitely more than no

role at all. There is definitely some, you know, if their ratings had been different, if their models had utilized some of the things that we have been talking about in our own models, that could have resulted differently for it. But I don't think, you can't blame it on the rating agencies.

So, were we given comfort by the rating agency ratings and their techniques? Yes, but ultimately it is still our responsibility.

Q Do you feel that you brought the issues with respect to Citigroup's CDOs to senior management and the board of directors in a timely fashion?

A Yes.

Q Do you feel that any additional hedging could have been done with respect to Citi's super senior positions?

A In retrospect, after the -- now? Looking back?

Q Sure.

A Sure.

Q Do you know, were you involved in

Citigroup's purchase of CDS with respect to its super senior CDO positions?

A No.

Q Who would have been involved in the decision or decisions to buy CDS, credit default swaps, for its super senior positions of CDOs?

A The business.

Q The business would have been involved in that?

A Uh-huh.

Q Would independent risk have had any role with respect to the purchase or the decision to purchase CDS?

A The decision wouldn't have been within risk. If the business was in the outlined parameters of limits, et cetera, it is their decision whether to utilize more of the limits or less of the limits, hedge the position to neutral or not hedge the position to neutral. So the decision is clearly business's.

I can envision risk involvement, for example, if the purchase of the hedging

instrument involves a counterparty. There is going to be counterparty risk performance in that, and that that is going to have to go through our counterparty risk analysis and exposure limits to that counterparty. So in that sense there would be risk involvement in some sort of sense if it was a counterparty that they were hedging with.

Q Throughout some documents that I have seen produced by Citigroup there is references to balance sheet management with respect to CDOs.

Was there a problem with balance sheet management and CDOs?

A You would have to give me more reference points. We generally didn't set balance sheet limits. The financial division did broad-based levels, but without further either paper history or a question, I can't answer. I don't know what it is.

Q There were other banks and financial institutions that were involved in CDOs. Did you ever have any discussions with any of your counterparts at, say,

Goldman Sachs or JPMorgan Chase or Merrill

Lynch or UBS concerning what they were doing with respect to CDOs and risk management?

A The only discussion that I recall about CDO was with Goldman Sachs in the June, July time frame. It involved a margin or a valuation dispute with single A tranche positions in our European correlation book trading with them.

Q But prior to the fall of 2007, do you ever recall sitting down with a risk manager at another firm and saying: Here's what we are doing with respect to managing our risk associated with CDOs?

A Specific to CDOs, no. We certainly had a -- I was vice chairman of the counterparty risk management policy group number two, that had several chapters that involved CDS structured credit, leveraged embedded in structured credit and recommendations off of that, but that is pretty -- and that is where I would have sat down with peers, would have discussed about industry issues.

But in that document there is no

specific, for example, CDOs. It is a more generalizing statement.

Q As you sit here today, do you have any opinions why other firms or other financial institutions may have been able to avoid or minimize their losses associated with CDOs and why Citigroup was not? Why did some firms seem to get it right and Citigroup not, or do you have an opinion on that?

A I think I have a couple of thoughts on that, sitting back and looking at it today.

First of all, it was what I would call a business selection basis. If you weren't in the credit structuring business you didn't have this problem. So if you were, let's say JPMorgan or Bank of America, if you looked at the RMBS lead tables or the CDO lead tables, they aren't even involved so they don't have a problem. They weren't in the business.

If you looked at the then people

who were in the business in a lead table sense, that is people who structured CDOs for investors who wanted that type of exposure, and either manufactured it and distributed it entirely or manufactured it and kept, you would see Merrill Lynch, UBS, RBS, Royal Bank of Scotland, all of which had significant problems and/or a forced sale failure of the firm, whatever you want to call it.

There were a few who were involved in a lesser way in the business -- Goldman Sachs comes to mind -- who did a better job of either distributing all the pieces so they didn't have it upon the CDO creation, or hedging if they chose to retain it, employing more hedging techniques with various success against that.

Q What is your understanding of why Citigroup retained its super senior positions as opposed to selling them?

A Because business thought that it was a very low risk position that they could make some money off of, and was a part of

the rest of the CDO creation business.

Q Prior to the fall of 2007, did you ever have any conversations with anyone in business as to why Citigroup was retaining its super senior positions?

A The only discussion involving that goes, that I recall being involved in, goes way back to 2000, 2001 when CDOs were first being created, and the underlying instruments were corporate bonds.

And the structured credit area, the business wanted to get into that. As is our control mechanism, we had what is called a new business product conference around that, that before any business entered into a new business we had to go through a process of it, and it is at that time that they included their motivation that said they would hold the super senior portion of that.

So that is my kind of last reference point before 2007 in terms of it.

Q Did you understand prior to 2007 the magnitude of the position that was being

held or the positions that were being held by Citigroup?

A No.

Q In retrospect, if you had known that Citigroup had been retaining the magnitude of the positions that it held as super senior securities on its books, would you have taken any different approach to the CDO business?

MR. KLEHM: What was the magnitude that they were holding at that point in time?

MR. BONDI: I am happy to give that.

BY MR. BONDI:

Q Citigroup announced on November 4, 2007, that it had 43 billion in exposure associated with super senior securities.

We will break this down. How early did you know that Citigroup had 43 billion in exposure associated with super senior CDOs positions?

MR. BIRENBOIM: The number obviously changes all the time, so I

am not sure I understand the question.
BY MR. BONDI:
Q I will tell you what. I will make it pretty simple, then.
How early on did you know that Citigroup had over 30 billion in super senior CDO positions on its book?
A I can't recall the specific time, but summer of '07.
Q If in summer of 2006 someone had come to you and said, Mr. Bushnell we are retaining over 30 billion on our books of super senior tranches of CDOs, what would you have done? Would you have done anything different than what you did?
A It's hard for me to answer the question. Knowing what I know now, I would have asked all these questions.
Whether at that point this time I would have been personally smart enough to question the rating agencies' correlation factors and understand the intricacies of that, I just don't know. I really don't
know if I would have done something

different off of that.

I would have been influenced. The question is really would I have been influenced enough by the ratings for a $2.5 trillion balance sheet to be holding, I don't know, one percent of its assets in more than triple A rated securities, doesn't strike me, if you just said it that way, would that be odd or would you have really investigated that, my answer would have been no. If it was U.S. Treasury bills, super triple A, if that is what they were rated, would I have done it? I would have said no, no big deal.

Might I have asked more about what is underlying the CDO in terms of the RMBS that are underneath those? As I say, I just don't know; especially I tend to not credit myself that much that would have said, well -- your example was 2006 -- the subprime market hadn't even cracked in 2006, whether I would have said, well, it could because the RMBS -- you know, I hate to say it, but I doubt that even if it was brought to my attention that I would have done a whole lot more off of it, or at that time whether what I did do off of it, you know, would have caused this to behave differently.

Q And taking that same hypothetical, of course, if it had been early summer of 2007 that you had heard about the size of Citigroup's positions in super seniors, would you in early summer of 2007 have done anything differently? Would it have influenced your decisions?

A Again, again, tough to say.

What my first instinct would have been to do, let me put it that way, if I had heard about it at that time, would have been to have gone back to my risk managers, say I heard it from a different source, tell me about these. Are you worried? I would have relied on their expertise. They are closer to the business. They are smart enough -- not that I would have automatically taken it for granted what they would have said, but

that would have been my first instinct,

would have been to go in this instance to a Murray Barnes or a Dominick Wallace and say, tell me about this. Are you uncomfortable with this size position, you know, what do you think, et cetera, et cetera.

I can give you with pretty good certainty what my logical course of action would have been, or investigation. Whether that would have caused me to do something different or not I think is sort of two iterations too far.

Q Now, you had referenced a few minutes ago the underlying RMBS and the CDOs. During your tenure at Citigroup, did you ever go back and look to see where the RMBS was coming from that Citi had in its CDOs?

A No, I did not personally.

Q Did you ever ask anyone to do that at your direction?

A Not that I can recall.

Q Did anyone ever tell you or did you ever come to know where the sources of

the RMBS were for Citi CDOs?

A I am sorry.

Q Let me rephrase that. Sorry.

Did you ever come to know where Citi was getting its RMBS?

A No.

Q And would you be surprised to know if someone said to you that over 75 percent or much greater of the RMBS came from other entities other than Citigroup itself for its RMBS?

A No.

Q Why wouldn't that have surprised you?

A Because we weren't a -- RMBS, the underlying mortgages, were not of a type of mortgage that Citi itself was a big producer of. So it doesn't surprise me that we didn't have that.

MR. KLEHM: Can we go off the record for a second?

(Discussion off the record.)

(Thereupon, document Citi 16523749, PowerPoint deck entitled

"Review of the current environment,"

was marked DB Exhibit 6 for
Identification, as of this date.)

BY MR. BONDI:

Q Mr. Bushnell, I am showing you what has been produced to us by Citigroup. It is Bates Citi 16523749. It appears to be a PowerPoint deck entitled "Review of the current environment," with your name on it, October 30, 2007.

Do you recognize this document?

A Yes.

Q What is it?

A I think this is a draft of a presentation that was going to be made to the board of directors.

Q Was it ever made?

A Parts of this were, if my recollection is correct.

Q Why do you know, sitting here today, that this is a draft as opposed to the final version?

A Because I don't, I remember making the presentation, and I think a bunch

of detail was shortened.

Q And was this a presentation to the entire board of directors, or would this have been ultimately what was shortened, a presentation to the entire board of directors?
A I believe so, yes.
Q Were you involved in drafting the presentation that you ultimately gave to the board of directors?
A Yes.
Q Did anyone else have a hand in drafting the presentation that you ultimately gave to the board of directors?
A Sure.
Q Who else would have been involved, provided input?
A Lots of people in the risk organization.
Q And after you provided this presentation to the board of directors, do you recall receiving any questions either during the presentation or after the presentation from any members of the board?

MR. KLEHM: The shortened

version?

MR. BONDI: The shortened version, right.

THE WITNESS: I can't recall any questions that might have come up.

BY MR. BONDI:

Q As you sit here today, what specific questions or general questions, I should say, do you remember getting from the board of directors concerning Citi's CDO business?

A I can't recall questions that were addressed to me about the CDO business. I didn't run the CDO business.

Q Do you recall any questions, though, with respect to risk management and CDOs that were directed to you by any members of the board?

A I can't recall specific questions or which specific board members asked those questions.

Q What about any general questions with respect to risk management and CDOs?

What do you recall as you sit here today about general questions that you received from the board of directors?

A I recall a conversation that I had with the audit and risk committee of the board of directors concerning, in an executive session, where I addressed them on several items, one of which was the size of the, of marks on the CDO position at that point in time.

Q And when was this point in time that you received the questions or question?

A I can't remember if there were questions off of that or they were -- I just advised them of that.

Q And what do you recall with respect to any discussions with members of the board or any members of any subcommittees of the board of directors concerning liquidity puts?

A I don't recall having conversations with them about liquidity puts.

Q Did you receive any criticism from any member of the board for risk

management in connection with CDOs or

liquidity puts?

A No. In that executive session that I just spoke about, I indeed said that if they felt that there was a failure of risk management, they should feel free to take action and dismiss me, et cetera. And several of them after that meeting came up and encouraged me, that said keep at it, you know, we are in the middle of a crisis, we need you, you guys are doing fine.

Q And what was the nature of your departure from Citigroup? Were you asked to leave?

A No.

Q Why did you leave Citi?

A Well, it is a little bit of a story, and it really goes back to the spring of '07 when I had a one-on-one lunch with Chuck and basically said that I had been four years as the senior risk officer, I felt I had done an organizational structure and putting my stamp on it as much as I could, I would be interested in moving on.

We had at that time a, still

have, I guess, it is called a retirement process that was called the rule of 75: Your age plus years of service, if you reached that length, you could retire with full benefits and vesting benefits of deferred compensation.

And so I said to Chuck, you know, if there is not a new role for me or a role in business which I would like to get back to, it is time for me to retire and I will move on and no harm, no foul, it is just time to leave. Chuck at that time said no, no, no, I don't want you to do that, I have got you in mind for some other things. And then of course in August I was made the chief administrative officer, not exactly what I wanted. It was more control and administrative responsibilities, not necessarily running a business.

Then we went, Chuck resigned, to the current administration, and I went to then the temporary leadership, which was Bob Rubin and Sir Wynn Bischoff. I asked them do you want me to resign, what would you like me to do? They said no, stay on, the board wants you to still stay.

Two weeks later, Sir Wynn and I talked in London. Sir Wynn said that they were going to make, the board felt it was appropriate to make a change and have a new risk officer come on, that was Jorge Bermudez, but they wanted me to stay on as chief administrative officer. And I told Sir Wynn, let me think on it over the weekend, and made my decision over that weekend that said hey, it is just time to kind of go back to the original plan, and I will retire at the end of the year.

And so that is what I did.

Q I just have a couple more questions and then we will take a break.

There has been some criticism in the press, particularly there was a New York Times article that I read called "The day of reckoning," about Citigroup, and there was some allegations in the article or assertions in the article concerning the

independence of risk management from

business personnel.

Do you feel that there was a problem with risk personnel not being independent enough from business personnel associated with the investment bank?

A No.

Q And with respect to having the voices heard of independent risk personnel, do you feel that the voices of those associated with independent risk in the investment bank, like BeBe Duke and Mr. Ryan and Murray Barnes, do you feel that their voice was heard in terms of decisions and decision-making throughout the organization?

A I believe so, yes.

Q We are investigating the causes of the financial crisis, and hopefully we will learn a little bit about how to avoid the next financial crisis. If you were giving advice to a risk manager in the future, having come through what you experienced as chief risk officer of Citigroup, is there any particular advice

you would give him or her about how to

manage the risk of the organization in light of what was learned from the financial crisis?

MR. KLEHM: Beyond all the lessons learned we have reviewed.

MR. BONDI: Sure, anything else you want to add?

BY MR. BONDI:

Q If your best friend was becoming chief risk officer of a big organization, what sort of advice would you give to him or her?

A A lot of which we have already said, but I would restate it: One of which is I think the structure, that is the reporting structure, is very important, and I don't think in any way that was a cause of Citigroup's travails.

We were ruthless and demanding about the risk managers who reported to me. I controlled their pay, and nobody else did. It went right up to me in charge, so what the budget was, all what sort of stuff. Be

completely independent, I think that is

important. As I say, I don't think that applied to us.

I think other things are really, we can talk about issues of diversification and correlation benefits in risk models, et cetera. I think the wider, broader one has to be about systemic risk and where an institution fits in the system.

So if my friend, using your example, my friend is going to be a risk manager of a $20 billion regional bank in the West versus a $1 trillion bank, most of, the majority of whose assets aren't in the United States but are regulated, the holding companies regulated by the United States, there would be much different advice between those two. And I think that a small cadre of truly global systemic risk institutions, those risk managers have some different issues that they have to face than a super regional U.S. bank.

Q From a risk management standpoint, was Citigroup too big to manage?

A I don't think so. I don't think

that was an issue, size alone was not an issue.

Q And in terms of an informational flow, there was obviously a mortgage origination group, did subprime origination through Citi Financial, there was a group that purchased whole loans for securitization, both at Citi mortgage and through global securities market, Susan Mills' group, and that created RMBS, and then there is of course the structuring desk that did CDOs.

Do you feel that those various units could have communicated more in terms of warning signs that they may have seen in the market, or do you know whether or not they communicated among each other?

A I don't know whether they communicated with each other, other than the attempts that I made through our risk aggregation unit which did bring together those various groups to discuss things going on in real estate, in conjunction with some

outside -- David Rosen, Kay Schiller came in to speak with that group, so at least there was a hope that there was discussion among that group, so that is how I would speak to it generally.

I did say that as a lesson learned, I did feel that the differentiation between credit structures and people who trade the underlying, having a difference in that, I didn't think was an optimal structure.

Q What do you mean by that?

A Well, using -- credit structures need to know what is going on in the underlying market. So in this instance we had a mortgage trading desk that traded RMBS, and one could argue that their performance was not too bad even in all of this, in the demise of that.

But the credit structures who did CDOs, whose underlying were composed of RMBS, didn't report to them or didn't have a structure, in my opinion that is not the ideal structure.

So if we have a -- I am trying to

think of a hypothetical to give you an example. If we have a credit structuring business whose -- it is a CLO business, whose underlying assets are corporate loans, I would rather have that be a part of the corporate loan origination and hold and trading department than a separate business, all of which it does is structure. That is what I am trying to get across.

Q Mr. Bushnell, I will represent for the record that we have seen some documents that suggest, and we have heard some testimony to suggest, that on the RMBS side Susan Mills' group was decreasing the volume of RMBS it was doing in early 2007, while at the same time limits were being increased on the CDO desk.

Who would have been responsible to oversee and say wait a second here, that doesn't make sense. On the one hand you are decreasing RMBS in Susan Mills' group, and then on the other hand in Mr. Dominguez's group you are increasing the production of

CDOs? Who would have been responsible to call that out?

A The first layer of responsibility is the business management off of that. It goes up the chain. So where does Susan Mills' unit report to, where does the credit structuring business report to, where is their common reporting structure? They are making a determination off of that.

Q And are you aware of what I've just described in terms of RMBS being decreased --

A No.

Q -- in 2007 and CDOs being increased?

A No. CDOs being increased, yes. I am aware of that. RMBS being decreased, I am not aware of that.

Q And were you involved in the decision to increase CDO production in 2007?

A Not.

MR. BIRENBOIM: You mean increase the limits?

BY MR. BONDI:

Q Increase the limits of the CDO

production?

A Not specifically, in that it was known that it was a senior management initiative -- actually this goes back into even 2006 -- that said we wanted to increase our investment in size of market share of lead table representation in the credit structuring business.

That was known at the board level and known at the business level, et cetera, and known in the risk area, that said here's -- the credit structuring business was one of I think six or seven different distinct businesses which were given the authorization to increase budget expenses, get allocations off of that, and that meant that risk budgets for that unit and these other six units that were targeted as growth initiatives were kind of given the ability to increase, increase limits, size, number of people employed in the business, all of that was part of it.

So I wasn't involved in the

actual, you know, in these individual limit settings for the credit structuring business or the CDO component of the credit structuring business, but I was well aware that this was a firm-wide initiative and a growth business that we wanted to engage in.

Q And as things started to deteriorate in the marketplace in 2007 and there were increases in default rates and delinquency rates on subprime mortgages, did you ever say: Wait a second here. We need to stop this growth that we are doing, this initiative that we are doing with respect to CDOs?

A I did not.

MR. BONDI: Why don't we take a 30-minute break for lunch.

(Lunch recess.)

BY MR. BONDI:

Q Just some housekeeping initially, Mr. Bushnell. Are you represented by Paul, Weiss here today?

A No. Well, both. Paul, Weiss is company counsel, Jones Day is my counsel.

Q Thank you.

You had mentioned earlier that at one point in time you switched from reporting to CEO Chuck Prince to the chief administrative officer, Lou Kaden?

A Yes.

Q And how did the flow of information to Mr. Prince change when you started reporting to the chief administrative officer?

A It didn't.

Q How did the dynamics and the functioning change, though, reporting to the CAO versus the CEO?

A Not much. I would say meetings that I had and continued to have, had with Chuck, Lou could be present at that.

Q We had talked a lot earlier about when you had first spoken to Mr. Prince about super seniors and about liquidity puts.

Did you speak to Mr. Kaden before you had spoken to Mr. Prince about either super seniors or liquidity puts?

A No.

Q We talked about risk limits, and

I am curious, just your view in terms of what role did risk limits play in overall risk management?

A I think risk limits are an important part of risk management.

Q And with respect to the limits of the positions that Citigroup could hold related to CDOs, who was involved in setting and approving those limits?

A The limit-setting process and structure was delineated in our risk policy, both the Citigroup risk policy and corporate and investment bank risk policy underneath that, and that gave different delegation authorities to different independent risk managers to make risk limit or other risk decisions over businesses.

Q And with respect to the ABS CDOs, what was your involvement or role with respect to either setting or approving the limits of those positions?

A Could you give me a time period?

Q As chief risk officer ever?

A As chief risk officer, I would

have seen those in an aggregated book brought to me by first Jessica Palmer and then part of that Pat and BeBe, which would have had each desk's risk limit, risk factors, what they were and then what they were proposed to be on an annual basis, and then I would have also seen what I would call aggregated risk levels; so, how much for a structuring desk, how much for fixed income, how much for the corporate investment banking in the roll-up strategy. I would have seen those and approved those.

Q And the risk book you were describing, is that the -- I wish I had brought my copy of the risk book, but is it the thick risk book that says risk limits of Citi markets and banking, and it is a very thick document, almost the size of a phone book?

A Yes.

Q So that is what you would have received?

A Yes.

Q And was your role then approving

all of those risk limits?

A No. Realistically it was reviewing them. I was looking at more aggregated exposure. The responsibility would have been a buildup so that the risk manager, usually of a seniority level, a managing director who oversaw a desk or a series of desks, would have been the one to set the limits: Here's what I am recommending the limits of.

And they would have then, if there were increases in limit requests that were over their delegated authority, they would have then gone to Pat and BeBe or Collin Church perhaps to say okay, this is what the business is; I am okay with it but it is above my risk limit, can you sign off on it? And the same thing would have gone up to me that said for certain types of risks, on a transactional basis, they might have had to come to me.

Q Do you recall having any conversations about ABS CDO limits with Ms.

Duke or Mr. Ryan or Mr. Barnes?

A No.

Q Ever?

A No.

Q Are you aware that limits for certain positions related to ABS CDOs were increased in 2007?

A Yes.

MR. BIRENBOIM: Just to be clear, you are distinguishing something called ABS CDOs as opposed to CDOs?

MR. BONDI: CDOs. I thought we --

MR. BIRENBOIM: But you are not limiting it to mortgage-backed ABS CDOs?

MR. BONDI: I think the question -- you want to read back the question?

(Thereupon, the record was read back by the reporter as recorded above.)

THE WITNESS: Yes.

BY MR. BONDI:

Q Were you aware that certain

limits for positions relating to ABS CDOs, with the primary underlying collateral being RMBS, were increased in 2007?

A No, I don't know. I don't recall that.

Q But how do you know that limits were increased for ABS CDO positions?

A Because, as I stated before, we had an initiative, a firm-wide initiative to increase our credit structuring business, and as part of the allocation I knew that risk limits were wanted to be, were needed to be increased by the business, and risk management was aware of that. The specificity of which limits, which risk factors allocations, I didn't know that.

Q As the CDO business grew, what additional risk management tools did you employ relating to CDOs?

A I am sorry; are you talking about the business CDO group?

Q Yes.

A I didn't employ anything. It

wasn't my responsibility.

Q As the CDO business, though, grew, did you in independent risk employ or utilize any additional or different tools as the business grew over time?

A I am sure if you looked at the business books back when the CDO business started in 2000 and 2001 and looked at its limits, structure, and as it existed in 2007, you would see differences. I can't enumerate what those differences were.

Q Let's take the risk management that occurred in 2005 versus the risk management that occurred in 2007 with respect to CDOs. Did the risk management differ in 2005 compared to 2007, or do you know?

A I am sorry to be -- when you say risk management, talking about the business's management of the risk and what they did, what independent risk in their published limits policies and factors book? Which or all of the above or what?

Q I am asking specifically right

now about independent risk.

A Okay.

Q As the CDO business grew, how did risk, independent risk change as that business grew? In other words, comparing 2005 to 2007, was independent risk employing different tools in '07 that it wasn't employing in 2005, for instance?

A When you say different tools, I don't know for certain. I can make an estimation.

A permitted product for that business to trade, since there was no ABX business in 2005 and yet they traded ABX in 2007, I am sure that the difference was a new permitted security type to be traded on the desk that had to be authorized by independent risk would include ABX contracts.

Q Let me try it a different way.

MR. BIRENBOIM: I think there is a ships-passing-in-the-night problem.

I think he, I think Mr. Bondi is asking whether, as the CDO business grew, did the independent risk group do anything to keep up with the growth by way of either new procedures, new resources, that kind of thing?

MR. BONDI: Bruce asked it more articulately than I could ask it, so I will just adopt Bruce's question. Thank you.

THE WITNESS: I believe that more personnel resources in independent risk, working with Murray Barnes or within Pat and BeBe's area and with Murray and Dominick Wallace, were employed, if we are talking about resources.

BY MR. BONDI:

Q Uh-huh. Anything else?

A And then, as I say -- I may still be missing Bruce's question -- as the business grew, it expanded in, as the credit structuring business grew, it expanded in the types of products that it would create and trade in, and the independent risk world would have had to basically allow that to

happen. And so that's something new and had to allow for new feeds for new securities being traded to be put into aggregating risk systems, so that's also how it kept up with the growth of business.

Q What sort of analysis did you do, if any, as the business grew to ensure that risk management was keeping up with the growth of the business?

A I didn't do any personal analysis. That would have been, I would have expected that to be Pat and BeBe's responsibilities.

Q Do you know if they did any?

A I don't know; other than the before mentioned personnel addition requests, things like that, I would have seen that.

Q Are you aware of the limits that Citigroup had for derivatives?

A Yes.

Q What is your general understanding of the limits that Citigroup had with respect to derivatives?

A We did not have an overarching

limit for derivatives. We had limits which conveyed how much counterparty credit risk could be taken by a derivatives provider. We had limits on exchanges which derivatives or futures could be traded on. We had limits on the risk factors currency, interest rate credit risk that derivatives could impart, they were part of an aggregated.

So what I am trying to express there is we would have a limit for interest rate risk that you took it by taking a long position in a billion dollars' worth of two-year Treasurys, or you took it in a billion dollars notional amount of a two-year interest rate swap. We were indifferent to the underlying, if you will, it says, but we would add -- or I could have a billion of one and a billion of other to equal two billion. They would all have to feed into a system that says your maximum exposure for this type of risk, whether achieved through derivatives or through cash

instruments, is X.

So there were many different types of limits either against derivatives or parts of it, parts of a derivatives exposure.

Q Can you explain how the new product review process comes about? How is a new product approved in Citi markets and banking, how does that process work?

A Okay. Citigroup has a new products process, a new products policy which risk management is the responsible promulgator of, and it requires each business unit to have a new product process in that.

It sets out some broad base because it is a corporate-wide level; here's what should be included in that process. In the markets and banking, CMAC as it was called -- that was their name for the new product approval process, Capital Markets Approval Committee -- run by risk, chaired by risk, documented by risk, policy for that issued by risk, and so that is kind of the

infrastructure of it.

Basic-wise, if a business wanted to go into a new business or product or geography, they had to go before this group and get an approval to go ahead and do that.

Q Was any members of independent risk on the CMAC?

A I said they chaired it.

Q They chaired it; excuse me.

Were you consulted at any time concerning the approval of the liquidity puts associated with the asset-backed commercial paper that was secured by the super senior tranches?

A Not that I can recall.

Q How would you describe your interaction with regulators?

A Frequent.

Q Would you say that you had a better relationship with some regulators over others?

A No. I would say, you know, frequency of contact. I wouldn't grade one or the other.

For example, my contact with MAS,

the Monetary Authority of Singapore, one of our regulators, was not as frequent with the OCC, who had 20 different personnel in an office two doors away and were constantly there. But, you know, better or worse, as I say, I wouldn't attempt to grade.

Q With respect to Citi markets and banking, who were your regulators?

A It would be a long laundry list, right, because markets and banking encompassed different legal entities. Part of it was Citibank, so that would have been the OCC. Part of it was done on the Salomon Smith Barney, I forget, Citi, its name changed 20 times, but it is the registered broker/dealer; of course, that is a U.S. entity.

The FSA in Europe would have been where the Citibank global markets, CGML, CMGL, close; I am close to it. Japan had its own broker/dealers, so that would have been the FSA, the Hong Kong stock exchange. I mean I can go through a 50 list.

Basically you need to think of a

hundred different countries' regulators, and in each country the central bank, if they had a difference between a banking regulator and a securities regulator and a futures exchange regulators, those would have all been our regulators.

Q With respect to the -- did you forget one?

A Every state, we certainly had state regulators that dealt with all of that. So it is a pretty exhaustive laundry list.

Q Let me focus on the super senior CDOs, both the ones that were issued out of New York and out of London.

What parts of that business as it rolls up into a legal entity would the Federal Reserve Board, either the main Fed or the Federal Reserve Board of New York, have had interaction on?

MR. KLEHM: I take it you are not asking for his legal opinion as to who, you are just asking for --

BY MR. BONDI:

Q I know you interacted with the regulators, and I am just wondering in terms of the regulators, who had the CDO business out of New York? Who looked at the CDO business out of New York, what regulators, let's just start there?

A When you say the CDO business, in most instances the OCC, to the extent that some of the instruments traded were on the bank legal vehicle, would have done, did targeted desk level exams and reviews.

The Fed New York would have usually in some instances decided to piggyback with that, so it would be a joint effort, and in other instances would do their own targeted exam for certain areas that they wished to look at.

The FSA also had exams come in and look at targeted, if you will: I want to look at the FX business, I want to look at your new issue IPO process. Fine. And then they also had overarching reviews of the bank as a legal entity or thematic

reviews.

So when you say the credit structuring business could have been caught in several different cross currents, if you will, could have been there was an exam of the business by itself. Generally that, my remembrance, experience of that, was that it was OCC-dominated, et cetera, for which there would be a formal exam report written up. The business leaders would have to reply to that. All of that would be monitored by my compliance function, et cetera.

It might be part of a larger, you know, cross exam that looked at traded credit risk management or the new product processes or something like that. So, as I say, it is hard to answer that question because there were so many different cross segments of different regulators which could have and did touch the credit structuring business.

Q What about the CDO business out of London? Aside from FSA, did the Federal

Reserve Board of New York or the OCC have any involvement in touching or examining the CDO desk out of London?

A Well, once again we wouldn't have called it the CDO desk. We would have called it the credit structuring business Europe.

And in terms of specific exams, I can't recall whether there was anything there. They certainly would have been able to, if that is what they wanted to do, they might have touched base with it in, as I say, these other sort of cross current exams with different views and so on, and they would have generally worked with each other.

So if there were FSA concerns, they would generally send to both the Fed and the OCC exam results, and vice versa. So even if the FSA didn't examine it but the OCC had, they would usually see the product of the earlier person's work and know what was going on.

Q And what about the liquidity puts that were issued on the asset-backed

commercial paper that were secured by the super senior tranches, what regulators would have touched the liquidity puts?

A The liquidity puts would have been in, involved in our whole liquidity management system. Again, it is a small subsection, if you will, of a huge liquidity policy and reporting and stress testing, which, as I said, was the responsibility of the CFO in conjunction with risk management.

And all those major regulators, the Fed would have looked at the Citigroup liquidity policy and the reporting structure. And, yes, the liquidity puts for the CDOs would have been rolled up in a small portion of that.

Again, it is not like there was a specific exam of the liquidity puts of the CDO business. It was looking at all sources of potential liquidity draws, all funding sources and all sources of liquidity draws across Citigroup. So it kind of would have been rolled up into that.

Q Out of what legal entity were the liquidity puts issued?

A I can't recall.

Q Prior to the fall of 2007, did any regulator express any criticism or concern with respect to Citi's CDO business?

A Not that I can recall.

Q Prior to the fall of 2007, did any regulator express any concern with respect to the liquidity puts that we have been talking about?

A Not that I can recall.

Q Prior to the fall of 2007, what was the biggest criticism or criticisms you were hearing from regulators with respect to risk management?

A So, I am sorry, the time frame is what, to help me organize?

Q Leading into the fall of 2007, let's phrase it like that, leading into the fall of 2007, prior to the difficulties that you described earlier with respect to valuation, with respect to the market, leading into that time period, what were the biggest criticisms that you recall

regulators were expressing with respect to risk management?

A The two biggest areas prior to that that I recall, certainly coming out of the 2005 issues, were what would I call, were compliance and reputational risk management issues.

Citibank had lost its license in Japan with the private bank. That was a major strain on us. We had had some previous problems with some consumer compliance laws, Truth in Lending, things like that. So there was a large area around compliance risk management that was a concern.

And the other one that sticks in my mind was very much the loan loss reserve, particularly everything from documentation around the loan loss reserve, and then in 2007 the, not the adequacy of the entire reserve but the allocation of the reserve between the corporate bank and the consumer bank.

It was generally I would say that regulators, particularly the OCC's view,

that we were slightly under-reserved on the consumer bank side, and by instance over-reserved on the corporate banking side.

Q What role did the regulators play in Citi's risk management?

A None. I mean I would say in a different way they were, as a risk manager to me, they were another source of information and input. I used their exam results as I used internal audit's reports in addition to my risk managers' reports as sort of verification or information sources to be, you know, paid attention to.

Q At any time during your tenure as chief risk officer, did any regulator express criticism with respect to the independence of risk management?

A Not to my knowledge. We had some modest changes, particularly in the consumer bank, about what we would call how far independent risk management went down. But I would characterize those as, frankly, sort of minor comments as opposed to major issues that they would have brought up.

Q In the fall of 2007, do you

recall having a meeting with the senior supervisors group of Federal Reserve Bank of New York, Brian Peters, John Ruocco, Wilma Sabato? Do those names ring a bell to you?

A John Peters does. I don't mean to be funny; just with them and what time? I had lots of meetings with lots of different regulators.

Q What I am getting at is, do you recall a meeting at Citigroup's headquarters at 399 Park Avenue on or about November 19, 2007, with representatives from the Federal Reserve, John Kambhu, K-A-M-B-H-U, Brian Peters, John Ruocco, R-U-O-C-C-O, Wilma Sabato; also from the Federal Reserve Board, John Greenlee, and the Office of the Comptroller of the Currency, John Flemming and Ron Frank, John Lyons, Patricia Velis, Scott Waterhouse, Helen Wong from the SEC; from the FSA, Stan Beriza, from Japan?

A Yes.

Q Do you remember that meeting?

A Yes.

Q And what was that meeting about?

A My recollection of that meeting was that it was originally intended to take place in the summertime and was originally intended to be a meeting of, as I say, major regulatory bodies. A lot of the subjects to be discussed had to do with BIS 2 implementations.

That meeting because of the crisis got postponed and then sort of morphed into, forget BIS 2, but lessons learned thus far, because we were still in the middle and would be I guess for several years up till now, of what has happened in the crisis. So that is my recollection of sort of both the original intent and then it sort of changed.

Q And were you present for that entire meeting?

A I think so.

Q Who else was present from Citigroup?

A Some, if I recall, some of my staff, Sue Locke, Diane Daley perhaps,

Yasmine.

Q Yasmine who?

A Yasmine Anavi, the consumer risk head; Bonnie, I say that with a question mark, Bonnie Howard maybe; Martin Wong, head of compliance worked for me, perhaps; Tom Rolauer, who sort of did a lot of what I would call regulatory coordination in my compliance area and would have been a major sort of behind the scenes architect of this. Gary might have stopped in.

Q Gary Crittendon?

A Might have stopped in. Again, I am stretching here for who was in complete attendance. But I think I have hit some of them.

Q You said someone else, was that Michael Helfer?

A Helfer might have stopped by.

Q Do you remember Mr. Rubin providing some brief remarks at the beginning of the meeting?

A I do; well, now prompted, I think at the very, very beginning came in for a

couple of minutes. Obviously we had just had a major shift in responsibilities, and even I think my responsibilities had just changed. We had had the new senior risk, Jorge was brought on board. I can't remember if Jorge was there sort of just observing, but Bob came in and had, you know, a few words.

Q Who did most of the talking on behalf of Citigroup?

A Probably me.

Q Do you remember being asked certain questions to get your observations on events that had occurred in the market and occurred with respect to Citigroup?

A No, I don't remember any specific questions or discussions. I think there was a deck that we spoke from, and if I remember right I think there was a prompting deck from the regulators: Could you please make sure you include in that. But again, I think that is it.

MR. BONDI: I am going to mark two documents consecutively, if I could.

(Thereupon, OCC document entitled "Notes on senior supervisors' meetings with firms," dated November 19. 2007, was marked DB Exhibit 7 for Identification, as of this date.)

(Thereupon, PowerPoint presentation dated November 20, 2007, Citi 91212, was marked DB Exhibit 8 for Identification, as of this date.)

BY MR. BONDI:

Q Mr. Bushnell, I have shown you what has been marked as Bushnell interview Exhibits 7 and 8. Seven is a document that I will represent was produced to us by the OCC, and it is entitled "Notes on senior supervisors' meetings with firms." The firm that this pertains to is Citigroup and it is dated November 19, 2007.

Exhibit 8 for the record is a document that was produced to us by Citigroup that appears to be a PowerPoint presentation with your name and Mr. Crittendon's name on the cover, and that is

dated November 20, 2007, and that is Citi

91212.

First of all, were there two days of meetings or was this one day of meeting or was this a response to one day of the meeting? Why do we have a PowerPoint from November 20th and some notes from November 19th? Is this just a discrepancy in the dates or is this a, do you know?

A I don't know.

Q Turning first to Exhibit Number 8, the PowerPoint, Citi 91212, do you recognize this document?

A I can't recall it.

Q Now, you had stated earlier that there was a, you recalled a PowerPoint presentation.

A I recall the meeting and I think that we had a deck. I just don't remember --

Q Do you recall, though, a different deck than the deck that is marked Exhibit 8 here?

A No.

Q So the deck that is Exhibit 8

could perhaps be the deck that you recall?

You just don't recall now which deck it was and wasn't?

A Yes.

Q I just want to be clear about that.

And there is some annotations in the deck that is marked Exhibit 8 with questions. Are those questions that were posed to you by regulators, do you know? Do you know why there is annotations in this deck?

A I don't. As I said, I think I said earlier that I think they had sent out a "We would like to have this meeting and we would like you to address." So in that these may well be what they would like us to address, but I just don't recall that letter.

Q Let's turn to the notes from the senior supervisors' meetings with the firms that was held on or about November 19, 2007, that is marked Exhibit 7 there.

I would like to just turn you first, I would like to walk through this

document with you. It is pretty cumbersome, so please bear with me. Page two.

There is a statement at the top, "In a few sentence per question, please provide your most significant observations on the following overarching questions. Number one: In senior management's opinion, what worked well, what did not work well in risk management during the recent period?"

With respect to what did not work well, the heading, it says underneath that heading, "Poor communication across businesses. Decentralized nature of the firm created silos."

Do you recall expressing to your regulators that there was poor communication across the business and that there was, due to the decentralized nature of the firm, creating silos?

A No.

Q Do you recall any discussion about poor communication with your regulators?

A No.

Q Do you recall any discussions

about silos at Citi with your regulators?

A No.

Q When I ask if you recall any communications, I mean not only anything that you might have said but anything any of your colleagues might have said or written?

A Not that I can recall.

Q Let me ask you this: Do you agree with the statement that there was poor communication across the businesses and the decentralized nature of the firm created silos?

A No.

Q Why not?

A I didn't think there was, I thought the communication across businesses, certainly at the Business Heads level, was pretty frequent and reasonably robust.

Q I draw your attention to the fourth paragraph down under that heading of what did not work well, the statement that says, "Senior management business line and risk management did not fully appreciate the market risk of the leveraged loan pipeline

or of the retained super senior CDO

positions."

Do you recall that statement in form or substance being told or written to your regulators in or around November 2007?

A I don't recall that.

Q Do you agree with that statement, that senior management business line and risk management did not fully appreciate the market risk of the leveraged loan pipeline or of the retained super senior CDO positions?

A Well, as I said before, I expressed concerns in lessons learned about risk factors.

I don't know who wrote this. I wouldn't have used this terminology and didn't use that terminology, but I did discuss the fact that we didn't use market risk factors when we were bounding the leveraged loan business and we didn't use credit risk management when we were talking about the super senior position.

So that is what I would have

expressed and did express to the board.

Q The next paragraph down, "Management found that balance sheet and risk limits were not adequately enforced, and traditional risk metrics for leveraged loans and CDOs did not fully present risks."

Do you recall that statement being said in form or substance to regulators in or around November 2007?

A No.

Q Do you agree with that statement?

A No.

Q Why not?

A As far as I knew, risk limits were always enforced. We had a risk limit tracking system that if a desk needed to go over its limits, there was a whole procedure to ask for either a temporary exception. If there weren't an exception, every night risk limits would run against actual risk position and an exception policy was run up. That was reported to the board of directors. I received it. I think the risk limit process was very much enforced.

Balance sheet limits, which as I

said before was the purview of the CFO and expressed at very large levels, were, I would have said were less fully enforced. And as we said, you know, the traditional risk metrics for leveraged loans and CDOs, I just explained that again.

Q The next paragraph, "Corporate-wide stress testing and scenario analysis was insufficient and not compensated for by other controls. The firm did not have a comprehensive view across credit market liquidity and financial slash accounting risks of its various businesses."

In those two sentences, do you remember those two sentences being conveyed in form or substance to regulators in or around November, fall of 2007?

A No.

Q Do you agree with that paragraph?

A I would have, as discussed previously, the stress testing and scenario analysis had some weaknesses that I thought were lessons learned from correlation

assumptions, diversification views, how

stressed, how far to go on beyond anything that has historically been seen, how far past that to go to be valid and useful were certainly areas of discussion around that.

So I would have said that corporate-wide stress testing could be improved using different both statistical metrics, using that type of thing, as well as more innovative, never been seen before scenario analysis.

Q The next page, page three, top of the page, "Citigroup is assessing its activities and has hired an external consultant and assembled an advisory team to review risk management practices."

Did Citigroup hire an external consultant to review risk management practices?

A I believe they did.

Q Who?

A I can't recall.

Q Do you remember the firm?

A I can't recall. I didn't hire

them.

Q Who hired them?
A I don't know.
Q Do you remember there being a report or any document generated from a consulting firm?
A I can't recall.
Q The next heading under three on page three, the question is, "How well did stress tests and limits perform as measures and mitigators of risk, respectively? Did internal processes estimate the nature and scale of any losses appropriately?"
The first statement there underneath there says, "The firm did not have an adequate firm-wide consolidated understanding of its risk factor sensitivities."
Can I assume from your prior statements that you would agree with that statement?
A No, I wouldn't say that I would agree with that. I said I thought there were improvements that could be made in some

of the assumptions involving diversification and correlation. That is how I would say it.

Q Do you remember anyone from Citi expressing that statement, though, to your regulators in form or substance?

A No.

Q The next paragraph says, "Stress tests were not designed for this type of extreme market event. The magnitude of the spread widening was not contemplated by existing VAR measures or stress tests. Management had believed that CDOs and leveraged loans would be syndicated and that the credit risk in super senior triple A CDOs was negligible."

Do you agree with the statements in that paragraph?

A No, not completely.

Q What don't you agree with?

A The stress tests as we discussed were not designed for this type of extreme market event.

The risk manager stress tests were very open and fluid in terms of design,

so they could have designed it in whatever fashion. Designed implies that they were somehow constrained from putting in whatever they want to put in, and I don't agree with that.

I would agree with the magnitude, something that has never been happening, was not contemplated by existing VAR measures or stress test, and I would agree that management believed that -- I would slightly change the wording -- that other tranches of CDOs would be syndicated and leveraged loans would be syndicated, and that in retaining the super senior triple A tranches the credit risk was negligible. So parts I agree with and parts I don't.

I would add that all of those regulators had had extensive detailed understandings prior to this time each year of exactly what went into our VAR calculations, how it was calculated, the correlations that were used for both BIS 2 purposes and their own analysis. They had extensive teams of analysts in from all

three of the major regulators that

understood that, and indeed that was very much part of the QAS 5 process that took place under BIS 2 implementation.

Q The next question is number four: "How effective were internal reporting mechanisms in identifying and highlighting key drivers of risk and losses?"

The answer there says, "Key risk reports did not effectively communicate the magnitude and degree of the potential risk to the company for CDOs and structured credit trading."

Do you agree with that statement?

A I guess the answer would be yes, although it seems to be, again, it doesn't make -- I can't act on that. I can't improve on that.

The key risk reports, and I am using this as an example, didn't foreshadow the fact that Fannie Mae would default on its preferred securities, and that is a major problem because your key risk reports didn't in hindsight think that Fannie Mae

preferreds would default. If our key risk reports are going to report every possible position that under unprecedented stress could affect this, then the key risk reports aren't going to be key risk reports, they are going to be telephone books of anything under the sun.

Q The next statement says, "The nature, origin and size of CDO exposure were surprising to many in senior management and the board."

Would you agree with that statement?

A I don't know. I can't determine what was in senior management's mind or the board's mind and whether they thought it was a surprise.

Q Did senior management or the board express any surprise when they heard about the nature, origin and size of the CDO exposure in the fall of 2007?

A Senior management did not, to me.

Q Did Chuck Prince?

A Express surprise?

Q Yes.

A I didn't connote surprise in

anything. I don't know how he would typify it.

Q Did it seem to you that Mr. Prince was upset when he heard about the nature, origin and size of the CDO exposure that Citi had when he first learned about it from you in 2007?

A No.

Q The next sentence says, "The liquidity put exposure was not well known. In particular, management did not consider or effectively manage the credit risk inherent in CDO positions."

Would you agree with those two statements?

A I can't put it into context.

Liquidity put exposure was not well known. It was known to the CFO in the global corporate investment bank. I am sure it wasn't known to people in the consumer bank because it didn't have -- so I can't put into context what the writer is determining is, was well known. Well known to whom? What is the base that we are

referring to here?

The second one I can't, I don't quite understand, is it, is that statement in conjunction with the liquidity put, and particularly that management did not consider or effectively manage the credit risk inherent in CDO positions, or is that separate from a liquidity put?

I am just having a tough time with all of this, not being the writer, not remembering that, to even say what was there.

Q Let's flip the page, the question at the top of page four: "How effective were hedging strategies in responding to rapidly changing conditions? To what extent did the firm's planning contemplate both the scale and speed at which liquidity conditions deteriorated?"

Do you see that question?

A Uh-huh.

Q The first paragraph there states, "Management did not have meaningful hedges. Risk management believed that the leveraged lending exposures would be syndicated and

the CDO exposures would be sold."

Do you agree with that paragraph?

A No.

Q What parts don't you agree with?

A The first statement says management did not have meaningful hedges.

I think there were many instances of desks across where hedges employed behaved just as they were thought of, and they were meaningful. I don't know -- again I didn't write this. I don't know if that is meant meaningful hedges against a specific position. What are we talking about there? Are we talking about the leveraged lending positions, the CDO positions, our FX positions?

I do believe that says risk management believed, yes, that the leveraged lending exposure would be syndicated. That was the stated magnitude of it. And I don't agree with the CDO exposures would be sold. If we said that the mezzanine tranches, anything else but the super senior positions, that those were, the intent of

those was to sell that, I would agree with that, but not necessarily the way I would have expressed it.

Q The next paragraph under the question says, "Management had also felt that there was very little risk inherent in the super senior CDOs. By the time the magnitude of the risk became known, hedging options were very limited and expensive."

Do you agree with that paragraph?

A Yes.

Q The next question asks, "How effective were firms in identifying both direct and indirect exposures, paren, whether or not involving contractual obligations, end of paren, to other sources of risk and potential concentrations of risk, including exposures to structured investment vehicles, alternative investments, or mutual funds, among others," question mark.

I want to draw your attention to the second paragraph, in particular the last line of that second paragraph, "The

liquidity put exposure in particular was not well communicated throughout the bank."

Would you agree with that statement?

A No.

Q Why not?

A Well, as I said, I think the -- I didn't write this, so I don't know whether we are talking about the potential call on liquidity, assuming their commercial paper market froze, or are we talking about the CDO exposure that was, to folks within the firm, knew that the liquidity put was simply a financing mechanism and the CDO exposure, although thought to be very small, was always our exposure. We didn't think that we sold off a CDO exposure by entering into liquidity puts. It was just a funding mechanism to fund the position.

And in a liquidity stress test, it was contemplated that that liquidity could go away, meaning the commercial paper would not be available and that we would have to seek other funding sources or use other liquidity sources to fund that

position.

So no, I don't agree with that statement.

Q Next paragraph, bottom statement, though, relatedly says, "Although the CDO conduit liquidity put exposure was said to be captured in concentration risk to real estate, it was not included in the structured credit triple A limit bucket."

Do you agree with that statement?

A I don't know. I would have to research that one.

Q The next page under "Senior management oversight of risk appetite," there are a few sentences I want to draw your attention to and ask you if you would agree with them.

MR. BIRENBOIM: Just for the record, Mr. Bondi, you have been reading from the section titled "Supervisor's key observations," which has nothing to do with what they, what was reported to him by the company. You are now moving into a different section called "Observations from discussions."

MR. BONDI: I am not sure I would agree with that statement.

MR. BIRENBOIM: The first page is titled "1, supervisor's key observations," and everything you have read from is the supervisor's observations.

Now we are moving into the section called "Summarize what you learned from management." So none of the things you have been reading are what was reported. They are simply the supervisor's view. Now you are moving into what was reported by management.

MR. BONDI: I don't want to get into a debate over what it said and didn't say, but I will point out for the record that throughout it, there is references throughout the section we have been dealing with about management felt, senior management believed, management found.

MR. BIRENBOIM: Just pointing out that this is based on what the supervisor thought, not what was reported to them by management. You skipped the entire section about what Citi management actually discussed and reported in the meeting.

MR. BONDI: What section do you believe I have skipped, Bruce? I think we are going in order. I don't believe I have skipped a single page.

MR. BIRENBOIM: No, you haven't yet gotten to the section that has to do with what management actually discussed.

MR. BONDI: But I haven't skipped anything.

MR. BIRENBOIM: That is fine.

MR. BONDI: I haven't skipped anything.

MR. BIRENBOIM: But the suggestion in your questions was that the section you were reading from was based on the discussions when this is just the section on the supervisor's notes.

MR. BONDI: I respectfully would say that my questions speak for themselves.

MR. BIRENBOIM: Okay, and I think the document speaks for itself too.

MR. BONDI: Fair enough.

BY MR. BONDI:

Q Page five, "Senior management oversight, risk appetite." Under this section, it is number two, and it says, the section is entitled "Observation from discussions," and it says: "Please summarize what you learned from management during discussions on the following subjects. While you need not provide detailed answers to each of the specific questions provided in the list of issues that the agencies agreed to use, you should share insight into your material observations on each of the subcategories of

questions outlined in the document."

Section A, senior management oversight, number one, risk appetite. I want to draw your attention to the first paragraph, the third sentence, "Citi doubled its leveraged lending limit and its CDO limit late in 2006."

Do you agree with that statement?

A I don't know if it is exact doubling. I would agree that we significantly increased our leveraged lending and CDO limits.

Q The next paragraph says, first sentence, "Citigroup's board of directors approved the management plan accepting Citigroup, quote, needed to take on more risk," end of quote.

Would you agree with that statement?

A I would actually phrase it differently, that Citigroup's board of directors approved the management plan accepting Citigroup's increased initiatives in new business activities.

Q Okay. The next heading says

"Subprime exposures." It says, "Management noted in retrospect its strategic approach was siloed when it came to subprime exposures. While Citigroup consciously did not underwrite exotic subprime mortgages in its global consumer business, it grew subprime exposures in its CMB business, specifically with mortgage securitizations, RMBS, structured credit trading and CDO warehouse activities."

Would you agree with that paragraph?

A Yes.

Q Please flip the page to page six. The title of the section is "Super senior triple A CDO tranches." The first sentence, "An acknowledgment of the risk in its super senior triple A CDO exposure was perhaps Citigroup's biggest miss." Biggest miss is in quotes.

Would you agree with that?

A I am not sure I would say it exactly the same way, but I would

acknowledge that is where a large portion of our losses came from, and they were unexpected.

Q Was it the biggest miss?

A That is not what I said.

Q What would you say?

A I said -- can you repeat the statement?

Q No, I don't mean to cut you off. I was in the middle of a question, but if you want to finish, what I was going to ask, sir, was what was Citigroup's biggest miss?

MR. BIRENBOIM: I think he just answered the question.

THE WITNESS: I wouldn't say it this way. I would acknowledge that this was, the CDO exposure was a large portion of our losses, and they were unexpected.

BY MR. BONDI:

Q The next paragraph down states, "Stress applied to super senior triple A tranches was not enough. Business strategy was to, quote, buy and hold, end of quote,

these exposures, paren, which implied a more appropriate HTM accrual-based accounting, end of paren, semicolon; however, the incentive to hold in trading slash MTM account was to maximize RAP capital treatment."

First of all, there is a lot of acronyms used there, and I am a slow study when it comes to acronyms.

What is HTM? Is that held to maturity?

A That is my understanding.

Q And MTM is?

A Mark-to-market.

Q What is RAP capital treatment?

A Regulatory accounting.

Q Would you agree with the two sentences that I just read from that paragraph?

A I would agree with the first one, that the stress in hindsight was not enough.

I would agree with business strategy was to buy and hold these exposures, period. I am not an accountant,

and my limited understanding is that that is not the appropriate accounting treatment that should have been used, depending on the legal entity used. These were the rules.

So I would not agree with anything after "exposures."

Q The next sentence I just want to break up since it seems to be two separate concepts, and I will break it up. It says Citigroup, quote, "bought into the credit agency ratings," end of quote.

Would you agree with that statement with respect to super senior triple A CDO tranches?

A I think I have testified before that, and you gave me a limit or a gradation of where I thought that was, and I didn't think it was the rating agency had no effect or no impact, nor did I think it was fair to say it had total impact. It was somewhere into the middle.

So that is probably how I would have phrased it, the rating agencies' ratings had some impact on Citi's decision

process.

Q Now, the "bought into the credit agency rating" seems to be in quotes here. Do you recall if anyone at a meeting with regulators in or about November 19, 2007, anyone from Citi had expressed that concept, bought into the credit agency ratings, in form or substance?

A Not that I can recall.

Q The next part of that sentence start up with "and," "and noted that even if Citigroup tripled historical losses in its potential risk estimation procedures, it would not have approximated what was actually occurring in the market."

Do you have any understanding of what is meant by that phrase?

A No.

Q So I take it you are not in a position to agree with that or disagree with it?

A No, I am not.

Q Under the leveraged lending category, there is a paragraph that says, "Management was aware that by relinquishing

market MAC clauses, it was giving the

financial sponsors a free option. This risk was discussed, but no action was taken to hedge or mitigate the risk."

What do you understand, do you understand that paragraph to mean?

A The leveraged lending market in late '06 and throughout '07 and leveraged lending, which was often loans were taken out by debt issuance, and the debt issuance portion had material adverse action clauses.

That is what a MAC clause is. It basically allows the issuer to, or allows the lenders to force the company to issue bonds regardless of in essence market conditions, and that that credit mitigant to the lenders was being given up. That was understood, that competitive pressures in the market, that was being given up. The risk was discussed, indeed different hedging strategies around that were discussed, but it was decided not to enter into any hedges.

Q Under the next section, number two, "Communication with board slash senior

executives," please flip the page to page seven. The last paragraph in there says, "Citigroup, however, missed the, quote, mortgage correlation, close quote. It historically ran its business on a decentralized basis. In retrospect, Citigroup realized other parts of the firm were seeing early signs of deterioration in mortgage sector earlier on during the market dislocation, such as the consumer bank and the mortgage trading desk. This information was not effectively communicated to the CDO structuring business to take action."

Would you agree with that paragraph?

A As we have discussed previously, I think I would have said it differently.

This was my comment made to the board and others that said I thought that the organizational structure of the structured credit business would have been better were it aligned with the mortgage trading desk, and that the actual traders of the underlying securities that the CDOs

composed might have had a mitigating impact just because they were closer to it.

So this is how I would have tried to express it.

Q I appreciate your patience. We are making our way through here.

If you can flip to page nine, please, under number six, "Lessons learned, changes as a result."

The second paragraph says, "Changes in process and practices include." In the second bullet it says, "Reducing individual businesses' balance sheet dependency, paren, central treasury function."

What do you understand is meant by that bullet?

A My recollection seeing this, or understanding of it, would be that the CFO and the treasury function was contemplating going to a Citigroup-wide treasury function, as opposed to having treasury functions in the corporate and investment bank, in global wealth management and in the consumer bank

for -- and that is what that is trying to refer to. We did not have a central treasury function, and it is talking about I think basically going to an organizational structure that did have a central treasury function.

Q Page eleven, number three. I apologize. I should also note that this is under heading B, "Liquidity risk management," the third bold section, "Support for conduit slash SIVs slash SPEs."

It says, "Citigroup does not intend to consolidate its SIVs. As management stated, the SIVs are the masters of their own destiny. Any support will be viewed from an economic interest perspective, semicolon; Citigroup will offer the same as any other third party. Citigroup provides partial liquidity support."

Do you understand that that paragraph is in reference to the seven SIVs that were organized and advised out of London?

A No, I don't know if it is

specifically referring to those or all of its SIVs or whatnot. I don't know what that is.
Q Did you have any role with respect to the seven SIVs that were advised out of London?
A Well, I had a risk manager who oversaw Citigroup alternative investments, and she kept me apprised as to any of the situations going on with their different business units, one of which included the SIVs. So I had an awareness, an oversight role, yes.
Q Were you involved in the decision to consolidate the assets and liabilities of the SIVs on the balance sheet?
A No.
Q And for the record, what is the name of the woman who you said kept you apprised?
A Joely Eisner.
Q Page 12, under Legal entities." There is a second statement that says, "Liquidity considerations were of lesser
importance than regulatory capital,

anti-tying, tax and accounting treatment when determining what business to book in which entity."

What do you understand that statement to be meaning?

A I understand that to be a broad-based statement for the firm that says when booking a position, we had many different legal vehicles that we could book it on, and then one goes through an optimization of what happened -- if you book it in this legal entity, what are the implications from it? It might have, might, that legal entity may have a great tax scenario under which to work from, but may be a lousy funding source. It may require mark-to-market accounting or some other accounting, and so you in essence have this laundry list of here's where we could establish the position or business or whatever, which legal entity should we trade it on.

I think what this is trying to express is here's the boxes that you would

want to check or address that says okay, what is the tax implication of booking this entity, what is the compliance? Is it against the law to book; obviously that would not be a good answer, right? Is there an accounting aspect, is there a funding aspect?

I think what this is trying to say generally the firm, the prioritization of those different ones, the liquidity consideration of the checked boxes was given less consideration than the other boxes that you would check in making an ultimate determination of where you decided to book a position.

Q Is that analysis as to where to book a position, is that done by the business line?

A No. It is done, if it was a new business, that would be part of the new product process that would include areas of risk, of tax, of treasury, of compliance. All of those areas would do that. There would be an entire control structure view on

what, where, what would be best.

Q If you flip to page 14, please, there is a section that is called "Market risk management," letter C.

Under the number two, "Scenario analysis slash stress testing," I would like to draw your attention if I could to the top of page 15 and the first paragraph that says, "In CDO and leveraged lending, Citigroup management acknowledged that it did not stress enough. In January slash February 2007, risk management increased stresses on non-super senior tranches of CDOs, but did not change the stress assumptions on the triple A super senior tranche."

Do you agree with that paragraph?

A I just don't have the information. I don't recall.

Q Do you have any understanding of the source for that paragraph in the regulator's notes here from the meeting with Citigroup?

A No.

Q Do you recall anyone from

Citigroup expressing any of the substance of that paragraph?

A I just don't recall this discussion.

Q Did you ever acknowledge that anyone from Citigroup management acknowledged to the regulators that it did not stress enough?

A I am sorry, what was the question?

Q I am sorry. Do you recall Citigroup management in meetings with regulators in the fall of 2007 acknowledging that it did not stress enough with respect to CDOs?

A I don't recall any of that.

Q Do you recall whether stressing was increased on some tranches but not other tranches of CDOs in 2007?

A I don't recall.

MR. BIRENBOIM: Can we take a short break?

(Brief break.)

BY MR. BONDI:

Q Mr. Bushnell, continuing with the

document that we have been talking about, the notes from the senior supervisor meeting with Citigroup, the third section says "Risk reporting and aggregation."

Underneath that, "Citigroup acknowledges that better linkages need to be made across the group to identify and highlight any intersection slash convergence of risk."

Do you agree with that?

MR. BIRENBOIM: Does he agree that Citigroup acknowledged it or does agree with the substance?

BY MR. BONDI:

Q Would you agree with the substance?

A I would have said it differently, and again, this is the point that I made about convergence risk is where market risk and credit right risk converge; that is the shorthand for it.

And so when we talked about risk factors in the leveraged lending area need

to employ more market risk factors as part of the limiting and bounding process and the CDO business needing more credit risk factor, that is what I think we are trying to refer to and that is how I would have said it.

Q The next paragraph, "In looking back, risk management noted some weaknesses in consumer side 90-day DPD plus asset quality indicators in its CF mortgage portfolio. However, it believed the structure of the CDO slash security was intended to handle that type of stress."

First of all, what is 90 DPD plus?

A Ninety days delinquent.

Q So that is 90 days delinquent on a mortgage, mortgages?

A On its Citi Financial mortgages, yes.

Q CF is Citi Financial?

A Yes.

Q Do you remember noting some weaknesses on Citi Financial's mortgage portfolio, the 90-day plus delinquencies?

Do you remember that?

A I don't recall specifically. I think that if we looked at a trend line of that specific businesses, we would see an increase in 90-day plus delinquencies.

Q And when there was an increase in 90-day plus delinquencies, did you stop and do anything to evaluate Citigroup's exposure on its CDOs?

A Not that I can recall.

Q Under valuation, the first paragraph, "Citigroup management stated it has a formal process for validation that is delineated in policy with regards to pricing, verification and other areas of responsibility. If a model is used for value in Citigroup's books slash records, it is subject to the model validation policy and must be validated. During the market dislocation, nothing fundamentally changed in the models Citigroup used."

First of all, do you agree with that paragraph?

A Yes.

Q And was there nothing fundamentally changed, then, in the models that Citigroup used in the fall of 2007?

A There was nothing fundamentally changed in the process or the models that were used to produce a number for our books and records.

Q What do you mean by that?

A The model validation policy refers to models who you push a button, out comes a number. That number is what goes onto the financial statements, income statements.

If that happens, the model that used that needs to be validated. If we use -- we have models all over the place, some of which they are used to help traders. They aren't used for the firm's books and records. They are used by traders to do other things for whatever purposes.

If we use a model to help us come to a judgment, as one of the sources to come up with a judgment of what the price should be, that doesn't need to be validated. It is part of a valuation process, but it is not, as I say, an automatic push the button for it.

Similarly, when models don't change, the inputs to the model change all the time. So if you have a new input that says, whether it is my volatility assumption on this option pricing model which feeds directly into the public statements, it goes from 16 to 17, well, the model hasn't changed, the model validation policy. The inputs have because the market's changed.

So I think that is a little bit more background on what that is trying to say.

Q If the super senior tranches were rated above triple A -- first of all, do you agree that the super senior tranches were rated above triple A?

A That is what Moody's and S&P said, yes.

Q If they were rated above triple A, why would Citigroup buy CDS on those positions?

A Because there still may be price

volatility. Treasury bills, Treasury bonds have price volatility, and I don't want volatility.

Q And buying the CDS, is that a risk management function or is that a business function?

A It is a business function.

Q Help me understand, why is price volatility a business function versus a risk function?

A Because in a trading function, the traders make the decisions that are bounded by risk, not -- you know, risk people aren't business people. They are not responsible for the P and L performance. They are not responsible for I think our interest rates are going to go up, so I am going to short the bond market. As long as it's I am going to short the bond market in this much and that is within the amount of interest rate risk that I am allowed to take, that decision is a business management decision.

Q Is CDS also used for credit risk

management?

A Yes.

Q And did Citigroup use CDS as credit risk management?

A Yes.

Q Would you have been involved in the decision to buy CDS for credit risk management?

A On the held loan portfolio of corporations, the loan portfolio management group would recommend for exposure management purposes against single name counterparties to in essence buy credit insurance if we felt that was appropriate.

Q And were CDS purchased, though, on the super senior tranches for credit risk management purposes?

A I don't know. You would have to ask the people who purchased them, the business and what its motivation for entering into the hedges were, whether they were wishing to hedge duration risk, credit risk, price volatility, whatever that might have been.

Q Speaking of hedging, on page 16 of this document under heading five, "Hedging," there is discussion of CDOs. The fifth paragraph down says, "Citigroup used various specific and, quote, macro, end of quote, hedging instruments, short positions in subprime ABS either through ABX indices or single name credit default swaps. Largely these have performed as expected."

The first question, and you may have covered this, is: Did you have a role, then, in the short positions in subprime ABS either through ABX indexes, indices, or single name credit default swaps, you or independent risk have had a role in the purchase of short positions?

A I didn't write this. If this is all in reference to the CDO business, the answer is no.

Q The second bullet talks about "Purchased protection on CDO tranches, including super senior. Again, these largely performed as expected."

Again, would you or independent

risk have had a role in the purchase of protection on CDO tranches including the super seniors?

A No.

Q Do you know if that protection that is described here on CDO tranches, including the super senior tranches, do you know if those performed as expected?

A I can't answer that question. It was somebody else's expectation, so I don't know what their expectations were, so I can't tell if they performed to their expectations. We weren't involved in that.

Q So do you know if those hedges were even in place?

A I don't.

Q Flip through to page 19 of the document, under the heading "Economic and regulatory capital and related issues." The second heading, "Capital and CDO slash CLO businesses," the paragraph under there reads: "Citigroup allocated trading, paren, VAR and operational risk capital to its CDO

and CLO businesses based on its internal models. No credit risk capital, however, was allocated to the CDO assets."

Is that a correct statement, that "no credit risk capital, however, was allocated to the CDO assets"?

A That is my understanding, yes.

Q And why wasn't credit risk capital allocated to the CDO assets?

A Because it was viewed under a market risk framework.

Q What do you mean by that?

A If I can give you an analogy, it would help.

If we are trading corporate bonds, single name corporate bonds, we have a -- and we'll use the example again of IBM, and it is traded in our secondary trading desk, the limit structure around how much can be taken looks at how much credit spreads can widen, therefore how much limit bonds that you have, that you could have from a credit spread widening basis. They look at it in terms of how much interest

rate you could take, et cetera.

But if we underwrote and hold and the position is mark-to-market and it has price volatility, if we had the exact same instrument, same terms and conditions with IBM but was done in a loan format, it would not have any market risk variations about credit spread or interest rate risk to it. It would be underwritten according to our credit policies and have limits that would apply to its credit policies, two different ways of limiting, bounding the same risk, the same risk.

The CDO business was bound by market risk limits. It had a limit as to how much credit spread risk you could take. That is a way of limiting it. It is not, it wasn't set up under the credit risk process. It was set up under the market risk process. That is what that is saying.

Q And what would have happened if Citigroup had allocated credit risk capital to the CDO assets. What practically would have happened if that had been allocated?

A The approval process, the risk

capital compilation for a triple A rated asset would have come up of this much of credit risk, and it would have resulted in the same amount of economic capital being utilized, just come at it from a different way.

Q To no different outcome?

A Correct.

Q You described the market risk framework. Does that framework also apply to the liquidity puts on the CDOs, or was that viewed through the market risk lens?

A The liquidity puts don't have, it's simply a funding mechanism. It doesn't have anything to do with the exposure. The exposure was already captured in market risk limits, so the liquidity puts in terms of our economic capital would have shown in a liquidity risk portion of economic capital calculation that has to do with the certainty of financing, nothing to do with the riskiness of the position, the long position.

Q When were you first aware that

commercial paper, asset-backed commercial paper was being purchased by Citigroup in connection with liquidity puts on the super senior CDO tranches?

MR. BIRENBOIM: Do you understand the question?

THE WITNESS: Yes.

I can't recall specific dates.

BY MR. BONDI:

Q An internal document that we have seen suggests that in July or August, commercial paper was purchased by Citigroup in response to these liquidity puts, and eventually 25 billion of asset-backed commercial paper secured by these super senior tranches came back on Citi's books in 2007.

If I represent to you the purchasing began in July or August 2007, when do you recall, or does that help you recall when you were first made aware of when the commercial paper started being purchased back?

A Sometime in that July, August

framework I was aware of that.

Q So you would have been aware at the start of purchasing back the commercial paper?

A Not necessarily the start, but somewhere in there.

Q I would just like to turn your attention back if I could to Exhibit 6. Hopefully you still have it.

While you are turning to Exhibit 6, gentlemen from Jones Day, I have to ask that you provide back the OCC document to us, Citigroup as well, provide back these documents to us, please.

MR. BIRENBOIM: On what ground?

MR. BONDI: I think you -- do we have an agreement that Citigroup can keep them?

MR. BIRENBOIM: I am going to state for the record, we have never seen this document before, Mr. Bondi. You have read from it selectively, read the paragraphs you liked, haven't

read the paragraphs that precede and

following the paragraphs you like.

If this is a fact-finding exercise, we certainly would respectfully request the right to keep the document so we can intelligently digest it and respond to it fairly. I don't know how you can justify confronting a witness with a document and then taking it back and not letting us see the rest of it.

MR. BONDI: Well, I will note for the record that it is a confidential bank supervisory document.

MR. BIRENBOIM: You showed it to the witness.

MR. BONDI: As you know, with permission from the OCC to show this document.

I just want to maintain the confidences of Citigroup, your client, with respect to this document, and I would just ask that the document be returned, at least by the lawyers from

Jones Day that are not representing Citigroup.

MR. ROMATOWSKI: Let me state on behalf of the witness, I have a concern, counsel, as we get an opportunity to examine this 21-page single-spaced document for the first time, in view of the nature of your questions to the witness, which at least seem to imply that this document purported to be some sort of record, whether a quotation or close paraphrase, of what somebody from Citigroup and perhaps by implication of some of your questions the witness himself is purported to have said. I think there is confusion on that point because, as Bruce points out, instead at different places this document makes plain that they are instead supervisor's observations from some activities of their own.

I think it is important, in view of the nature of the questions, that the witness have the opportunity, we as his counsel have the opportunity to consider this document in full and better understand exactly what this purports to be.

You have taken here today word for word what this witness has to say, yet you have confronted him along the way with what appear to be editorial comments by bank regulators, a committee of bank regulators, as if they were statements of his. And for that reason I think we are entitled to retain this document and consider it further and figure out just exactly what it is we are being asked about here.

MR. BONDI: Well, I am concerned about a supervisory document not being in the, getting out in the public domain. This is a confidential investigation, and so what I will say is that if Citigroup is willing to

return this document to us following

the hearing, and you, sir, are willing to return this document to us following the hearing and not make any copies of this or release it publicly, I am willing to let you leave with this document provided it return to us following the hearing.

MR. ROMATOWSKI: Are you willing to say that this document is never going to make it into the public domain and not going to be given to anybody else?

MR. BONDI: Is that a fair statement? Will you agree to that?

MR. ROMATOWSKI: What is the answer to my question? You say your concern is that this not make it into the public domain and not be disclosed. Are you representing to us that the Commission is not going to do that?

MR. BONDI: No decision has been made with respect to whether this

document is going to be released

publicly or not. Until that decision is made, I would ask that you maintain the confidentiality of that document, and if you cannot do so, until after the hearing in which you would return the document to us.

If it becomes public, then it becomes a public document after the hearing, but if it remains confidential I would ask that you return the document to us following the hearing. Is that an agreement that we can reach?

MR. ROMATOWSKI: Give us two minutes.

(Brief break.)

MR. ROMATOWSKI: Counsel, on behalf of the witness, we are prepared to accept a copy of this document temporarily, to keep it confidential, closely held by Mr. Bushnell and his counsel, not to be disclosed to others and to return it to you after the hearing.

MR. BONDI: Thank you.

BY MR. BONDI:

Q Mr. Bushnell, if you could turn back, please, to Exhibit 6, it was one we covered earlier, a view of the current environment. Do you see that?

A The draft review?

Q Yes. I want to turn your attention to page 11 of that, if I could.

A Uh-huh.

Q Page 11 is entitled "Subprime market events." There are boxes across the top here, and I want to just to go through each of these boxes.

The first box is 2/27, "Mortgage delinquencies, HSBC announces losses." Do you see that box?

A Yes.

Q And do you remember that event on February 27, 2007?

A Yes.

Q Was that a significant event to you?

A It was a data point. I am not

sure significant, what meets the criteria of significant. It was something that I thought was noteworthy. Obviously we wouldn't have put it in if we didn't.

Q And corresponding to that event, there appears to be movements in two lines on this graph. Can you tell me or can you tell what those two lines correspond to?

A Sure. It looks like the price movement of the, of an index which is meant to track lower tranches of RMBS and CDO originations. The ABX index '06 refers to deals originated in '06; single A, it is referring to the tranche that is single A rated.

Q Following the event described in that box for February 27, 2007, the mortgage delinquencies, HSBC announces losses and the movement in the ABX indices, did you do anything risk management-wise with respect to CDOs?

A Not that I can recall.

Q The next event on --

A I am sorry, can I just ask a

question of that? Are you referring to the super senior portion of the CDOs, or when you say CDOs, CDOs in general?

Q ABS CDOs, asset-backed security CDOs.

A Which tranches of ABS CDOs?

Q Any tranches at this point?

A Well, risk management didn't, but obviously the positions that were rated lower in our warehouse and trading positions would have had an effective price move off of that.

Q With respect to the second box there, June 12, 2007, "Bear Stearns asset management in trouble," and there appears to be two movements in the ABX index for A and looks like triple B or triple B minus.

Did you take any actions with respect to risk management relating to ABS CDOs after that event?

A No.

Q The next box says July 10th, 2007, "S&P and Moody's announces CDO rating

changes, major downgrades," and it appears following that event, all three indices have some movement, the triple A, the A and the triple B minus.

Did you take any actions with respect to risk management relating to ABS CDOs following that event?

A Not that I recall.

Q The next event says July 24, 2007, "Basis Capital liquidates two hedge funds."

First of all, was that a significant or noteworthy event to you?

A I don't think I would have shown a graph like this if I didn't think it was significant.

Q Why was it significant?

A It was another indication of a counterparty who was involved in the subprime market having problems.

Q And following that event, it also appears that the triple A ABX index moves down, it looks also that the A index moves down, and it also appears the triple B minus

index moves down. Do you see that?

A Well, actually I don't think that Basis, I just trying to follow -- okay, yes. It's a little hard to follow the lines.

Q Did you take any actions with respect to risk management relating to ABS CDOs following that event?

A Not that I recall.

Q August 10th, 2007, "BNP Paribas freezes funds. Countrywide announces problems."

First of all, do you know the single largest source of RMBS in Citigroup's CDOs?

A No.

Q Would it surprise you if I said it was Countrywide?

A No.

Q Following the event on August 10th, 2007, it appears that there is some movement in the index there. It looks as if the triple A might have jumped up a little bit, actually. It appears that the A moves down slightly. It appears that maybe the triple B minus also moves down slightly.

Did you take any actions with respect to risk management relating to Citigroup's ABS CDOs following BNP Paribas freezing funds and Countrywide announcing problems?

A Yes.

Q What did you do?

A Well, I think you have a document that we discussed earlier, that on July 26th after notification from BeBe Duke about price movements, I instituted firm-wide daily risk management calls to and including discussions of various markets, including the mortgage market, the subprime market and the CDO market in generating the hierarchy underneath that, to generate information and awareness within the risk management community and for myself of what was happening.

Q Why was it, or was it significant with respect to BNP Paribas freezing funds? Was that a significant event?

A I think it was a notable event in

the subprime market. It had to do with the asset-backed commercial paper market and funds that BNP was managing, the outflow investor redemption requests, and it decided to freeze funds. It was just another, I guess I would say significant data point I think in not only the subprime market but in the overall market that was worthy of presentation.

Q I would like to skip ahead to the last bullet there, October 17, 2007, S&P and Moody's downgrades. I know our graph seems to end shortly following that, but do you recall what happened with respect to the triple A ABX index following S&P and Moody's downgrades on October 17, 2007?

MR. BIRENBOIM: Just for completeness, I note that the triple A line had returned back up in the period you skipped almost to par.

BY MR. BONDI:

Q Do you want me to read back the question?

A I don't recall what the indices'

movements were after that time.

Q Do you remember a significant decline in or around October 2007 on the triple A ABX index?

A As I said, I can't recall the specific numbers, the magnitude of the numbers, off of that.

MR. BONDI: Gentlemen, if I could stay on the record but take one break, and that is if we could do things one way differently, and that is we will need to have a confidentiality agreement with respect to those documents.

We are happy to give you copies to keep in confidence. What I would ask from you is we will send them to you. If we could send you a confidentiality agreement, we can get that executed today. Is that okay?

MR. BIRENBOIM: We will take it under advisement. I don't know if we need a confidentiality agreement. We have said on the record that are going to maintain the confidentiality.

MR. BONDI: Gentlemen from Jones Day, we can send you the document and we are happy to take care of that, but we just want to make sure that we have a confidentiality agreement, a formal agreement, so that the confidences of those documents are maintained.

MR. ROMATOWSKI: Do you have a form of confidentiality agreement? You say we can enter it today. Do you have a form?

MR. BONDI: We do. I don't have one with me, but our general counsel has one and he is happy to send that to you.

MR. ROMATOWSKI: Well, let's have a look at it. I can't agree -- we agree to keep this confidential. That means to me nobody other than the people in this room that you see on our side are going to see it.

MR. BONDI: In fairness,

counsel, I would like for you to have

a document to keep and read and prep your witnesses as you feel appropriate. I just want to make sure, I think you can appreciate where we come from, that the confidence is obviously maintained with respect to the regulators and Citigroup, and so I think that is something we can probably resolve fairly quickly.

MR. ROMATOWSKI: Beyond what I have stated on the record we are willing to do, I don't want to agree in the abstract to something I haven't seen.

MR. BONDI: We are in the process of getting it to you. If you can hang tight, I think we will have a fax here shortly.

(Brief break.)

THE WITNESS: Can I just go on record a little bit further in that last line of questioning?

I want you to understand that throughout all of this, risk management at Citigroup, especially in terms of even subprime exposures, was doing lots of stuff. We changed our underwriting criteria in the consumer bank, we increased our loan loss reserves.

You asked the specific question around the super senior portions of the CDO positions, but during this whole period when we first started to see breaks, lots of other areas that had subprime market exposure, we as well as the business itself took a bunch of actions around that.

So, just so we understand that.

BY MR. BONDI:

Q Thank you for that addition, Mr. Bushnell. I appreciate that. I just have a couple more questions.

Do you feel the culture in the investment banks, Citi markets and banking, caused or contributed to some excessive risk taking?

A No.

Q Do you believe that the relationship between business and the risk managers was the appropriate level vis-à-vis independence, vis-à-vis status in the organization, vis-à-vis pay, do you believe it was at the appropriate level?

A Yes.

Q Mr. Bushnell, we are investigating several, many different causes that have been asserted for the financial crisis, and we wanted to get your opinion with respect to what you believe may have been some of the causes of the financial crisis.

A I think that when you have a crisis of this magnitude, there can be no one specific cause. When this many banks, regulators, central bankers, economists, investors, all got it wrong, that is why you have the magnitude. If some of them had got it right, it wouldn't have been as big as it is.

I think where people got it wrong in a large portion does have its heart in

the U.S. residential mortgage area. Yes, we can talk about leveraged lending, we can talk about the CP market, but the big, you know, earthquake event definitely revolves around the U.S. residential real estate market, its fast appreciation and its method of financing, the securitization method, the lack of underwriting at the investor or holder level, the reliance on second and third parties to do that work, the reliance on due diligence and reps and warranties, and that that is going to have to be at the heart of fixing it, is changes to those systems.

Those are some of my initial thoughts.

Q The Commission is holding a hearing next week, and the title is subprime origination and securitization. I am interested to know if you have any views on whether the model of originate-to-distribute mortgages from third party originators sold on through Wall Street channels, securitized in RMBS and then eventually making its way

into CDOs, whether that model itself had any fundamental flaws to it?

A I think it did. I think that, as I say, the disconnect from the ultimate supplier of capital, the ultimate needer of capital, there were several to many different parties in between there, and the lack of underwriting familiarity and underwriting discipline kind of dispersed by this long chain of events is at the heart of it, and the question is how do you impose those types of discipline without -- while still maintaining a capital market dependent system.

What do I mean by that? You can't go back to a system, you know, in the '40s where the banks are the buy and hold providers of residential finance. The market for residential finance is way too big. There is not enough capital, anywhere near enough capital in the banking system to be the ultimate holder of these.

So I don't believe you can reintermediate a disintermediated capital

market system. If you follow that, that

means you need to somehow fix this chain of events with more safeguards, more disciplines, disciplines to and including disciplines on the borrowers, you know, for applications filled out that weren't entirely truthful, to the mortgage brokers who assisted in that or, you know, told the borrowers wrong information, to the mortgage originators, to the servicers, to the securitizers, to the ultimate holders.

As I say, everybody needs to have some more rigorous checks and balance in order to make that system work, because I still think it is the system that kind of has to be to provide enough funding for affordable finance, as otherwise credit spreads on financial products are going to blow out very wide and there is going to be a shortage of available finance for home buyers.

Q One other area that Congress asked to us explore is mark-to-market accounting. Do you have a view of whether

mark-to-market accounting caused or

contributed to the financial crisis or even
the financial difficulties of Citigroup?

A I don't think the accounting methodology chosen was a major contributor to this problem. This is kind of like your question of what is the range, and it is definitely not the main cause of the problem. It is not it didn't matter at all, but it is down at that end of the spectrum that this is, it may have exacerbated a little bit, but I don't think it is a major driver of the volatility that we've seen or the financial crisis.

Q In closing, Mr. Bushnell, is there anything that you would like to add or express with respect to today or in general about your role at Citigroup or anything else that you want to add?

A I don't think so. I think that is --

MR. BONDI: Sir, thank you very much for your time. I appreciate your time.

Mr. Bushnell, one thing in

closing. If we could keep our conversation today confidential; in other words, please don't discuss what we talked about with anyone, any other employees with Citigroup or anyone else outside of your lawyers, please.

THE WITNESS: Okay.

(Time noted: 4:30 p.m.)

I N D E X

WITNESS	PAGE
DAVID C. BUSHNELL	3

EXAMINATION BY:

MR. BONDI

E X H I B I T S

	PAGE
Document marked Citi 7657, "Presentation to the Securities and Exchange Commission regarding overall CDO business and subprime exposure," dated June 2007, was marked DB Exhibit 1	43
Document FCICE 641146, e-mail chain dated July 26, 2007, was marked DB Exhibit 2	54

Document FCICE 639388, e-mail chain dated August 30, 2007, was marked DB Exhibit 3 — 70

Document Citi FCICE 31582, e-mail chain dated September 26, 2007, was marked DB Exhibit 4 — 78

Document Bates numbered Citi FCICE 644389, cover e-mail and a presentation to the board of directors, dated October 15, 2007, was marked DB Exhibit 5 — 88

Document Citi 16523749, PowerPoint deck entitled "Review of the current environment," was marked DB Exhibit 6 — 110

OCC document entitled "Notes on senior supervisors' meetings with firms," dated November 19. 2007, was marked DB Exhibit 7 — 153

PowerPoint presentation dated 153

November 20, 2007, Citi 91212,

was marked DB Exhibit 8

CERTIFICATION

I, Jessica R. Berman, a Notary Public for and within the State of New York, do hereby certify:

That the witness whose testimony as herein set forth, was duly sworn by me; and that the within transcript is a true record of the testimony given by said witness.

I further certify that I am not related to any of the parties to this action by blood or marriage, and that I am in no way interested in the outcome of this matter.

IN WITNESS WHEREOF, I have hereunto set my hand this 2nd day of April, 2010.

____

Jessica R. Berman