FINANCIAL CRISIS INQUIRY COMMISSION

Interview of ROBERT RUBIN

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MR. GREENE: On the record.

Good morning, Mr. Rubin. My name is Tom Greene. I am the executive director of the Financial Crisis Inquiry Commission. We are conducting an interview this morning in support of our mission, which is a statutory one, to investigate the causes of the financial crisis of 2007, 2008, arguably through 2010, but certainly in those key years.

You are not under oath today, but since it is a federal investigation there are provisions of the federal code that apply. 18 USC, Section 8001, indicates that truthfulness is the right answer here, which I am sure you would do anyway, but I do need to forewarn you.

In the event that any of my questions are not clear, stop me and ask me to make them clearer if at all possible. If you want to take a break, don't be shy, let me know. I
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understand you have some back issues,
so if you need to stand up, we
understand that is something you may
need to do and we will certainly take
that into account as we proceed.

BY MR. GREENE:

Q    Let's start initially with a
little bit of background on you. Obviously
you have had a stellar career at Goldman
Sachs. Briefly, what were the top two or
three achievements from your perspective of
your time at Goldman?

A    Achievements of mine or theirs?

Q    Yours.

A    Mine? That is an interesting
question. I don't think of it that way.
I don't know that I had any
particular outstanding achievements. I
started there in the risk arbitrage area,
and for a variety of reasons became a
partner at a very early age.
And then after several years of
doing that, I began to take on a managerial
responsibility more broadly for trading
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activities, and then as time went on I just became more and more senior.

And then at about the mid-1980s -- no, I will go back one step further. In roughly 1980 or '81, Goldman made the only acquisition it made during the entire time I was there. It bought J. Aaron, which was commodity trading and then eventually became currency trading and energy trading. And it turned out to be very troubled, although we hadn't realized it when we bought it, so about six months in they asked me to take responsibility for it.

And what I did was to set up a process with a bunch of the younger people who knew about the business, because I certainly didn't know very much about it, and they developed a plan to go forward which turned out to be extremely successful. And so that turned around, not because of me but because of them. And then about the mid-1980s, John White had left in 1984 as co-senior partner, so Steve Friedman and I became the co-COOs.
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At that point Goldman had begun to get a little bit, a little set in its ways, and Steve and I felt that if we didn't change, that we could fall by the wayside, gradually, but nevertheless fall by the wayside, and so we initiated a very dynamic strategic focus, and the consequence I think was a lot of change at Goldman that was very constructive.

And then I became co-CEO in December 1990, I guess, when John Weinberg decided to retire, and then I left Goldman to go to the Treasury.

Q Just to follow up on that, what was the nature of the strategic focus you and your co-CEO developed?

A We felt at the time that others had become more innovative than we had in finding ways to do what clients needed to do in what was then the earlier stages, but nevertheless an occurrence, early stages of a globalizing economy, so we felt that we needed to be more innovative.

We felt that we needed to expand
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abroad, we felt that we should begin -- I guess we had already begun to some extent, but expand our private equity and real estate areas. And then we felt very strongly that there was a tremendous opportunity to build an asset management business which would provide regular fees that weren't dependent on the cycles of the market; to some extent affected by, but not as dependent on cycles in the market as our trading activities.

Then we also, or the firm had a whole array of processes for dealing with reviewing people and advancing people or not advancing people, one thing or another. We felt that a lot more could be done in that area, and so we moved further into that realm, if you will, of reviewing people regularly, and extended that not only to the non-partners but to the partners.

Q And did any of that --

A We had a theory of the case, in a broader sense a theory of the case was to maintain a culture that we believed was very
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strong, but to change a lot of the ways that we were running the business without changing the culture.

Q   Did any of those changes involve moving in or moving more substantially into structured finance?
A   Structured finance.
Q   CDOs?
A   There were no CDOs back then, I don't think. Structured finance. It depends what you mean by structured finance, I guess. I don't remember the term even being used at that time, but there may be --
Q   It was early --
A   -- there may be things we did that today would be called structured finance.
Q   All right. When did you become Secretary of the Treasury, approximately?
A   I went to the White House at the beginning of the Clinton Administration. I became Secretary of the Treasury on January 5th, 1995.
Q   And that was of course a period
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of perceived deregulation in financial markets. What was your role in --

A I don't think --

Q -- those initiatives?

A I don't think that there was deregulation -- if there was deregulation, I don't recollect. You may be right about that.

First of all, I don't remember any deregulation at that time, but if there was deregulation it would have been in the interpretation of Glass-Steagall by the Fed, which of course I would not have been involved in at all. Tell me what you mean, because I don't think there was any other deregulation.

Q I am wondering what role you might have had in the precursors for Gramm-Leach-Bliley or what became the Commodity Futures Modernization Act that was the leader?

A It was all later.

Q Did you have a role as Secretary of Treasury with respect to advocacy that
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might have led to those laws?

A    Well, by the time we got to the point where Glass-Steagall was rescinded, which was actually after I left -- I was advocating the rescission of Glass-Steagall because there was no more Glass-Steagall for practical purposes.

By the time you got to the point where Glass-Steagall was rescinded, there were no restrictions -- you probably know all this, but Glass-Steagall started to get reinterpreted in the late '80s, mid- to late '80s, I don't remember exactly, and by the time you got to the rescission of Glass-Steagall which I think was in 2000 -- maybe it was late '99 -- I had left Treasury, but I was an advocate of rescinding it. But there were no restrictions left on what a large bank could do except for insurance underwriting.

So this whole question of too big to fail or what a bank should be or shouldn't be, narrow banks versus universal banks and so forth that you have now going
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forward is not a question that you go back to Glass-Steagall. Glass-Steagall, at least as it existed when it was rescinded, had nothing left in it of firewalls except for one, which was insurance underwriting which had no relevance to anything.

So yes, I was an advocate of rescinding Glass-Steagall, but by the time we rescinded it there were no restrictions left in it at all except for the insurance underwriting which had no relevance to anything that has happened since then.

Q Do you still think it was a good idea to repeal Glass-Steagall?
A Well, repealing Glass-Steagall was irrelevant.

Q Right. Well --
A I think the question -- let me, if I could say something.

Q Please.
A I think the real question at this point is, the only thing that rescinding Glass-Steagall itself did was to enable the banks to more efficiently, less
cumbersomely, conduct a full range of activities they were entitled under the interpretations to conduct anyway.

In other words, it was cumbersome to exercise their full range of powers, but they had the full range of powers except for insurance underwriting. So all the rescinding did was to eliminate that cumbersomeness.

Now, the question of whether it is wise to allow banks to engage in the full range of activities is I think the policy question that is in front of us now, and that is a very heavily debated issue. I will give you my view of it, but it doesn't have to do with Glass-Steagall for the reasons I already said.

Q Please do.

A I think when you get finished with it all, you know, there are very reasonable people, Mervyn King at the Bank of England, for example, as I recollect it is advocating that there be some kind of narrow bank proposal. I am not sure exactly
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what it is, but I think his idea was -- I haven't paid a lot of attention to it, but I think his idea is banks should be restricted to taking deposits and making loans. You'd better check this, but I think that is sort of what he means by narrow bank, and then all the trading activity would take place someplace else.

That certainly is a view one can take. It is not going to solve the too big to fail problem because you are going to have two problems left. One is that whoever takes the deposits and extends the loans in the global economy that we exist in today, which is enormous and it is global, those institutions, unless otherwise fettered, are going to be of a size where they are too big to fail anyway.

And secondly, wherever the trading is going to be done, you know, the Lehman, Bear Stearns, Goldman and Merrill and Morgan Stanley, prior to becoming bank holding companies, were all too big to fail. So I don't think you solve your too big to
fail problem that way.

My own feeling is that -- you know, reasonable people can disagree on this -- that in the global economy that we have today and the needs of that global economy for enormous transactions that are global in scope, so that a financing, for example, may involve credit being extended in a number of different currencies and different localities, companies need to have cash moved round around the world very quickly and so forth.

I think the global economy is better served by these, I don't want to call them universal banks because that does actually have another significance in some context with respect to commercial activities, which is a different matter, but by these full service banks, let's call them full service banks.

On the other hand, that does raise a too big to fail problem, and which I think is a serious problem. So what I think ought to be done about that is what the
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Treasury has recommended, in a broad conceptual sense -- I'm not necessarily saying I agree with anything specific, but in the broad conceptual sense what they have said is there ought to be very substantially greater leverage limitations.

And I think now that we have seen the financial system is far more vulnerable, let's say vulnerable to far greater crisis or risk than virtually anyone has seen, I think that is a very sound proposal and it should have now long since been enacted, long since being since the crisis began, and I think that that will give you some fair measure of protection against the potential of failure.

I think that you should have very substantially increased margin and capital requirements on derivatives, and that was something I recommended in my book in 2003, and it is a view I had had going back to when I was at Goldman Sachs.

And then I think you need an effective resolution authority, and that is
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in the Treasury recommendation. I think that is easier to say, I suspect, than to accomplishment. I just have a feeling that when you get down to the granular how you are going to do it is much more complicated than it seems, but it would serve an enormous purpose because it really would take away a lot of the moral hazard problem for creditors and counterparties.

So that is the package that I would do, but there are people, very reasonable, thoughtful people who have different views.

Q    Sure. I have been intrigued actually, because I did read your book among other things about your suggestions about increasing margin and capital requirements and dealing generally with the question of leverage.

Do you have a sense of what the leverage ratio should look like, or does that depend on whether it is a derivative or whether it is a bank or something else?

A    You got it. I think it is a
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really complicated question because I don't have a sense of what it should look like, and that is something that technical people are going to have to try to figure out and model, but I think -- two comments if I may, because I think you are onto a really important question.

Q    Please.

A    I think that we have learned something, and what we have learned is that our financial system is vulnerable to far more -- I said this before -- to far more severe crisis than virtually anybody would have thought, and I think you need to stress test that leverage requirement against what we have now learned about the potential for the financial system. So one thing you know is that whatever leverage requirement seemed appropriate in 2006 is going to be a substantially higher number today.

But the second thing is something you got at by saying derivatives. Another problem you've got, and I don't quite know how you deal with it, is that it used to be,
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if you go back 20 years or whatever and you
talked about risk, risk was you had debt and
you had equity, so the question was how much
debt should you have relative to your
balance sheet.

Now, in a very real sense, risk --
to put this exactly -- risk leverage has
been disassociated from debt. You could
have very little debt and have enormous
risk, it depends what your assets are
invested in. So I think what you need to
find is some way of measuring risk of a
balance sheet, and then your leverage
requirement should apply to that.

And I thought one of the aspects
that nobody seems to have paid much
attention to of Geithner's original
proposal, I assume it is still in there, was
really very sensible, which was he said that
your leverage requirement, if I remember
this correctly, should be constructed in two
parts. One of them should be a leverage
requirement that takes -- I assume this is
model-driven -- takes into account the risks
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on the balance sheet.

But then there ought to be -- and this is what we used to do at Goldman Sachs, by the way, when I was there -- another one should be just some kind of simple measure of leverage, because models can't capture all of reality. And as we saw in this crisis, you can have all kinds of developments in markets and in market instruments that no model ever captured.

So I think it is a very complicated question, but I think your question was the right question. I think you've got to get all those issues.

Q In terms of those kinds of disclosures, are there writers or analysts that you think have it right in terms of how one would measure and disclose that information?

A You know, the answer is that I haven't looked at what people are writing and saying that carefully. I mean, let me put it differently.

I read a fair bit of what comes
around, but I haven't tried to invest myself in sort of on a granular basis trying to figure out who seems to be addressing the kind of issues I have raised, but if somebody asked me to face that problem, what I would probably do -- I know what I would do. I would go to the finance departments at some universities that I thought had aggregations, substantial numbers of very good people in these areas, and I would try to put together a team with these people and work my way through it.

I will tell you another thing, and I said this in an article I wrote for Newsweek, I think no matter what you do in this, opponents of it, opponents of regulation, are always going to be able to pose hypotheticals that your plan doesn't deal with adequately. And so I think what you've got to do is you've got to find people who can do this, and then I think you've got to move ahead and not let the perfect be the enemy of the good, otherwise you will never get these things done. And
then you can course adjust; once you have done that, then you can adjust it for problems that come up.

Q Very thoughtful, very helpful. Thank you.

A Can I add one more thing? I think a lot of people like to write op-eds on this stuff in the newspapers and so forth. And I guess all I would say is I read a fair number of those, and I think a lot of them tend to be -- they don't tend to deal with the complexity of trying to do -- your question was a good question. I sort of got into the complexity of it. I think an awful lot of what is written about this doesn't tend to get into the complexity of it.

Q Thank you.

Let me turn briefly to your time at Citigroup. How were you recruited to work at Citi?

A Well, I will tell you what happened. I left Treasury in July of '99, and I had some ideas about what I wanted to
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do. And so what I did was I came to New
York and I started talking to different
people, and a fair number of people talked
to me about the possibility of my doing
something with them. But for whatever
reason, I didn't really know the people at
Citi; I might have met Sandy Weill and I had
met John Reed but I didn't particularly know
them, and I didn't go to them and they
didn't come to me.

And about, I don't know, maybe a
couple of months after all of that -- no, it
was probably less than that, I don't know.
It doesn't matter; say a month and a half
after or a month or whatever it was, my wife
gave a party to welcome me back to New York,
and I think she did that partly to make sure
I didn't change my mind because she didn't
like Washington. I think that kind of
formalized my return.

And Sandy Weill was at that
party, and sometime after that Sandy called
me. And I didn't really know Sandy very
well at all, I would say barely knew him;
it's sort of odd because I had lived here all that time. And he asked me to come over, and we talked about my coming to -- this must have been about September, I guess, of '99, and he talked about coming to Citi, and we had several conversations as I was talking to others.

And I had come pretty close to making a decision to do something else, and then I decided it sounded interesting, so I decided to go to Citi. And that was in October of '99.

Q What was the nature of the role you were offered at Citi?

A The role that I was offered at Citi -- offered, I guess the role that we worked out for me at Citi, was as follows: I would work with their client base across all parts of the firm, that is to say with investment banking client, with private investment clients, that is to say the private bank. I would do that here, I would do it abroad; given my history I could do it as a peer.
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I would appear at public events carrying Citi's flag. I never really did deal with U.S. government officials, but I would go abroad. This was the theory at the beginning of it, and this is actually what I did, the way things turned out. I would go abroad and meet with public officials.

Citi at that time did business in whatever -- well, they were located in 90 -- I don't remember, you can look it up, but I think 90-some-odd countries, but they did business in virtually every country you could do business. And so the thought was that I would go abroad, and with the local country people I would meet with a finance minister or a president of a country, whatever it might be, not because I knew these people because I didn't know them, but with Citi and with my history and all that I could do that and do it, as I say, as a peer.

And that was to be the predominant, my predominant activity, but I was also going to be a resource for people who wanted to talk about managerial,
strategic issues of one sort and another. And although it was unsaid, I think there was another role, which is that you had co-CEOs, and I hadn't quite realized at the time, but they sometimes had some difficulty reaching conclusions, making decisions. And so really from day one when I got there, I turned out to be a bit of a facilitator, let's say, as between the two of them, to try to help the process move along. And in a broad sense that was the role that I occupied until the company got in trouble, really until I would say until September of '07.

The other thing that I said both to Sandy and to John, and I said to everybody I spoke to, was that I had spent 26 years at Goldman Sachs.

By the way, let me go back to the other for a moment. As it unveiled, it took on quite a few dimensions that we hadn't fully thought of. For example, the private bank pretty quickly figured out that I could host a dinner and they could get their
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clients from all over the world to come, and we did. And so about once every few months, I don't know how often, we would have a private bank dinner, say once a quarter, I am not sure about that, it seems a little more often than that, but anyway, we would do that. They would have investment banking dinners and I would host those.

They would have conferences and I would be a keynote speaker or some such thing, or I remember we went to India once and there was some kind of a -- actually it happened in a lot of countries, but I can remember one specifically in India, there was another one in Mexico I can remember where there was some set of events going on, and by offering me up as a speaker they could get somebody flying Citi's flag to be the speaker. There was a lot of that kind of activity.

Q Where were you, can you describe the physical setting of your office vis-à-vis the office of Mr. Weill and Mr. Reed?
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A Yes. There was one more point about my role I want to get to, but yes.

Let's see. Weill's office was here, I think my office was next to --

Q Actually, if you wouldn't mind --

A I know what it was.

Q -- why don't you sketch out this and we will make it an exhibit.

A As best as I can remember it, here, this is Weill's office. Then there was a library, there was my office, and I think John was -- I think Reed was here. That is roughly right.

MR. GREENE: If you would mark that as RR 1.

(Thereupon, Sketch was marked RR Exhibit 1 for Identification, as of this date.)

BY MR. GREENE:

Q Did you take part in discussions of management issues on a regular basis, given that physical location?

A Only if they wanted me to. They might come into my office and want to
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discuss something, or they might not. We had something called the office of the chairman that I was part of, but that was just a title. It didn't have a functional significance.

And I would say when the two of them were still there, you know, it depended what it was. If they wanted to consult with me, they would, and if they didn't, they didn't.

But I want to go back one step because there was one more part of this. I had been at Goldman Sachs for 26 years in the way I described, and I had been in the government six and a half years, and one thing I said to everybody I spoke to was that I would, never again did I want to have operational responsibilities. And so the role that I had at Citi, and this would have been analogous no matter where I had gone, was the role I described to you, you know, a few moments ago.

But I also said to them that I would have no operational responsibilities
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in the entire time that I was there. Well, let's say the entire time until the company get in trouble. I mean, when you got to September '07 the world changed some; well, particularly in November '07 I guess it was when Chuck stepped down.

But up until then I had one person who would report to me, which was my secretary, and then eventually I had a second secretary for some purposes, so I had two people report to me. But what was absolutely clear with them was that I would have no operating responsibility whatsoever, and my functions would be all the ones I described.

Q While Mr. Weill was CEO, did you participate in meetings that were referred to as business head meetings?

A Yes. In fact, it was my idea to have a business heads.

Q And who were the business heads?

A Sure.

When I got there, it was a curious thing. You had this very large
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company and yet the heads of it -- I am sorry, the heads of the units of it, they had planning, I think they had monthly planning meetings and they had various kinds of formal meetings, but they didn't have the equivalent of what you might want to call a management committee, an internal management committee that you would expect that most companies have.

So at some point I said to John and Sandy, because John was still there, shouldn't you have a weekly meeting where the heads of the various businesses plus your chief, your principal administrative officers, got together.

Now, one obvious problem is that when you decide to set up a structure like that, you include some people and you exclude others. And so an immediate problem they raised was, well, if we do that we are going to have an awful lot of unhappy people. So instead of calling it a management committee, which is what you would ordinarily call it, we called it a
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business heads meeting, a business heads group, because that by its name limited it to the people who had the businesses, but actually what it consisted of was the heads of the various business units and then the, let's see, the legal counsel, the CFO. I have a feeling there may have been another person or two, but I don't remember.

Q    Approximately how many people would be at a meeting or participate in a meeting?

A    I think that group initially probably had about ten people, if I had to make a guess.

Q    Did that number change over time?

A    Yeah, it got larger.

I feel like I am missing a person or two. The head of risk became a member of it. We had, at some point there were co-heads of investment, of the whole I call it investment banking, but it was the whole downtown operation, so that was obviously two people. It probably got up to 14-ish or so, I would guess.
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Q. And what kind of issues would be in general terms discussed at the business heads meeting, meetings?

A. Those meetings I think lasted about an hour or something like that, or you can check this; I am not really sure about that, but an hour, hour and a half, something like that. I wonder if I am right about that. I think maybe it was two hours sometimes, but I don't think so.

And it could be anything.

Usually there would be some, there would be discussion -- a lot of it, particularly when Sandy was there, a lot of it was to focus on the budget and where we were and what was going on. A lot of it was budget-oriented. People wanted to raise -- we would go around the table, and people would raise usually sort of general issues in the area, whatever they might be, I don't remember any specifics any more. I would sometimes say something about the world the way it looked to me.

It tended to be at a relatively
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general level about what was going on in people's businesses, what was on their minds or whatever it might be.

Q So would it be fair to say that these were the most important issues that the business units faced that would be the, those would be the topics?

A No, I don't think -- you mean in terms of running their businesses?

Q Yes.

A No, I don't think -- most important issues they faced. No, I don't think, I think it was more a kind of an issue.

In other words, if the consumer business -- no, I don't think so. The consumer business faced a very important question of how do we market credit cards more effectively in the United States. It is unlikely they would have discussed that at the business heads meeting. That was an operational issue.

I am just making that up, I don't remember it, but it was an operational issue.
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Q    How would you characterize the kind of issues that would typically be raised at the business heads meeting?

A    I think they were more sort of what I would call, aside from the budget, which very often occupied a lot of those, a lot of that time, I would call them more sort of generic business issues, I don't remember any specifics, or there might be some generic business issue. It could be we are having trouble recruiting people, or we don't think compensation is adequate; even those things didn't really, I don't think compensation came in very much.

Q    Do you recall if minutes were kept of these meetings?

A    I don't think they were.

Q    Were there agendas?

A    It is a good question. I don't think -- you know, there may have been times during the course of the years that there were written agendas, but I don't -- there may well have been, but I don't remember them.
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typically?

A  Yeah, it would be the CEO.

Q  The CEO in that case would have been Mr. Weill?

A  In that early stage, yes. And then if some emergency came up, if some critical issue came up, that might get discussed.

Q  Briefly I just wanted to tag up on your compensation. What, when you joined Citi, approximately what was your compensation package?

A  The package was $15 million, and I think it was one million of salary and 14 million of bonus.

Well, let's see. One million -- let's see. Let's do that again. One million salary, and it was 14 million of, I guess it must been guaranteed bonus, and it was, if I remember correctly, a two-year contract. You'd better check that, but I think I am right about that.

Q  And was that approximately your compensation throughout the time you worked
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at Citi?

   A   Well, until -- it stayed the same.

   I might add, incidentally, that

before I made that arrangement with them,

you know, with Sandy and John, I had talked
to a number of people because I knew the
street pretty well, to try to get a sense of
what people thought. You know, at that
point in time, given what I could bring to
this, it seemed reasonable for the function
I was going to be performing, and I got a
feeling that was kind of the range, if you
will, sort of a relative norm in that period
of time for those functions.

   It stayed the same until '07, and

   in '07 at the end of the year I went to -- I
don't remember who I went to, but I went to
somebody internally; I could probably
remember if I think for a minute, and that
is when they had already started having
trouble. And I said, you know, given the
stage that I am in my life and my career, I
am not a long-term Citigroup person. I want
to stay and help us get through this, but I
am not a five-, ten-year prospect. I was 69 years old or something like that at that point; no, I must have been -- yeah, 68 or 69. And my recommendation is that you waive my bonus and use the money for other purposes. And they took that to the compensation committee, and that is what they did. So --

So would the effect of that have been to reduce your --

My bonus became zero.

And your pay package would have been roughly a million?

Yeah, I still got my salary.

And then in '08, even though -- well, it was '07, and in some sense you can say that, given after Chuck left, which was November 4th, we had a five-week period there or thereabouts during which I was chairman of the board and a member of the search committee. It was an all-consuming period of time for me. It really, truly was, but the merits -- you can make maybe a different argument, I don't know, but in any
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event that was what I felt and that is what I did.

And then in '08 as the trouble continued, I went toward the end of the year and said the same thing, and so I waived my bonus in '08 just as I had in '07.

Q  When did you leave Citibank?
A  January, in January '09, early January '09, I think.

Q  And what figured in your decision-making?
A  I was going to leave earlier. I was 70 years old at that point, or 70 and a half or something like that, and as I got toward 70 I thought to myself, you know, I probably have a lot of years ahead of me and I would kind of like to use them differently, but on the other hand I didn't want to leave when they were in those kind of difficulties and I wanted to stay and help Vikram, I believed very deeply and still believe very deeply.

So I postponed leaving, and then we got to January '09. He seemed to have
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gotten his feet on the ground, put his team in place, and at that point I guess I was 70 and a half or something like that, and it seemed to be the right time I could step down.

Q Stepping back --

A And he asked me, he asked me to wait another six months or something like that, I think that is what he said, something to that effect, I don't remember.

But I really, I thought he had gotten his feet on the ground and I think he does have his feet on the ground, and so it just seemed like the right time to leave.

Q Stepping back briefly, when did you become a member of the board of directors, do you recall?

A The day I joined the company. I mean technically they had to elect me to the board, but I was on the board from the beginning.

Q And were you on any particular board committees from the very beginning?

A I was never on a committee because -- except for the executive
committees which were a non, didn't really do anything. I couldn't be on a committee because I was an internal director.

Well, I shouldn't say I couldn't have been. I don't know if I could have been or couldn't have been, but I wasn't.

Q Were you on the executive committee from the very beginning?

A Well, I think the committee was created when I went there. You'd better check this; it may have existed before that, but I think it was created when I went there.

And the only function of the executive committee, it sounds like a big thing, but the only function of the executive committee was to have a forum, if you will, that could convene in between board meetings if there was something the board needed to focus on. And I was chairman of it, and it met I think two, three times a year until Citi got in trouble.

And if it met, what would happen is I was chairman, so we would meet in the
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library or someplace, and I would convene
the meeting and then turn it over to the CEO
and he would run it. It had no other function.

Q And functionally, who were
typically the other members of the executive
committee? Specifically were they the
chairs of the other board committees?

A You know, I do not know the
answer to that.

The executive committee for
practical purposes was a non, it was just a
way of getting some directors together. It
was a formal apparatus for getting some
directors together if something had to be
done between the board meetings, and I
think -- you could check this, but I think
there was even an invitation to other board
members to attend if they wanted to.

MR. GREENE: Let me mark an

exhibit next in order.

(Thereupon, excerpt of minutes
of board meeting dated 4/17/07 was
marked RR Exhibit 2 for
Identification, as of this date.)
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BY MR. GREENE:

Q I am showing you something now marked RR 2. Let me represent to you and your counsel that this is a portion of an exhibit from Exhibit E from the minutes of a board meeting dated 4/17/07.

MR. BIRENBOIM: Can you read the Bates number into the record?

MR. GREENE: Of course. Here's another copy. It is easier.

BY MR. GREENE:

Q Calling your attention to the second block under executive committee, does that prompt any recollections in terms of who functionally might have been on the committee typically?

A It looks like what the committee looked like, but if you had a totally different set of names I would have said the same thing.

Q But would it have been typical, or was it typical of your experience while you were chair of the executive committee that the audit chair would also be on that
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committee?

A  I truly don't know.

Q  I presume that --

A  Lead director would have been.

Q  Lead director would have been, and the P and C chair, what would that have been?

A  I truly don't know. As I said a moment ago, just to go back, the executive committee probably -- you can check this, but I doubt if it met more than two or three times a year, until it got into trouble in '07. In other words, during the regular course it simply wasn't part of the life of the company.

Q  And would the CEO, whoever that was --

A  Yes, the CEO would have been, always been.

And in fact what would happen is, what we would do is we would go into, usually it was the library. And I was the chairman, so I would convene the meeting and then I would turn it over to the CEO and the
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CEO would run the meeting for whatever purpose it had been called.

Q    And would it be the case, though, that the executive committee had all of the power of the board in these periods between board meetings?

A    I don't know the answer to that. When you say all the power of the board, could the executive committee have sold the company? I don't know the answer to that.

Q    But would it be the case that --

A    Let me give you the practical answer. The practical answer, we would not have done anything significant in the executive committee that didn't go to the full board. Maybe that is the best way to answer that question.

Q    But do you recall as the chair of the executive committee that you approved purchases of companies, for example?

A    I don't think -- I do not recall approving the purchase of a company. We might have approved something that related to the purchase of a company, but I can't
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imagine as a practical matter that the executive committee ever would have approved the purchase of a company without it going to the full board.

But if you, let's say you were involved in the process of purchasing a company and you needed to make a decision on some dimension of that and you couldn't, you didn't want to wait until the next board meeting or couldn't wait until the next board meeting, they might have approved something like that. But I don't recollect anything of the kind that you just mentioned happening, and I just cannot imagine that an executive committee would have exercised that authority.

Q But unfortunately, and I apologize to your counsel, I didn't bring it with me, there are executive committee minutes that indicate, for example, that the committee approved something in the order of seven and a half billion dollars of stock to be issued to the Abu Dhabi Development Authority?
A    That was after -- let's distinguish between -- everything I have said about the executive committee so far applies to the period up to when the company got in trouble. I apologize. I was, in fact, I was going to say that and we sort of got going. We continued the conversation and I didn't get a chance to say that.

Everything I have said relating to the executive committee goes up to the point at which the company got in trouble. Once the company got in trouble, the executive committee met more frequently. The CEO presided. It was a very good way for the board to keep on top of what was happening and also for the board to move quickly.

And my recollection, you can check this but I am virtually certain this is right, is when we had an executive committee meeting, notice would be sent to all the board members and they could join it telephonically. So if they wanted to keep posted on what was happening, they would be
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part of the process.

And at that point the executive committee, during the period when things were moving very quickly, could be used for doing something, though even there, I don't -- you will have to check this because I truly don't know, but I can't imagine that we did that without some kind of discussion at the full board meeting.

In other words, there may have been a preceding full board meeting, telephonic full board meeting discussion of what you just said, and it may have been approved at an executive committee. I don't believe we would have done the Abu Dhabi transaction without discussion of the full board.

Q    Let me ask you --
A    In fact, I would be virtually certain of that.
Q    I do have the impression, again based on a review of some of the minutes, that in '05, for example, the executive committee appears to have proved a major
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settlement involving Worldcom; does that prompt any recollection?

A   It doesn't, but it could be that they were the formal mechanism for approval. But I will repeat the same thing again, you will have to check what actually happened, but I don't believe, I don't think the executive committee would have done that -- in other words, they would have been the formal mechanism. That was sort of the point I was trying to make before.

If something is happening and you need to have a formal approval, the executive committee might have been used as the mechanism of a formal approval. I can't, it seems to be almost, seems extremely unlikely, I think almost inconceivable actually, that the executive committee would have approved that without it having been discussed with the board.

Q   And would those discussions have been formal or informal typically?

A   On something of that magnitude?

Q   Yes.
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A: They might have had -- I don't remember it so I can only speculate, but they might have had a telephonic board meeting. I don't know the answer to that.

Q: Let me ask another question to see if this prompts a recollection. If you don't have one --

A: You can check all this. This is all checkable.

Q: Sure. One set of minutes from December '05, the company is buying, via a decision apparently of the executive committee, a 40 percent share of the Guandong Development Bank in China?

A: Sure.

Q: Do you have any recollection of that purchase?

A: Yeah, I remember the purchase. But there is a good example, and again I don't remember the specifics, but the executive committee, the approval was a formal mechanism for doing what needed to be done.

It was not a decision-making
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body, maybe that is the best way to say it. The executive committee would not have functioned as a decision-making body on any of the things that you just discussed without a discussion with the board, I am virtually certain. And Guandong, for example, I would guess -- I don't remember this, but I would guess that if you check you will find it was probably discussed at multiple board meetings before it happened.

But now that you said it, it gives me a better way to try to describe this. The executive committee might have been used, as it clearly was used because you looked at the minutes, as the formal mechanism for approving something when an approval was needed, but actions of that magnitude would not have been taken, I am virtually certain, without a full discussion with the full board in some form or other.

You asked whether it is formal or informal. I can't answer that question because I don't know the answer to that, but it would have been a full discussion with
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the board, I am virtually certain.
The executive committee was not a
decision-making body is I guess the point.
Q    Okay. Thank you.
Let me mark another document.
(Thereupon, document from
Mercer Oliver Wyman dated June 2005
was marked RR Exhibit 3 for
Identification, as of this date.)
BY MR. GREENE:
Q    This is a document from --
A    Could I go back to the answer for
just one second?
Another point was that not only
was it not a decision-making body, but I
would convene it and then the CEO would
preside over it, so he would basically
conduct the meeting.
Okay. Go ahead.
Q    This is a document circa June of
2005 by a firm named Mercer Oliver Wyman.
Do you have any recollection of this
analysis by Mercer Oliver Wyman?
A    I certainly remember that we met --
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let me look at this for one second. We met with them --

Q Please do.

A Yeah, I mean in a general way.

We had hired them as a consultant on the fixed income area, and at some point we had a meeting with them, the fixed income people, some of the senior management of

Citigroup, and they produced a document to frame that meeting. This may be that document; I don't remember the specific document, but I do remember they produced a document.

Q And to the extent you recollect, what was the upshot of that meeting? Did business strategy change, or what was the result of that, this consultant's report and that subsequent meeting?

A Right. There had been -- I am not sure of the sequence exactly, but there had been -- it had been a process -- let's go back a year before that actually.

A year or two before that, Chuck Prince had initiated a review of the equity
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area, and I think we used a consultant there too, I am not sure, but in any event a review of the equity area. The consequence was they changed the senior management of the equity area and felt Citi was not as effective in that area as it could have been.

About year or two later Chuck suggested doing the same thing in fixed income, which I thought was a very good idea, and we, Citi hired Mercer Oliver Wyman and they then, there was some sort, it was quite a lengthy process, I don't recollect these pieces any more, but then we had this meeting.

And the gist of what they said was that if you looked across many product areas that Citi was less involved, did less positioning, had smaller positions, if you will, than comparable firms if you measured against balance sheet and earnings, and that there was therefore an opportunity for Citi to move to the point where they had a level of activity comparable to the others in the
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industry, but that if they were going to do it, they had to also invest in a number of capabilities. And that is the gist of it as I remember.

Q    Let me follow up just a bit on that. What were the areas that were presented as potential areas of opportunity?

A    The only one I remember discussing, somewheres in here, let me take a look -- I think they listed them in here someplace -- but the only one that was really discussed was commodities, the business I actually had some familiarity with from earlier years, as I said before.

Well, I guess they don't have it in here, but my recollection, which I don't see it here, though, is that they had listed a whole bunch of areas and, as I said, I think the only one we really, I recollect at least that we had any real discussion about was commodities, an area in which Citi did very little and Morgan Stanley, J.P. Morgan, and obviously Goldman Sachs amongst others had very big operations.
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I thought there was a list in here someplace.

Q Well, I may be able to help you in part. If you look at slide 12 or page 12?

A Yeah, there it is, that looks like it.

Q And at least one of them appears to be in that sort of second block of material, quote, "U.S. mortgage and real estate sub-businesses, ARMs and principal finance." Do you recollect that that was one of the areas, sort of, those are areas they recommended?

A I don't recollect this particular chart, but, as I say, I remember that they listed a whole bunch of areas, and I remember the one that we discussed -- we may have discussed others that I don't recollect, but the only one I remember really having a discussion about was commodities.

But this has, let's see. This has hedge fund product, commodities, distressed corporate derivatives, a whole
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bunch of stuff. This may have been the list
or it may have been some other document with
another list. I don't remember.

Q You might also look at slide ten.
It is something that says opportunities
exist. And then --

A This was the gist of what they
said, "Opportunities exist across products
in all geographies" -- that was the gist of
what they were, of what this report was about.

But also someplace here I thought,
at least in the discussion, they said that
to do this you also had to, which seemed to
be right, you had to have in place the
appropriate capabilities, but maybe that is
not in here.

Q I think I can find you that. But
let me just keep you on page ten --

MR. DOWNEY: Let me ask a
question, Mr. Greene. I know you have
been talking to a lot of witnesses.

I see this as a first working
discussion, I assume there are many
working discussions. I don't mean to
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impede your questioning, but is this the document that was shown to people in Mr. Rubin's group, or do you know that independently?

MR. GREENE: I don't know, frankly.

MS. BUERGEL: In fact, I can tell you that there is a deck related to this exercise that went to the board, and this is not the one that went to the board. You have a copy of the one that went to the board.

MR. GREENE: I do, okay.

MR. KARP: It is more detailed.

BY MR. GREENE:

Q Looking at slide ten on the far right side, there is a column entitled Revenue Gaps, quote, New City build, close quote. And in the first increment of that, CMBS is mentioned. What is CMBS?

A I would guess that is commercial mortgage-backed securities; not I would guess, that is what the acronym stands for.

Q And then in the next one,
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structured credit.
A  Uh-huh.
Q  What is that?
A  Structured credit ordinarily would be any kind of an asset-backed security, credit cards, mortgages, auto receivables, whatever else.
Q  Let me turn you to I think the point you were raising earlier, which is this question of what Citi needed to do in order to take advantage of these opportunities. Slides 15 and 16 appear to contain some of that information.
A  It is interesting. The first bullet point, this may not be what you want to get at, "Technology has nearly doubled as a portion of support costs spent in the last decade."

I remember very distinctly, and you asked what happened at business heads kind of meetings, they were increasing the investment in technology at a very rapid rate, and I think this happens in every company, so the businesses would get
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assessed for it and the businesses would always say that they were being overwhelmed by the expenditures of the center on technology. We used to have lot of these discussions.

Q In drawing your particular attention to the second bullet, there is a dash, third dash down reads, if I am reading correctly, "In risk management the key constraint is the speed and flexibility of credit and securitization risk processes."

Do you recollect that that was an issue as you were working your way through these possible new opportunities for Citi?

A I don't remember this. What I -- I don't remember this phrase, if that is what you are asking me, or even the concept. But what I do remember is saying that if we were going to do this, which I thought we should do, increase our positioning, that there were at least three things you had to do. We had to have adequate technology and we had to have adequate people, and then you had to have an
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effective independent risk management -- I guess four things: Independent risk management, and then a general obvious comment, you had to make sensible risk-reward decisions when you were running a business.

So I don't remember this particular comment, but I do remember saying there are requisites for doing this and those were the requisites.

Q And were those requisites acted upon by the individuals that attended the meeting you described?

A My very strong impression is they were acted upon, yeah. I mean what I remember, and I guess this document semi-reflects that in a way, while it can't reflect what happened going forward but it reflects what had been happening, is that we had very a substantial technology buildup in the company, including I believe in risk management. You can check all that in your documents, but that is my recollection.

On the people side, I do remember
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that they got into more active recruiting --
I shouldn't say more active recruiting
because I don't actually know that, but I do
remember that they recruited a foreign
exchange options trading team from Merrill
Lynch, and I remember they recruited a
structured products trading team from
Deutsche Bank. I don't remember other
specific recollections, but those two
recollections I do have.

And they had an independent risk
management capability run by David Bushnell,
so that he had that piece, and the question
then was -- and I do remember also that -- I
shouldn't say I remember. I have a strong
impression, not a specific recollection,
that he continued hiring people and building
up his analytic capability as well.

Q And do you recall any structural
changes in the risk management unit,
specifically to make it more independent of
the business units?

A I think it was -- my impression
is it was independent. It reported I
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believe to the CEO and the audit committee
of the board, so I am not sure what you --
Q    Were any of the risk managers
reporting to business heads, as far as you
know?
A    Not to the best of my knowledge.
Q    Would that have, if that were
happening, would that violate your view of
proper risk management?
A    Yeah.  Independent risk
management should report to the CEO, and
then this one I am quite sure -- you can
check this, but I am quite sure reported to
the audit committee as well.

The independent risk management
shouldn't report to the business people, if
that is your question.
Q    That is the question.
A    Uh-huh.
Q    And to your knowledge that did
not occur at Citi?
A    To the best of my knowledge it
did not occur.

Let me put it differently. If it
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did occur, I wasn't aware of it.

Q It has been reported in the papers, whether it is accurate or not I don't know, but that insofar as there was more effective oversight of risk, you were in favor at this point of Citi taking more risk?

A Well, let me say, if I may, because I ran all of Goldman Sachs' trading operations -- I didn't run, that is not true -- I ran the trading operation initially, then I became responsible for them, I didn't run them, but this is actually a world I knew, at least at one time I knew a touch about. Now, by the time we got to this point I was way out of date in terms of instruments and so forth, but at least conceptually.

You never want to take more risk. That is not your objective. Your objective to do more positioning. Now, when you do more positioning, what comes with it? Risk. And I was in favor of increasing positioning assuming, assuming, and this is critical,
that we had the right people, we had the right technology, we had effective independent risk oversight, and that we were functioning effectively, the people were making intelligent risk-reward judgments.

And on that basis, looking at the Oliver Wyman report, it seemed to me that Citi could, instead of being behind its comparable firms, could increase its positioning, could and should increase its positioning.

Q    And do you recollect as part of that decisional process that you advocated for increased CDO activity by Citi?

A    I am virtually certain -- nothing in life is certain, so I am not going to say I am certain, but taking that philosophical point aside, I am virtually certain that CDOs never came up in this conversation.

Q    And why would that be true?

A    Why would it be true? I can't tell you why it would be true, except CDOs would have been -- well, maybe I can tell you, as a matter of fact.
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I don't think they were a focus, at least as far as I know, the focus of anybody's attention at the level that this was being discussed. Remember, CDOs were a subproduct, if you will, in structured products, right? So it would have been credit card receivables, auto finance receivables, a whole bunch of other areas.

And we didn't discuss these product groups at that level of granularity, with the one possible exception of commodities, where I think we actually did have a fairly extensive discussion.

Q    How about what is called RMBS?

A    Residential mortgage-backed securities.

Q    Correct.

A    If it came up, I don't remember. But this was not a discussion of if we are going to do this, you know, at a sort of a granular level, what is our business strategy going to be. This was the broader question of should we increase positioning, what do we have to do if we are
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going to increase positioning, and that was
the level at which this discussion was
conducted.

I might add, and I think this is
a very important point, if you increase
positioning and you presumably are then as a
consequence also taking more risk, and you
do the things that I said, okay, risk
doesn't mean going long something. And in
fact in most of these operations, Citi and
elsewhere -- well, I don't want to overstate
this.

Generally speaking, when you
think of increased, when you think of these
kinds of mega trading operations, a very
large part of their risk doesn't consist of
being long something or short something, but
it consists of basis trading, that is to say
relationship trading, relationship
positions. So if you go long General Motors
you go short Ford; I am taking a simple
example obviously, or you go long one
instrument and short something else because
you think there is a disparity, you think
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there is some kind of inefficiency you can take advantage of.

Q    Do you have a recollection of when you first perceived either CDOs or RMBS as being a significant part of what Citi was doing in fixed income?

A    I don't think, I could be wrong about this, I don't think that there was ever a significant focus on CDOs until the trouble began.

Q    And the trouble from that perspective is approximately when, roughly?

A    Roughly speaking, until -- I don't think CDOs were ever a subject of particular focus. Remember, you have about a two and a half trillion dollar balance sheet or something like that with a vast number of activities going on. I don't think CDOs ever became a subject of focus until that, I think it was September 12, '07 meeting -- let's go back one step further.

Q    Please.

A    Somewheres in July and August, these markets all became more roilsome, and
the market turbulence was predominantly in the LBO area, and the focus was on these very big LBOs that had been done in the financing and the market distress that developed. And as a consequence of that Chuck, on September 12th --

Q  Chuck would be whom?

A  Chuck Prince, called a, at a meeting -- I think they had a meeting before that and I was in Korea, I think that is what happened. He had a meeting with the trading heads to look at all this and start to get at it, what was happening in the markets and what was happening to the P and L and so forth, and I was in Korea at the time. You will have to get the exact dates, I don't know what dates we are talking about, and I got back and we had a -- then the second meeting, and I was at that meeting, was on September 12th. That was really the first time that I focused on CDOs as an area of importance.

Q  Let's turn to that meeting.

(Thereupon, document was marked
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RR Exhibit 4 for Identification, as of this date.)

THE WITNESS: Yes, September 12th, there you go.

BY MR. GREENE:

Q    And was there -- do you recognize this, I believe the slide deck, I guess this is what it is?

A    I recognize it from having gotten ready to meet with you all, but I didn't, when I first saw it I didn't recognize it.

Q    But I take it that this or some version of this was discussed at the September 12th meeting?

A    I can tell you what I remember about the September 12th meeting; since I didn't remember the document when I saw it, I can't tell you whether it was discussed or not.

Q    Please.

A    But what happened is we met on September 12th in the library, I think, and I don't remember exactly who was there, but it was myself and Chuck Prince and -- I am
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not sure about this, but a CFO must have been there, and I don't remember specifically but he must have been there, Lou Kaden I am quite sure was there.

Q Would that have been Mr. Crittendon?
A At that point Gary Crittendon, right.

Q How about Mr. Maheras?
A Then I was going through --

Q Sorry.
A Then you had whoever was there from fixed income, and at the very least it would have been Maheras and I assume Peter Barker; I don't actually remember that, but I assume he was. If there was anybody else there, I don't remember. I have a feeling there were some other people. David Bushnell would have been there obviously, as head of risk. Maybe that was it. There may have been some others. I don't know.

And the question was to look at, I guess by August they had begun to have some effect of all of this on their P and L,
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and I think Chuck was trying to figure out what was going on and who was responsible for it and what had happened and what we ought to do.

So we got there and they started looking at different, whatever it was they were looking at, and I truly don't remember, but then they showed us the CDO positions, and they were -- the way I look at life at least, you can debate what I am about to say in some respects, but the way I looked at life, they were long 43 billion dollars' worth of these triple A super seniors.

So I said, well, why do we have those? And they said that these had been -- there is a complication I will tell you about in a second -- these had remained with them as the arbitrage was being done within the CDOs. In other words, they had sold the junior tranches and they viewed these, since they were triple A's for practical purposes as having no risk, and they had retained them.

So I said, well, triple A, all
the time I have been in the securities business was viewed for practical purposes as money good, so I can understand that. But nevertheless, if you were basically aggregating these things and then in effect doing an arbitrage, albeit within the CDO, not within Citi, right, doing, okay, doing the arbitrage in the CDO, it seemed to me that you haven't disposed of the risk because you hadn't sold off the triple A's. And they said, well, these are triple A's, for practical purposes there is no risk, and as I say, that to me was an understandable comment in the context of those times. Obviously, looking back with hindsight, those were terribly misguided triple A's, but that is hindsight from today.

So that was where I first became aware of it, and my view was that if you are in this business to earn those fees -- because that is what you got, the fee, right, okay -- in the business to do those fees, then you need to sell off all the
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pieces.

Now, maybe I am getting a little more granular than you want to get, but that was the discussion we had, okay? I have learned something since that would add to it, but that was the discussion we had.

Q What did you learn since the time of the meeting?

A What I knew at the time was that there were two parts to this triple A position. One was -- I actually remember all this from then. What I am about to say I remember from then, and there is something I've learned since, okay?

Q Please.

A There was 18 billion that was simply there, that in effect Citi owned that they hadn't sold off, they hadn't completed the transaction within the CDO, okay? Then there was another 25 billion which was in these liquidity puts, and their view -- what I am now telling you now did not up come up at the meeting. It is what I have learned since.
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Q    So the question of liquidity puts was not discussed at that time?
A    No, it was. They said we've got 43 billion, there's 43 billion of these triple A's, and 18 bullion of them was that which hadn't been sold off and 25 billion in liquidity, that absolutely came up. To me they were all one thing, as far as I was concerned.

      Maybe that is the better way to go at this. As far as I was concerned they were all one thing, because if there was a put back to Citi under any circumstance, however remote that circumstance might be, you hadn't fully disposed of the risk. And my view was that if you have an arbitrage business and you are getting a fee for setting these things up, then the business model was you should dispose of the risk.

      But it is understandable that somebody could think of it differently because, as I say, you were dealing with triple A, and their answer was these things are triple A and for practical purposes they
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have no risk, they have de minimis risk. And that was the discussion we had.

Q    But as a personal matter, this was the first occasion where you really confronted the issues of the CDOs and their risks?

A    Yup.

Q    To your recollection, did this come up at any board meetings upon which you participated?

A    No. I mean the board meetings, the CFO would report on the earnings results of the business, and I don't think -- we could check this, but I don't think that CDOs were ever a substantial earnings problem until you got to this point.

Q    And to the extent you have an impression, do you think this was the first time that Mr. Prince understood the scope of the CDO exposure?

A    I am giving you an impression, and you will have to ask -- the authority on what he knew was him, not me.

Q    Obviously him, of course.
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A Yes, I think this probably is because prior to this what you had was you had a structured products business.

We had a very good CFO, as you know. He had been the CFO at American Express and we recruited him away from there, and he would report to the board the results of what was, give or take, a two and a half trillion dollar balance sheet, maybe a little bit less than that, in that neighborhood, and this was one small piece of that balance sheet.

And so this was wrapped into all those results and there was nothing dramatic happening that would have -- the real drama, actually, I am not sure now whether I am talking about October or August -- I apologize, July or August, but I think it is more August, but the real drama in this was until this meeting, the real drama in this was in the LBO area. And that was all over the street, by the way, not just with us, JPM, Goldman, and so forth.

Q And for the record, LBO stands
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for?

A Leveraged buyout. There had been these mega leveraged transactions that had taken place in the most recent two or three years, whatever it was, and some of those had started to develop problems, and that started to reflect itself in the August results. There may have been some evidence of them in the July results, I don't remember, but I think it started to reflect itself in the August results, so that was where the focus was.

My guess would be this was the first time -- this or maybe the, as I said to you, there was a meeting -- this was the 12th, okay? There was a preceding meeting when I was in Korea, so it may have come up at that meeting. That was just a few days before, though. It was the same time period, just a few days prior to the 12th.

Q Let me just, I do want to come back to this September meeting.

So, if I represented to you that at some time between the end, the last
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quarter of, between '05 and '06, housing
prices begin to fall on a national basis,
did you know that at the time?

A    I am sure I knew it.

Q    Did you at that time have any
sense that that could have implications for
the CDO or RMBS business?

A    I don't think I ever really
focused on the CDO or RMBS business; no
particular reason why I should. If it was
going to be a problem -- I am not even sure
at that point I gave any thought to the
CDOs. If there was going to be problem in
CDOs or in mortgages or whatever -- there is
actually a larger comment I could make on
that, but let me finish this for a second --
that would have been brought to us by
Maheras or by Bushnell or somebody.

I had a general view of them. As
long as you have asked this question, let me
answer it if I may.

You go into about 2005 or
thereabouts, and I began to develop a
feeling, which could easily have turned out
to be wrong, of course, but I developed a feeling that markets in general had begun to go to excess, and I include the credit markets, and I think quite a few other people had a similar kind of feeling. And I used to include this in my speeches because I did a fair bit of public speaking.

And what I thought was going to happen -- number one, I could be wrong; number two, when those things happen they can go on for years, it's sort of unpredictable when the psychology of markets is going to change. But I thought that at some point if that was right that you would have a downturn, maybe even a sharp downturn, and when that happened you'd have a few bad, difficult quarters, and that is what this industry has always been like.

But instead, you had something very different happen and you had, not just excesses but you had an enormous number of other factors that -- I wrote a Newsweek article on this, actually -- operating at the same time. It was an extraordinary set
Interview - ROBERT RUBIN

of circumstances, and the result of all that was the worst financial crisis since the 1930s.

Q    Let me ask you a few more questions about what you knew and when you knew it.

A    Yup.

Q    You had, Citi had an RMBS unit which we understand circa late 2005 or early 2006 created a surveillance unit because they observed mortgage quality falling.

Were you aware of that? Were you aware that, notwithstanding the concerns of the RMBS unit, the CDO unit was continuing to accelerate its activities?

A    No.

Well, let me put it differently; you can never be sure of anything. I certainly don't remember it, and I -- I think that if somebody had come to us with something like you just described, I probably would remember, but I don't remember such a thing.

Q    And then early in '07 there are a whole, actually late '06 into early '07,
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several subprime lenders run into serious problems, Merit Financial, Countrywide, Ameriquest. Did you or the board, were you concerned about that as it might affect your own CDO or RMBS businesses?

A    I don't remember specifically any discussions of that, but given that the board tended to focus on what was -- there were discussions at every board meeting about risk and what was going on in the environment.

And very often we would get -- not very often, I think at every board meeting actually we got a document, and as I recollect it at least, either always or generally, at the beginning of that document sort of a description of market conditions and then it would go on, so I would guess that that must have been in there.

But I don't, I think the thing that's -- well, having said that, I don't think anybody focused on the CDOs. This was one business in a vast enterprise, and until the trouble developed, it wasn't one that
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had any particular profile.

In the RMBS, every firm on the street had enormous mortgage trading operations, and unless somebody came to the board and said we've got a problem, or there is something substantially wrong someplace, the board had people who, you know, Tom Maheras was in charge of trading. Tom was an extremely well regarded trading figure on the street.

In fact, he was chairman, I am pretty sure of this, I know he was, actually, of the Treasury Advisory Committee, whatever that was called. And this is what traders do, they handle these kinds of problems.

MR. GREENE: Why don't we take a five-minute break.

(Brief break.)

BY MR. GREENE:

Q Mr. Rubin, let's turn to actually this document, because I need your thoughtful hand to interpret it.

A Okay.
Turning to what appears to be the first page, there's essentially a spreadsheet. So, reading the top line from left to right, it looks like there is the 2,723,153 figure, and it looks like 2006 is larger. Since these figures are in millions, should I take that as 2.7 billion or 2.7 --

A It must be billions. I assume.

Q It wouldn't be trillions, would it?

A No, it wouldn't be trillions.

That's only the federal deficit.

Q And then this seems to suggest with the parentheses in 2007, would that be a loss of a billion dollars?

A Right.

Q And then a loss in August of presumably 361 billion, does that look right?

A Yes.

Q And then August year to date, that would appear to be net gain of 1.2 billion?

A Correct.
Interview - ROBERT RUBIN

Q    And then looking about four lines
down, there is line marked "margin."

A    I am sorry, where do you see that?
     I see it, yeah.

Q    Is that the equivalent of gross
     profit? How should I interpret something
     called "margin" in this context?

A    Let me see if I can -- I don't
     think that is what that is.
     We can figure, we can calculate,
     we can figure this out. That should be the
     difference between expense -- well, I guess
     it is gross profit, the difference between
     expenses and revenue, I guess, but we can
determine that by looking at the numbers,
can't we?
     So, that is 200. Yeah, that is.
     It is gross profit, gross profit before the
     cost of credit, right? Yeah. You got it
     right.

Q    And then if you go down three
     lines further down where it says "net
     income, paren, global tax," is that what a
     lay person like myself would understand as
Interview - ROBERT RUBIN

profit?

A Let's just look and see.

This is your margin, and you have your total cost of credit which is a cost obviously, so you put the two together and you come out to that number there. That looks like the net income, but I don't -- I am doing the same thing you are doing, I am adding the numbers. It looks like that is the net income. What I don't know about is what the global tax means.

Q Okay.

A Look, EBIT, earnings before interest and taxes, right? That is what that is, and then you have the net income. Oh, I guess maybe -- well, no sense in my speculating.

Q And then looking at the column for 2006, that would seem to suggest that the net income, if it is profit as well, was $1.1 billion, is that correct?

A The net profit was what? I am sorry.

Q Net income in 2006?
Interview - ROBERT RUBIN

A Maybe that is the after tax. I bet that is what that is, because if you look at it, it is 1.8 -- I am just speculating because I honestly don't know, but EBIT is earnings before interest and taxes, and so -- although they already have the cost of credit up there.

But in any event, the tax rate, U.S. tax rate, give or take a third, that would sort of look like earnings after tax.

Q Now --

A And similarly -- it is interesting. Similarly, if you look at the 2007 for July, just to take an example, you have that 1.2 billion, and since that is tax deductible, I guess carry forward or carry back, that must be the after tax number I would guess.

Q And how would that compare to net income or profit from other lines of business at Citi? Small, large?

A That would be, in those days -- first of all, I don't know the answer to your question, but in those days the earning
power was somewheres around 20 billion, so that would be -- it would be, I don't know whether you would call it large -- it is what it is. I guess I would say it's relatively limited.

Q So roughly five, ten percent of the total, would that be fair?

A Well, no. Well, except this is one month and you are comparing it to the year. If they earn 20 billion a year and they had a loss of 745, then you are right, it is about four percent or three percent or something. But that is three or four percent of the yearly number.

Q I was thinking about actually looking at 2006, if that is --

A I am sorry, 2006.

Q That appears to be a full year number.

A Oh, 2006. Oh, I apologize. That is a full year number. I don't know what they earned that year, but it is probably in the low 20s. I was looking at a different year.
Interview - ROBERT RUBIN

Q    Not to worry.

Let's turn to the next page, which is captioned Global Credit Trading.

A    Uh-huh.

Q    And then under the caption "What happened in July and August," there is a, something, I guess it is a little arrowhead, "Poor risk management and balance sheet management," and then a sub that says "Note that no limits were breached."

A    Uh-huh.

Q    Was this, do you recall a discussion of poor risk management at the library meeting?

A    No. I mean I don't, clearly -- you asked me the question do I recall. The answer is no.

Q    Fair answer. With respect to strategy, it appears that a number of steps are being taken, including overhauling trading management.

A    Where are you looking?
Interview - ROBERT RUBIN

Q  First arrow under "strategy."

A  Well, I don't remember any more, but I can tell you what happened in a rough sense. I don't remember the names of people any more, but --

Q  Please.

A  Although this, this was prepared for -- this obviously had already taken place. I mean, all I can tell you is what it says, which is that a number of people had been, had left, I presume involuntarily, but I don't remember the specific discussion.

From that point forward, Chuck was focused on -- I think I mentioned this before, actually -- Chuck was focused on what had happened and who was responsible for it and what should we do now. And at some point, as you know, Tom Maheras stepped down and Peter Barker stepped down, but that of course was subsequent to this.

Q  The fourth arrow down, it reads, "Continue to invest in technology to enhance risk management and reporting capabilities."

Do you recall if there was a
discussion that somehow the board or management had under-resourced risk management technology?

A    No. I actually read this a little differently.

I don't remember -- I don't have a specific recollection, but technology was often discussed at the board, and there was a lot of focus on doing what needed to be done to have in place the -- not just for this business, I am talking about generally through the company. And I would have read this as saying that we had been investing, I should say Citi had been investing and he was going to continue to invest, and that is the way I read this.

Q    Okay. And turn to the next page, which is captioned Global Structured Credit.

A    Incidentally also, continue to investment -- I don't remember seeing this document, but it says "Continue to invest in credit analyst capabilities." And that was the point I think I had made before, that after they had approved going ahead and
increasing positions, I had this general recollection that he had increased both, the company rather, increased both investment and technology and also building the credit analyst capabilities. And what this language suggests is that that in fact had happened, I think.

Q    All right. And turning to the next page, Global Structured Credit, looking at the first arrow, "CDO market experienced extremely high growth rate." Any recollections of that?

A    Any recollections of?

Q    Of the CDO portion of Citi doubling in size basically over one year?

A    No. The first recollection I have of a discussion of CDOs was at the September 12th meeting.

Q    So, turning to the second bullet, the fact that Citi was consistently ranked number one or two in overall CDO business, was that something you were aware of?

A    I may have been, but I don't remember.
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I mean, typically a business unit would take all its different parts or major parts and tell you where they were in the industry, so it may well have been that in presentations they said we are number one in foreign exchange, which I think they were most of that time, and if this was the fact, then that probably would have shown up someplace.

Q Are those the so-called league tables?

A That is the idea of a league table; whether they were actually formally league tables for this business or not, I don't know.

Q And turning to the last arrow in that grouping, which reads, "Providing super senior triple A funding on both cash slash synthetic, historically part of Citi business model."

A Where are you?

Q I am sorry; this would be the last arrow?

A "Purchase protection"?
Interview - ROBERT RUBIN

Q  No, "providing super senior."
The last arrow in the first portion?

A  Here, I am sorry. Okay. Okay, right.

I could interpret -- I don't remember this, but I could interpret it for you if you would like. I could tell you what I would guess it meant, but I don't remember.

Q  Okay, why don't you give me your best reading of what that is?

A  My guess is what it meant was that historically they had provided funding -- look, providing super senior triple A funding, so that is providing funding, and that that was historically part of the business model, and that probably referred to the liquidity puts, I would guess, but I truly have no recollection. That would be my guess.

Q  Let's not have you speculate too much.

A  Okay.

Q  Turning to the next major
Interview - ROBERT RUBIN

division here, "Citi responses to market meltdown," take a look at the first three and tell me if you had knowledge of these prior to the September 12th meeting.

A    If I did, I certainly don't remember it, and I don't think I would have. This was the operation of the business, at a level that we wouldn't have seen at the board.

Q    And as far as you can recollect, the board was not aware of these changes?

A    I certainly don't recollect it, and I wouldn't have thought so. I mean, in the company's trading business there would be vast numbers of things going on all the time.

Q    And under "Lessons learned," the penultimate one, "Implemented significant changes in risk management in January."

A    Uh-huh.

Q    Do you know why they implemented these changes?

A    No.

Q    Turning to the next page, which
Interview - ROBERT RUBIN

is captioned "Leveraged finance," if you would take a look at that.

A    Leveraged finance. Okay.

Q    As far as you can tell, do you think, does that cover the CDO business and the RMBS business, these characterizations of changes in the market?

A    The way it reads?

Q    Yes.

A    No, it doesn't read as if it had anything to do with that. I mean, it refers to financial sponsors. No, I don't think it had -- it doesn't read like it had anything to do with that.

Q    So a financial sponsor might not --

A    No. A financial sponsor is a term in that context would refer to these very large LBO firms. Here, you can see one down here, TPG, Texas Pacific Group.

Q    Got it.

MS. BUERGEL: Actually, Tom, to be fair, the first slide you looked at didn't refer to the CDO or RMBS business side. That is global credit
Interview - ROBERT RUBIN

trading, which is an entirely
different business.

MR. GREENE: Okay.

BY MR. GREENE:

Q But let's go back to that first slide. So, if the company is facing problems because of CDOs and RMBS, what would have been the point of this first slide if it had not covered those businesses?

A What would be the point of the first slide?

MR. DOWNEY: If you know. He doesn't want you to guess or speculate.

THE WITNESS: Let me respond. This says global credit market financials, so if you would ask me, but I now found out I was wrong, I would have assumed that this covered credit market activities. But we just learned that that was not the case.

BY MR. GREENE:

Q But then, turning to this, the third page of this, under Global Structured
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Credit --

A Second page? This page?

Q Right. That does discuss CDO market volumes, correct?

A Let me look at it one second.

Correct.

Q And it does also discuss ABS warehouses, isn't that correct?

A Correct.

Q Okay, thank you.

Now I want to go back briefly to some of these questions about when you were advised --

A What do you want to do with this?

MR. GREENE: Let's mark next in order.

(Thereupon, exchange between Robert Rubin and Carl Levinson was marked RR Exhibit 5 for Identification, as of this date.)

BY MR. GREENE:

Q This appears to be an exchange between you and a Mr. Carl Levinson?

A Correct.
Interview - ROBERT RUBIN

Q Concerning an article on the ABX index.

Do you recall having a conversation with Mr. Levinson about the potential implications of a decline in the ABX index?

A I do not.

Q Now, the article also -- this is circa February 2007 -- the article itself refers to earlier drops in the ABX index. Do you recall any knowledge of such drops?

A I don't remember now, but I might well have had them.

The answer is I don't remember now, but I could well have had them at the time.

Q And to the best of your recollection, do you recall being told or understanding that a drop in the ABX index might have implications for Citi's CDO or RMBS businesses?

A I don't remember that, no. But again it may have come up.

(Thereupon, letter and
BY MR. GREENE:

Q    I have presented you with sort of a combination of documents. One is a transmittal letter from an Omer Oztan and Mary Reisert, I believe, with the office of the general counsel at Citi, dated December 7, 2007, to Mr. Lyons, who is with the Office of the Comptroller of the Currency, and it purports in a letter to provide a summary of various minutes and board committee meeting minutes concerning risk.

    If you have had the opportunity to briefly look at this, does this look correct from your perspective?

A    Does which look correct? The cover letter?

Q    Does it appear to be what it purports to be?
Interview - ROBERT RUBIN

This?

Yes.

I wouldn't have any way of judging.

Let's turn briefly to the spreadsheet portion of it on -- there are page numbers down at the bottom.

What page are you on?

Page one.

All right.

And under the date July 13, 2007, the heading is "Mortgage-backed securities portfolio in CLG, 820 million unrealized loss."

Now, this is to the CFO audit committee, so I am not sure you would have been aware of this, but my question to you is: Were you aware of this loss roughly during this time period?

Let me read this for one second.

Of course.

That is the audit committee of the board, is it?

I believe that is correct.
Interview - ROBERT RUBIN

A Because I wasn't there, I wasn't a member of that. I don't remember being aware of the loss, but I may have been.

The answer is I certainly don't remember any of this.

Q Turn to page seven, and under the date --

A I got it.

Q Take a look at the block under September 7, 2007.

A Uh-huh. This is September 7th, "Disappointing month in August." That is the one you are talking about.

Q Yes.

A Yup.

Q And I note that on the portion of this chart listed "Participants recipients," you are listed as a recipient?

A Correct.

Q Do you recall this document and discussion?

A I do not.

Q Do you recall if you --

A What I do recall was that August
Interview - ROBERT RUBIN

was a difficult month in the markets and
that had an effect on the P and L of the
firm, that I remember, but I don't remember
the specifics that you have here.

Q    Do you recall prior to
September 7th having knowledge of problems
in the CDO or RMBS portion of Citi?

A     No. The answer to your question
is no. If there were losses associated with
those businesses, they would have been part
of the P and L report from the CFO. So I
would have seen whatever it was he brought
to the board. But I don't recall anything.

MR. KARP: Tom, is there a
reference to CDOs, because I can't see it.

MR. GREENE: Oh, I am sorry.

THE WITNESS: No, there no
reference here to CDOs.

MR. KARP: I thought that was
your question.

BY MR. GREENE:

Q     It is CMB.

A     This is CMB, which I assume means
commercial mortgage backs.
Interview - ROBERT RUBIN

MR. KARP: That is entirely different.

MS. BUERGEL: Actually, CMB here is a reference to the investment bank.

MR. GREENE: It is a business unit.

THE WITNESS: That is what this is?

MR. BIRENBOIM: Yes, the entire bank.

THE WITNESS: That is funny, because I wondered why it doesn't say CMBS. So this is just, this is the whole business.

MR. KARP: That is why the question is confusing.

THE WITNESS: With that I can explain what this is. That is why it doesn't have an S in it. Okay.

This was the whole business, I think it was the downtown business. So they are talking about the whole business, which was all the trading activities, foreign exchange and
Interview - ROBERT RUBIN

mortgage backed and structured
products and commodities and
everything they did, and CAI as you
know was the principal investment area.

BY MR. GREENE:

Q But it would have been included
CDOs and RMBS?

A Oh, yeah, it would have included
a vast number of activities.

Q As well as other things?

A Well, more than just as well as
other things. It would have been a vast
number of things of which CDOs would have
been one piece, right. It included the
whole business which was a very large
business.

For that matter, it would have
included the operating activities too, cash
management, investment banking fees, the
whole array, and most particularly for these
purposes it would have included the results
of leveraged buyout activities and credit
extension and so forth.

Q Turning to page ten --
Interview - ROBERT RUBIN

A  Uh-huh.

Q  -- this is a description of a tutorial on, circa September 17, 2007. I don't see your name as listed. Did you go to a tutorial circa early September '07 on the risk environment?

A  It is interesting. I don't remember either going or not going.

You know what it might have been?

The answer is I don't know the answer.

Remember, this is post September 12th, right?

Q  Correct.

A  Right. So at that point, as soon as this happened and we met in the library I was deeply, I really got deeply engaged in this to try to help Chuck think his way through it. So I don't remember whether I went to this meeting or not, but this meeting was for the board which was to -- I presume, I truly don't remember this meeting, but my guess was this meeting was to begin the process or bring the board up to speed on what I already knew.

But I may or may not have been at
Interview - ROBERT RUBIN

the meeting, I don't know.

MR. KARP: Bob, they have the minutes of this meeting.

THE WITNESS: Okay.

BY MR. GREENE:

Q At some point Mr. Prince as I understand it created something called the defcom committee. When was that institution created?

A I have a very vague recollection that what he did was somewheres around -- the market disruption, turmoil in the markets as I recollect it at least began in July, I think, with I think lot of the focus being on the LBO area, leveraged finance and the debt associated with therewith.

And somewheres in there he started having these calls -- I actually had forgotten what they were called, but somebody reminded me -- he had calls, I don't remember if they were daily or very frequently, on market conditions. And they were broad calls about, as I -- I don't remember the specifics of them, but they
Interview - ROBERT RUBIN

were broad calls about what was going on in the markets.

Q    And who would typically participate in a def -- is it defcom or defcon?

A    I truly don't know. I didn't remember that name altogether until somebody reminded me.

        I don't remember who was on it. My recollection?

Q    Please.

A    As best as I can recollect, it was a group of appropriate people from the trading areas and then some number of the senior executives, but who was on it I don't remember.

Q    Any recollection of roughly how many people would have been involved in either of the meetings or calls?

A    No. I probably didn't even know at the time, because they would have had a conference set up down there and I don't know how many people they would have had in the conference.
Interview - ROBERT RUBIN

Well, I should say the answer is

I don't know.

Q  Now, do you recall any
discussions circa October about Citi's SIVs?

A  Oh, boy.

MR. BIRENBOIM:  What year?

MR. GREENE:  SIVs.

MR. BIRENBOIM:  Of what year?

MR. GREENE:  Of '07.

THE WITNESS:  I remember
generally discussions about SIVs, but
I couldn't place them in time.

BY MR. GREENE:

Q  Okay. Do you have any
recollection of Citi buying eight billion
dollars in commercial paper in support of an
SIV?

A  I do not.

Q  I am curious. There was a
statement to the markets, two actually, one
in mid-October, October 15th, about subprime
exposure, which was stated to the markets
that you had roughly a $13 billion subprime
exposure, and then on November 4th that was
restated to be 55 billion.

Do you have any recollections of that discussion on the board in terms of restating the company's exposure to subprime?

A  No. I remember November 4th, obviously, because that was a very important day. But I don't, I don't even know if that was discussed.

The answer to the question is no, but I do remember November 4th.

Q  Because you became --

A  Chairman of the board, and Chuck stepped down.

Q  Let me turn your attention to page 19 and see if this prompts any recollection you might have.

If you would look at the executive summary about halfway down the page, it is under "Risk management review and update to the corporate audit and risk management committee."

A  Here it is, yeah.

Q  If you would read that, I would
Interview - ROBERT RUBIN

appreciate it.

A    Let me ask you a question. This was dated when?

MR. DOWNEY:  According to this it is October 15th.

THE WITNESS:  Is this a regular board meeting?

BY MR. GREENE:

Q    No, it is a committee meeting as I understand it.

A    This is an audit committee meeting?

Q    Yes.

A    So this was what? This was a report to the audit committee?

Q    Yes.

A    By whom? I am just trying to understand what I am reading.

Q    Sure. You know, I don't know who actually provided the report.

A    Okay. But this was a report to the audit committee. Okay. It doesn't matter.

MR. KARP:  Do you have any
Interview - ROBERT RUBIN

indication that Mr. Rubin was present?

MR. GREENE: I am not sure. I am asking --

THE WITNESS: At this?

MR. KARP: I know you were not present, and they should as well.

THE WITNESS: No, I wouldn't be present.

MR. KARP: You are not present.

THE WITNESS: No, I can tell you that because I never went to audit committee meetings.

MR. DOWNEY: I don't have the question in mind, so would you reask it?

THE WITNESS: This is October 15th, okay. I have read it.

BY MR. GREENE:

Q Now, it appears to a lay person looking at that last dash --

A Yup.

Q -- that reads, "The total subprime exposure in markets and banking was 13 billion, with an additional 16 billion in direct super senior and 27 billion in
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liquidity and par puts. Subprime exposure was down slightly from last quarter."

A    Right.

Q    The company having just disclosed 13 billion and then in two weeks will disclose 55 billion, did they just not add it up properly, or do you have any recollection of --

A    I have zero recollection of this. I wasn't at the audit committee.

I think I could understand what this says. Now, whether my counsel wants me to try to interpret this or not, I think I do understand it.

MR. DOWNEY: I think it wouldn't be, I think it is probably an important area to you and I think you probably shouldn't speculate about it would be my sense.

MR. KARP: I don't know what rules govern this proceeding. We haven't been objecting. Most of the questions are objectionable because they contain predicates that are
entirely wrong, contrary to the record. We are trying to be fully cooperative, but we'd prefer that on behalf of Citigroup that you don't speculate.

MR. GREENE: And I wouldn't want you to speculate either.

THE WITNESS: I am not speculating. I think I know what that means, but if people don't want me to answer, I won't answer.

BY MR. GREENE:

Q If you know, I think you should.
A I don't know, I definitely don't know. Let me say I have zero recollection of this and I have no knowledge of it, and I am just looking at it as you would look at it.

Q When the company restated on November 4th that it had 55 billion in subprime exposure --
A Can I make one observation, though?
Q Please.
A That if the -- they are going to
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fire me, but if you add 16 and 27, you get to 43, right?

Q    Right.

A    And that is the 43 billion, that number happens to be the same as the 43 billion of triple A that we discussed at September 12th. And somebody could very understandably not think of that as subprime exposure but as rather triple A securities. I am not saying that is what that means or doesn't mean.

Q    Right, but do you have any recollection --

A    I have no recollection of this at all.

Q    You have no recollection of how the restatement was, why they had to restate, for example?

A    No. All I remember is November 4th.

MR. KARP: You keep referring to a restatement, which obviously has a very specific meaning in the financial services and accounting
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world. You don't mean a restatement, you mean the issuance of the AK clarifying the exposure.

MR. GREENE: Yes.

MR. KARP: I just want to make sure the record is clear at least on one issue.

MR. GREENE: Thank you.

(Thereupon, letter from Federal Reserve Bank of New York to Citi's board of directors dated April 15, 2008, was marked RR Exhibit 7 for Identification, as of this date.)

BY MR. GREENE:

Q Do you want to quickly go through it?

A Through the whole letter?

Q Well, I am actually going to ask you some questions from specific pieces of the text, if that is easier, or if you want to go through it quickly yourself.

A Let's just see what it is.

This is a rather dense letter.

It might be better if you just --

Q Okay, sounds good. I can
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represent to you that this is a letter from the Federal Reserve Bank of New York to Citi's board of directors circa April 15, 2008. Do you have any recollection of receiving this letter in your role as a board member?

A    I don't remember, but obviously did receive it since -- let me say, do I have a recollection, no. But I presume I did since this went to the board members.

Q    Why don't you take a look at -- there is a transmittal letter and then there is a summary of supervisory activity, and it has page numbers attached. The numbers are at the top of the page.

A    Okay.

MR. DOWNEY:  I beg your pardon.

Where are you again?

MR. GREENE:  I am actually on page two.

THE WITNESS:  You are on this page here?

BY MR. GREENE:

Q    Yes.
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A  Okay.

Q  And then down at the bottom, the last partial sentence, I will read it to you. I would like to get a reaction.

It reads -- this refers to risk management: "These weaknesses were characterized by a failure of risk management systems, personnel, senior management and the board of directors to identify potential risks and properly weigh them against the firm's risk appetite."

Firstly, did I read that correctly?

A  You did.

Q  And secondly, what is your reaction to that? Is that a fair criticism of the Citi board?

A  I would not have that view with respect to what the board did, no.

They are writing this after -- I guess an interesting question was they must have had a similar view in the end of '06, right? So what they are doing is they are looking at the difference between the end of
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'06 and '07 and they are saying you had very large losses and then they are saying it is attributable to those things, I guess.

No, I think the board, if you are asking me what I think, I think the board had put in place, or had had in place actually, an independent risk management function. It reported to the audit committee, it reported to the CEO, it was run by somebody who was very highly respected. It presented to every board meeting, it identified areas that it felt the company needed to focus on, and we tended to have pretty robust discussions.

In addition, they reported to the audit committee.

Q Take a look at the bottom of page six.

A Uh-huh.

Q I will read it to you: "Senior management allowed business lines largely unchallenged access to the balance sheet to pursue revenue growth. Citigroup attained significant market share across numerous
products, including leveraged finance and structured credit trading, utilizing the balance sheet for its, quote, originate to distribute, close quote, strategy. Senior management did not appropriately consider the potential balance sheet implications of this strategy in the case of market disruptions."

Firstly, did I read that correctly?

A    You read it correctly.

Q    And what is your reaction to that statement by the Federal Reserve?

A    Let's take a look at it again.

Q    Of course.

A    There were credit limits, so that was a constraint within which each business unit operated. I don't actually know quite what they mean by this.

In other words, if what they are saying is that senior management -- I don't know who they are referring to as senior management, by the way.

Q    I can only presume that it would
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be CEO and C level suite folks, but I can't
tell you dispositively.

A  I will give you my reaction.

In terms of the facts at the
time, they had an independent risk
management function, they had limits. To me
this looks like a judgment that was made
after the fact in the context of
extraordinarily large losses that developed
and we discussed a moment ago related to the
super seniors that we discussed in the
September 12th meeting.

But that is the only reaction I
have to it.

Q  Let me turn --

A  I actually think it is easy to
look back in hindsight and say something
happened or didn't happen. The question is
what should people reasonably have done in
light of the facts at the time, and you
couldn't possibly evaluate this statement
without knowing an enormous amount more than
this letter says.

I am not either agreeing or
disagreeing, I am saying there is no basis for me to evaluate that comment.

Q    Let me turn you to page eight. The last two sentences of the, what looks like the first full paragraph begins, "However, there was little communication."

I can certainly read that to you.

A    Just tell me where you are and I can find it.

Q    Right here.

A    Where are you?  Page eight. There we are, right.

Q    Little communication among whom?

A    Let me read it into the record and we can discuss it: "However, there was little communication on the extensive level of subprime exposure posed by super senior CDOs, nor on the sizable and growing inventory of non-bridge leveraged loans, nor the potential reputational risk emanating from SIVs which the firm either sponsored or supported. Senior management as well as the independent risk management function charged with monitoring responsibilities did not
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properly identify and analyze these risks in a timely fashion."

Firstly, did I read that correctly?

A You read it correctly.

Q And your reaction based on your experience on the board?

A You are asking me to evaluate this?

Q Yes, please.

A Okay.

Again, I think it is very hard to know in terms of the facts at the time. They were dealing with triple A securities and whatever risks they thought were associated with those triple A securities. What they did at every board meeting was that the chief financial officer and its people would report to the board on the results of the last period, whatever it was, the month or the quarter, so forth, and that would reflect the results of all the different parts of the business, all the parts of the balance sheet, the activities and so forth, and that report would include
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obviously in it the effects of the CDOs, but
this was a very small part of a very, very
large picture.

Whether that -- so the question
here was, was that adequate in light of the
size of those inventories? And I would, I
have no idea what was on their minds, but
given that these were triple A securities my
guess would be that, just like with all
other triple A securities, they would have
viewed those as, roughly speaking, money
good and probably wouldn't have thought that
they needed to be identified as a special
category.

Obviously, after September, after
the problems developed and after -- well, I
guess a different period of time here. I
don't remember the date of this -- this is
after the whole thing. So obviously, once
you saw, in hindsight, looking back and
seeing that the triple A securities were in
fact woefully misguided in terms of their
ratings, that they had much larger risk than
anybody at the time thought, in looking back
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you have a whole different picture.

I would think there is virtually
no question but that had the risk management
and the CFO function and others known then
what nobody, including the regulators, I
might add, knew at the time, that these
securities had much greater risk than
anybody thought, that they would have
brought this to the attention of the board.

Q    So, the fact that it wasn't
brought to your attention, the falls in the
ABX index and falling house prices and
things of that nature, you don't think they
should have brought that to your attention
earlier than they did?

A    Oh, I didn't say -- everything
you have just said may very well have been
discussed at the board, I mean falling ABX
index, falling housing prices. The question
is what did that mean for these securities.

In fact, I would guess -- I am
speculating here, I don't know, but I would
guess that if you look at the monthly
presentations that were made to the board by
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the risk management, independent risk management people where they describe market conditions, they probably had in them references to housing prices, ABX indexes, and if you didn't see them there they were in the newspapers.

MR. KARP: Bob, they were discussed, in materials they were discussed.

THE WITNESS: I would have thought so, because those reports to the board -- you must have them all -- those reports to the board would start with a description, a page or two or three, I don't remember any more, of market conditions.

MR. KARP: They do.

THE WITNESS: The question that you are raising is what relevance, if any, did that have to these triple A securities. That is a totally different question.

BY MR. GREENE:

Q So your suggestion is that those
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facts should not have been reasonably understood by people in the marketplace to have threatened the triple A securities and the other securities that Citi had either on its balance sheet or was trading?

A You are asking me now to opine what people should reasonably have thought then.

I just make the observation that they reported the losses that they felt were associated with those securities, at least at the end of quarters. The auditors looked at that. The regulators were all over these businesses, so they were aware of what both, I presume they were aware of what both positions were and what results were being reported, and virtually nobody did associate the facts that you are suggesting with the triple A's.

Q Let me turn you to the third full paragraph on this page.

A I will tell you something interesting. You will have to find out the timing of this.
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Somewheres in here, Morgan Stanley went out -- I don't remember when this was, you will have to check this -- Morgan Stanley went out and bought triple A CDOs, I remember this now, bought triple A CDOs as a way of hedging against some other risk.

In other words, they assumed some kind of an interest rate risk because they viewed -- this was all in the press, you can find it -- because they viewed the triple A as money good.

Q Okay. Let me turn your attention to the third full paragraph on that same page, which reads, "While we acknowledge the management" --

A I am not making a brief for what went on, I am not making a brief for the rating agencies or anything else. All I am saying is that in the whole world that existed prior to these sets of events, triple A was always thought of as money good, and it was understandable people would look at these things and think of them as
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money good.

Q  But wasn't it the case that the rating agencies were actually devaluing many of these securities?

A  To the best of my knowledge they hadn't lowered these ratings.

Q  Let's turn to --

A  I was troubled by a different issue, which you may remember I mentioned before. I am just going back, I don't mean to --

Q  Please, go ahead.

A  At the September 12th meeting what troubled me was that we hadn't disposed of the risk.

In other words, this is a business, right? And the business is in effect an arbitrage business in the context of the CDOs, and you get a fee for doing it, right? And what troubled me, and it was a reaction I had at that September 12th meeting, it didn't go to the risk or nonrisk of triple A securities, it went to the notion, to my view at least, that if you are
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in a business, in an arbitrage business and you are charging a fee for it, then you should complete the trade by disposing of the risk, and they hadn't disposed of the risk.

Now, they said, and I think it was understandable, though it wasn't my view, that since these were triple A, triple A's were for practical purposes money good.

Q    That would of course prove to be not money good subsequently?

A    Oh, let me tell you, sure.

Look, if you knew, if people had known at that time what they later on came to know, then of course they would have looked at these very differently and I am sure made a very different set of decisions.

But in the world of trading, the world I have lived in my whole adult life, there is always a very important distinction between what you could have reasonably known in light of the facts at the time and what you know with the benefit of hindsight.

Q    Certainly. But of course that is
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why warnings about the quality of securities are so important?

A Yeah, but, you know -- that is true, and warnings are important and you should try to do the best you can with making judgments about warnings, but you also have to judge what could you reasonably have extrapolated from whatever you think to be the warnings with respect to whatever securities you are looking at.

Q That brings us to --

A And I will say this. I think, to the best of my knowledge at least, virtually nobody was extrapolating to the triple A tranches, but I am not making a brief for that because, as I said, I thought when you do an arbitrage you should dispose of your securities.

Q Let me read you this third paragraph, which goes: "While we acknowledge that management" --

A Could I say one more thing? I apologize, but I lived this, I have lived in trading markets my whole life.
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After the fact there is always a tendency to look back at things and say there were the warnings, how could you not have seen that. That is easy to do in hindsight. But I will tell you, at the time, in light of the facts at the time, it is a very different perspective.

And I have just lived through this so many times. When I ran the trading operation at Goldman Sachs, something would go wrong and people would look back and say there was that warning and there was this warning and there was the next warning, and how could you not have seen it.

Well, that is easy to do in hindsight, but the much harder judgment to make is what should people reasonably have done in light of the facts at the time.

There is always a tendency to overstate or -- over-extrapolate, overstate what you should have extrapolated from or inferred from various events that have yielded warnings.

Q So would it be a fair
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characterization of what you just told me that, while a business person and a firm should heed warnings --

A Absolutely.

Q -- in this case the warnings were insufficient to trigger additional questions to management or to take steps to limit exposure?

A Well, you went back to the prior September 12th period?

Q Yes.

A I guess what I am saying is two things. One is I don't remember the discussion of these warnings and what, you refer to the warnings and what people took from them, but obviously people didn't take from them the view that these triple A's should be reevaluated in some way.

And secondly, I didn't know, at least the best I can recollect, that we had this triple A exposure until the September 12th meeting.

Q And in that regard, do you think you were typical of the members of the
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board, not knowing about the triple A exposure?

A   Unless at some prior time somebody had mentioned to the board, and I do not recollect -- it may have happened, but I am reasonably sure it didn't because I think if it had I would have remembered it, but I do not remember anybody notifying the board there was a $43 billion triple A position.

But as I said a moment ago, it is sort of understandable. These were triple A's, there are all kind of, if you had Treasurys in some large magnitude you probably wouldn't have mentioned it to the board either.

But the first time I had the knowledge of it that I can recollect is at that September 12th meeting, and I don't think there was any reason why anybody else on the board should have known it prior to that. But whether they did or not you would have to find out from them, obviously.

Q   Let me read you one final piece
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from this Federal Reserve report, which reads, "While we acknowledge that management took steps in prior years" --

A Where are you now?

Q Third full paragraph, page eight:

"While we acknowledge that management took steps in prior years to minimize the firm's exposure to the more risky forms of direct mortgage lending such as option ARMs and non-amortizing loans, it did not recognize and control the concentration of subprime exposure that was building in its structured credit activities. Moreover, the board of directors does not appear to have posed the proper questions to senior management in the early stages of the subprime mortgage crisis which otherwise might have caused senior management to report more meaningfully and completely on the potential impact that deteriorating credit market conditions could have on the firm's risk exposures and future earnings."

Any reactions to that commentary?
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A Yes, I do.

I don't remember what discussions we had about the mortgage markets in those days, you know, at that time. But I think this looks to me like -- "does not appear to have posed the proper questions to senior management in the early stages of the subprime mortgage crisis."

Well, let me ask you a question: They were the regulators, what questions were they posing? My only point is this: It is very easy in hindsight to look back and say you should have done this, you should have done that.

I truly don't remember whatever the discussions were, but I don't think -- unless somebody has a lot more to this, I don't see what they thought should have occurred. But having said that, if they, having looked at all this, felt that there are questions that should have been raised, since they were the regulators they could have readily raised them.

I think it is very easy, very
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easy after the fact to look back and say you should have said this, you should have said that, but I think that it is a lot different to actually do it in the context of the facts at the time. As I said, I am repeating myself, but they could take this very same statement and say the regulators do not appear to have posed the proper questions to senior management, et cetera.

Q    Now, let me step forward to later in 2008.

A    Where are you now?

Q    Later in 2008. At some point, you as I understand it placed a call to Mr. Paulson suggesting that the shorts --

A    Could I go back to this one second? It interests me because I lived my life in trading.

    I mean, you can always take -- I am just thinking back to when I was at Goldman -- you can always take the facts at the time and you can say what should we have seen, what shouldn't we have seen. It is a very complicated question, and I don't have
any idea whether there is any merit to this at all, other than the fact that they didn't do it either, which suggests to me that this is a bit of hindsight.

But if you really wanted to make a judgment as to whether that was a reasonable comment or not, you would have to find out what all of the facts were, all of the statements were, and you would have to get some group of people who had enough expertise and enough experience to it to try to tell you now, today -- try to rule out of your heads, take out of your head what actually happened, put yourself back in that period of time and try to make a judgment, okay, what would have been reasonable to infer, to extrapolate from, to extrapolate from everything that was said and take out of your head what you know has happened since, which is a very, very difficult thing to do.

And I guess the only evidence -- evidence is the wrong word -- but the only comment I would have is to suggest that this
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doesn't quite track because they didn't do it either.

But, go ahead. I didn't mean to digress.

Q I appreciate the comment.
Okay. Your point is on the record.

At some point you did as I understand it have a conversation with Mr. Paulson in his role as Secretary of the Treasury?

A Tell me what date?

Q I don't have a precise date, but a conversation to the effect that the shorts were --

A I remember, okay.

Q -- the shorts were essentially attacking the company. November 2008 I am advised. Do you have a recollection of that? Was there such a conversation with Secretary Paulson?

A I do remember. I don't think I said, I actually don't think I said quite what you said.
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Q    Okay.

A    I think what I did was to call Mr. Paulson and say that -- the uptick rule had been suspended or eliminated -- the uptick rule for short sales was not in effect. I don't remember how that was done, okay, was not in effect.

And I remember calling Mr. Paulson and saying -- and I think this was late in the week, you can check that, but I think it was late in the week -- and saying to him, you know, you ought to look at the markets. It wasn't just a question of Citi. All of these stocks were under just enormous pressure. And I don't know what is going on, but from what you hear is that there is a tremendous amount of short selling going on and short sellers are piling on. And I said you ought to be aware of it.

Q    Did you have -- what was the nature of --

A    I mean I thought, I personally thought they should reinstate the uptick rule.
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Q    Okay. But did you have any information that you relied on to make that statement, that you thought the shorts were attacking Citi?

A    No. It was just sort of the market. I didn't know anything specific. I didn't say -- you keep saying attacking Citi, and I keep moving away from that because I don't think --

Q    I am sorry.

A    I don't think that mine was a Citi-specific call, I think mine was a general call. I think Citi was the most vulnerable company. Citi had a whole series of things happen that I think made it more vulnerable than the others, and so it was in a sense the most threatened by this.

But this was the period, as you may remember, just roughly the period when Morgan Stanley and Goldman Sachs were also under tremendous pressure, and there was a risk that all of this selling was undermining confidence in the system and confidence in all these companies.
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And what I am about to say may be wrong in the timing, but somewheres in here Morgan Stanley and Goldman Sachs became bank holding companies in order to deal with that loss of confidence. I may have gotten my sequence slightly wrong, but that is roughly right.

But I had no specific knowledge of that, if that is your question, but there was a lot of talk on the street at the time.

Q As part of the process to protect Citi, if you will, Citi received direct infusions of capital from the federal government, and then in addition roughly 300 billion dollars in assets were ring fenced.

Can you describe to me the kind of assets that were ring fenced?

A Oh, boy. Let me ask you a question, if I may. Was the ring fence, that was in the second transaction, that was the second TARP, I think, right?

Q I believe that is correct, yes.

A I don't remember which kind -- the answer is no, I can't, I just don't
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remember which ones were ring fenced, but you are correct in your statement. I think it was actually slightly, roughly speaking, 300 billion of these --

Q I believe 305.

A I was going to say 306, but I am sure your number is right -- were ring fenced, and in effect my general recollection of this, but you can get better, obviously better, more precise information, is that Citi was responsible for the first loss and then the government was responsible for the loss after that is my recollection of that. But I don't remember what assets were put in there, no.

MR. KARP: I don't know if this helps, but Mr. Bondi interviewed Ned Kelly and Brian Leach around these topics, and it was a pretty developed record around this issues. Mr. Kelly led the negotiations for Citi regarding the ring fencing of assets. If that is not sufficient, we can get you additional information.
BY MR. GREENE:

Q    During generally the same time

frame, Citi took back onto its books seven

SIVs. Do you have any recollection of that?

MS. BUERGEL: They didn't take

back. They had never been on, just to

be clear.

MR. GREENE: Okay.

THE WITNESS: You said they had

never been on the books? Yeah, I

remember there was a time when they

took assets back onto -- well, back --

well, I object to the idea of back

onto, but they took the assets of the

SIVs onto the books. I don't remember

when it was.

BY MR. GREENE:

Q    Do you have any recollection of

why the company did that?

A    Yeah, in a general sense.

Q    Please.

A    I believe at that point -- I am

going to give you my best recollection; if
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it is not accurate, it is only because my recollection is not accurate.

Those SIVs were funded I believe by commercial paper. And you will correct me if I am wrong?

MR. KARP: We have had a witness. Bill Arnold covered this in detail, and we provided interrogatory responses that covered this in detail.

THE WITNESS: Let me give you my recollection, and if it is different than theirs, theirs is right and mine is wrong.

My recollection is that the SIVs were funded with commercial paper. At some point, as you know, the commercial paper market froze, and there was a lot of pressure from the holders to have Citi take these back on and make them good on their paper.

And I also remember being told that the assets in these SIVs were good assets, and they were in fact taken back on the books. That is my
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recollection.

BY MR. GREENE:

Q To the extent you have knowledge of this, when the commercial paper market froze, many firms apparently had backup lines of credit to banks.

Do you recall if Citi was put under some pressure to provide backup financing to major corporations because of the freeze in the commercial paper market?

A You mean to provide new backup financing?

Q Right.

A I am asking you to distinguish between -- I actually don't remember either one, I am just curious what you are asking, whether there was pressure to, for draw-downs on existing lines or to provide new lines?

Q Actually I would like to get it both ways. But my principal interest is in lines that already existed.

A I have a general recollection that companies that had lines wanted to draw
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don down on them. That is a general recollection. I have no specific recollection at all, but I have that general recollection.

Q And do you have any recollection that that may have affected liquidity or created problems for Citi?

A The only recollection I have with respect to liquidity at that point was that it was being managed with immense intensity by the treasurer's office, but I don't recollect the liquidity condition at any point.

Q Now, I want to turn briefly to some acquisition strategies of the firm. The company apparently purchased Argent and its subprime business. Do you recollect that?

A Argent? I do not remember.

Q And the company sought to purchase Wachovia --

A That I remember.

Q -- from the Fed.

A Yes.
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Q    Given your liquidity situation at
the time, what was your thinking in terms of
how that kind of an acquisition might be
possible?

A    Well, let me answer it to the
extent I can, but there are others who could
give you a much better answer.

One advantage of acquiring
Wachovia would be that they had very large
deposits, so that actually -- I am giving
you my recollection, it is pretty general.

Q    Please.

A    But had we acquired -- had Citi
acquired Wachovia, you would have picked up
a very large domestic deposit base.

And as you know, the Federal
Reserve, either the Federal Reserve board or
the Federal Reserve Bank of New York or both
had reviewed that and approved Citi going
ahead with it.

Q    My colleague reminds me that you
may know Argent is actually Ameriquest?

A    Ameriquest, yeah, I remember that
name.
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Q    Do you recall that acquisition?
A    No, other than they either acquired it or tried to acquire it.

How big was that?

Q    I am sorry?
A    I was asking what size it was.

MR. BONDI: I don't recall, as we sit here today.

(Brief break.)

BY MR. GREENE:

Q    Let's turn to a couple of different topics.

You indicated that one of your roles was to deal with foreign leaders and foreign banking institution, correct?

A    Depending what you mean by deal with. I certainly met with them. I didn't cover them, I didn't have a coverage responsibility, but I would meet with them, right.

Q    Can you describe your role in securing funding, if there was a role, from the Abu Dhabi Development Authority?

A    Yes. Let me try to place this in
November 4th was when Chuck Prince stepped down and I became chairman of the board, and that is when we -- oh, boy. That is when we announced -- I don't remember the exact announcement, but you have that, losses somewhere in the neighborhood of eight to eleven billion or something like that associated with the CDOs, and clearly we had to focus on the capital position of the company.

And a group of people at Citi, I don't recollect -- well, I remember roughly -- got engaged in going out to a number of possible investors, and they got engaged with Abu Dhabi. Abu Dhabi sent a team over, they did a due diligence. I wasn't part of that, but they did a due diligence. They negotiated the terms, and then it all got to the point where it was done but it had to be officially formalized and they needed somebody to go to Abu Dhabi who could do that.

I was chairman of the board and
so I went to Abu Dhabi with Michael Klein, who had been involved in some measure, I don't know how much, in working this thing out. And that is when we met with the appropriate people in Abu Dhabi and formally closed the transaction.

Q    Do you recall the approximate size of the transaction?

A    Yeah. It was seven point, I think it was $7.8 billion.

Q    And do you have any knowledge of whether or not the representatives of Abu Dhabi contacted the U.S. government about the continued solvency of Citigroup?

A    I don't know the answer to that.

Q    You have no knowledge of whether or not there was some representation made that the U.S. government would continue to support Citigroup if they invested that much money in the company?

A    I do not know.

Q    There is a press report that Saudi interests were very disturbed about Mr. Prince and his continued tenure as CEO.
Interview - ROBERT RUBIN

Did you deal -- one, is that a general --

A When you say Saudi interests, you are talking about Prince Waleed?

Q Yes.

A Okay.

Q Did you have to deal with the prince?

A I think during the period that I was -- wait a minute. You are talking about when I was chairman, so Chuck Prince wasn't there any more. So tell me what period of time you are talking about.

Q I understand this was just before Mr. Prince resigned.

A I don't think I -- I don't think that I had any conversations with the prince until after Chuck resigned.

Q And what were the nature of those conversations?

A After he resigned, I think what happened is that I called him once; you know, he was a large shareholder, so I called him once to touch base with him, to
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make sure he knew he had somebody he could
talk to, which was me. And I don't remember
any specifics of that conversation.

Q    Likewise, do you have any
understanding that the prince reached out to
U.S. authorities about the continued
solvency of Citigroup?

A    If he did, I wasn't aware of it.

Q    Let me step back just briefly
because I would like to get a bigger picture
here, taking advantage of your knowledge.

A    Sure.

Q    Any lessons learned from what
Citigroup just survived?

A    Yeah, I think there are some
lessons. I have thought some about this,
obviously.

Q    Yeah.

A    I think there is sort of a macro
lesson, and I will get to that in one second.

Q    Sure.

A    Then there is something else
which I must say I thought some about, and I
am not sure what I think about it, but I saw
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Warren Buffett made a comment about it the other day and I will get to that secondly, okay?

Q Please.

A I think the overall lesson of all this -- let me spend a moment or two on this because I really have thought about it.

I think the overall lesson on this is if you go back to where this crisis came from, after all, it was an extra-ordinary event. These were the worst financial conditions since the 1930s. When you have something of that extraordinary nature, it seems likely that it was produced by something that was also or commensurately extraordinary.

And in my view at least, and this is what I wrote about in my Newsweek article, I think it is much more complex than almost anybody wants to talk about it as being people like to focus on one factor or another factor or whatever it may be.

But I actually think what happened was that you had a whole host of
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very powerful factors working at the same
time, and as those factors worked -- and I
went through all of it in my article, or at
least most of it -- I think you develop all
kinds of negative feedback loops, multiple
vicious cycles, and these things all fed on
themselves. And as time went on you had
increasing unemployment and it globalized,
because remember, a lot of institutions got
in trouble abroad as well, and you wound up
with what I said was a moment ago the worst
financial crisis in 30 years, and I think
virtually nobody saw it.

I mean I was worried about
excesses. I used to speak about them a lot
we were in 2005, 2006. But I said this
earlier, so I am repeating myself. I
thought as a result you would have at some
point a downturn or maybe a sharp downturn,
who knows. But instead, that is not what we
had. We had this really mega event, and
virtually nobody saw it, and that certainly
included me. It included the regulators, it
included commentators, analysts and so forth.
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And I think the lesson you learn from this is that the system is vulnerable to far more severe downside than virtually anybody thought prior to this having occurred, and it seems to me that the obvious lesson you take from that for a company, Citi, for example, is that whatever decisions you are making -- no, let me put it, decisions you are making all through the place should be tested by a different level of stress than you would have applied prior to this experience.

And systemically it seems to me that the answer is rather the same thing, which is that we need to change the financial regulatory structure so they can protect us against a far more severe set of circumstances than, as I said a moment ago, almost anybody had thought our system is subject to any more.

And so what I think is that, and I think I have said all this, is that the leverage requirements should be increased very substantially, though you correctly
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raised the question of how you measure that
when you are talking about risk. It is a
very complicated question. When risk gets
disassociated from debt, it is not just a
question of debt-equity, it is a question of
how do you measure the risk and then what
kind of leverage requirements do you have
relative to that risk.

I think, as I said in my book and
as I thought back when I was at Goldman
Sachs in the late '80s, early '90s, that
derivatives created a significant systemic
risk under stress conditions, not normal
conditions, and what you need is much higher
margin and capital requirements.

I agree with what Treasury has
proposed and the standardized ones should be
put on exchanges, but I actually think the
key to this is higher margin to capital
requirements, though I think the
transparency that comes from exchange
trading is also very useful.

I think you need some kind of a
resolution authority that is effective,
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though I think that is a lot easier to say than to do. I think it is going to be interesting to see how that gets worked out practically, but if you can do that, if you can do what I just said, you protect yourself more. And then if you have a resolution authority for when companies get in trouble, you really can get at the moral hazard problem here.

And then you need consumer protection, and I think you need it not only for the reasons that are talked about so much, which is to protect consumers, but if you protect consumers you are also protecting the system because it means people aren't going to get overextended. This whole subprime issue, for example, had you had really effective consumer protection might not have happened because people might have been better protected.

And then you have to do something about off balance sheet, and I know what Treasury has proposed and I don't know if that is the right -- I know what they have
Interview - ROBERT RUBIN

proposed, so I am not, not that I don't
know, I know what it is, I just don't know
if that is the best way to do it or some
other way may be better. You put all those
together, and I think that is what I would do.

I would do one other thing. I
know this is very controversial, but I think
mark to market accounting played a real role
in what happened, and I lived my whole life
with mark to market accounting at Goldman
Sachs. I believed in it, I thought it was
the right thing to do. But the trouble is,
when you get into conditions of extreme
market stress and you have illiquid markets,
there is no market. So the only thing, the
only price that those kind of assets can be
sold at are distressed prices, and so you
sell an asset at a distressed price, then
you have to mark down your balance sheet.
When you mark it down you have to sell more,
and I think it created a real vicious cycle.

Now, that is a very controversial
view. I know others have a very different
view. So that is what I think should be
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done.

Now, something I have thought about, and I don't know whether I think this or not, but I saw Warren Buffett said it the other day, maybe another thing that we have learned is that, or maybe rather another lesson you might take from this, is that with markets subject to so much greater risk than virtually anybody had thought, maybe you should really require that your CEO be somebody with a great deal of experience in risk management.

I am not sure I think that because I certainly could envision a situation where you have somebody who didn't have that background but he put in place the right people, and even with this far greater risk. This is something Buffett said the other day. I am not sure that I think that is right, but it is an interesting thought.

Q  Do you have a perspective on where the risks were located during the crisis, a more specific sense?

A  You mean in the system?
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Q Yes. Just to give you a sense, we have talked to some people who have suggested repo markets and commercial paper were particularly vulnerable, but --

A Why?

Q The argument typically goes that they are outside of the regulatory scheme, so massive leverage and a massive deleveraging has been observed.

But I am just curious if you see particular points of vulnerability in the system?

A It wouldn't have occurred to me to think of those. Two come to mind, but let me think if I have any others.

Well, two obvious ones because I have already mentioned them, is the financial system. I mean the financial institutions were clearly not -- didn't have adequate leverage requirements for the situation that developed, so that is one area of vulnerability, and presumably that is going to be fixed if we get financial reform, and I presume we will get financial
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reform, when we get financial reform.

And the other is that consumers overextended themselves, not only in subprime mortgages but in credit cards and a lot of other areas, and I don't know quite how you deal with that.

I will give you another, by the way, but I think there should be a real robust consumer protection capability someplace, and it is not just to protect consumers. That is obviously important, but to protect the system from consumers over-extending themselves, and I have my own thoughts as to what that might consist of.

But in any event -- and I don't think it is just transparency. I mean, clearly you have to have understandable documents, but I think it goes beyond that. I think there probably are some instruments that are inherently so susceptible to misuse that they probably shouldn't be allowed. Though I can't give you a specific example, it strikes me it would have to be.

And then I have always thought to
myself, but this just may not be practical, that if there was some way to provide people access to counseling before they get themselves into major difficulty, that would be a very useful thing to do. But that is such an expensive thing to do that maybe it is just not practical.

Q Let me ask you another question, which is: There is a school of thought that --

A Can I give you one more example of something?

Q Sure.


Q I was going to ask you, there is a school of thought that something called the Community Reinvestment Act --

A Something called the Community Reinvestment --

Q CRA?

A I have heard of it.

Q Incented firms to basically make bad loans. Do you have a perspective on that?

A Yeah, I do.
I think the Community, and I understand the Community Reinvestment Act is a controversial measure, I am really aware of that, but I think the Community Reinvestment Act led to very large amounts of capital being available in inner cities and distressed rural areas that wouldn't otherwise have been, and I think an enormous amount of good has been done as a result of that.

Let me just disclose something. I am chairman of the board of something called LISC. It is the largest community development organization in the country, and we deal with inner cities. In 2007 we distributed over a billion dollars in those cities, so I am very -- and CRA is very important to what they do, so I kind of know a fair bit about this, and I also knew from Treasury. So I think it has been a very constructive force.

On the other hand, whether that has led, because of that availability there was subprime lending that shouldn't have
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taken place, I don't know the answer to that. But it seems to me the answer to that is not to change CRA but to put in place consumer protection so that what you are addressing is the, if you will, the consumer borrowing that shouldn't have taken place rather than affecting the program that I think had a lot of very constructive effect.

Q    In a similar vein, do you think that the activities of Fannie Mae and Freddie Mac were a principal cause of the crisis?

A    I don't think they were a principal -- no, if you are asking me were they involved in the crisis, clearly they were involved in the crisis.

Do I think they were a principal cause of the crisis? I wouldn't think so based on what I know. I don't know what the argument would be that they were -- to give you the best answer, somebody would have to tell me why they thought it was a principal cause and then I could say what my reaction to it was for better or worse.
I do think there was an inherent problem with Fannie and Freddie, and that was that you had the implicit guarantee of the federal government, and at the same time they were profit-making organizations, their stocks traded, and they correctly, correctly I say as managers of a company, a public company, they correctly wanted to build their earnings, but they were doing it with capital that had the implicit guarantee of the federal government.

So I think there was an inherent problem in that structure, but I wouldn't, unless somebody said something different to me that I don't know, I would say they were a part of the crisis but not a principal cause of the crisis.

Q Fair answer.

You mentioned the question of off balance sheet vehicles. What is your thinking on that?

A Well, I don't quite know the answer. I mean I have less of a view of that than the other things we have talked
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What the Treasury proposed, if I remember correctly, was that where companies do off balance sheet financing with credit card receivables or auto receivables or mortgages or whatever it may be, that if they take all the assets and put it in a vehicle, they don't really have an incentive to worry about the quality of the assets. I think they actually do have an incentive because there are a lot of reputational issues, but in a more direct sense they don't retain the risk of the assets.

And so, if I remember Treasury's proposal correctly, was that they should, when you set up an off balance sheet vehicle, you should keep part of those assets, you should be required to keep part of those assets yourself so you have incentive to worry about the credit-worthiness. That strikes me as making sense.

My guess is that probably -- that strikes me as making sense. Whether there
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should be further constraints on off balance sheet financing or not, I don't know.

Q    Do you have similar views on what is referred to as the originate to distribute model?

A    The originate to distribute model, tell me what you mean by that.

Q    The idea meaning that someone would offer a mortgage, for example, to somebody that wasn't well underwritten on the assumption that they could sell it to the market, so, not keeping any interest in the mortgage would incent them to not underwrite properly?

A    It is not subject I've thought about, but I guess I have two responses to it. One is, if you had a really effective consumer protection function, if I understand your question correctly, then presumably that loan wouldn't take place.

But secondly, as you suggested in the way you framed the question, you could at least partly cure that problem by requiring people to keep part of every
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mortgage that they were involved in originating.

Q Just a handful more.

How would you rate the regulators during the crisis?

A How would I rate the regulators?

Oh, lord.

Look, I don't know how I would rate the regulators. I think the regulators got in the same position as virtually everybody else, and that is that, with very few exceptions across the financial system, including the regulators, including -- I said this before -- financial institutions, investors, analysts, commentators, people didn't simply didn't see this combination of forces at work and didn't see the serious possibility of something of the magnitude that happened.

So I don't know, I think in that sense everybody has responsibility for what happened and we ought to be fixing it and doing our financial reform and so forth.

But I don't know, that is just my
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observation about everybody.

Q  Do you think financial products have become just too complicated for markets to deal with?

A  It is a very good question. You know, it is a really good question because the problem with these complicated -- I think I know my answer, but the problem with these complicate products is that they have embedded in them -- I mean I actually lived through this in the '80s, so I kind of have some experience with it, though at a much simpler time, obviously -- they have embedded in them all kinds of risks that you don't -- I am sorry, let me -- they may have embedded in them, they may have embedded in them all kinds of risks that you don't see until you get extreme market stress. So that even very sophisticated people will engage in transactions and then find when there is extreme market stress that things happen that they had not anticipated.

So the question is how you deal with that, and I guess my view would be -- I
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think it is an inherent problem that you
have identified. I guess my view would be
to have capital and margin requirements that
were sufficient so that even when that sort
of event happened, you had a lot of cushion.

And secondly I might add, if you
had those much larger capital margin
requirements -- and this is why in my book I
recommended them and why in late -- I want
to tell you something else, but in a minute.
It is going to deter usage. You are going
to have a lot less usage, and it seems to me
that would be desirable.

In about 1989 or 1990 or
somewheres in there, I had gotten very
concerned about all this, and so had my co-
senior partner at Goldman Sachs. I went to
see Dick Fisher, who ran Morgan Stanley. I
said to Dick that I thought this was a real
problem and we ought to try to do something
to increase capital margin requirements.

It very quickly became apparent
that politically that was impossible to do.
The industry just wouldn't, in those days
Interview - ROBERT RUBIN

the Chicago exchanges particularly, but it would never have happened. And so I have a long history with this issue.

Q    What is your view of credit rating agencies and their performance during the crisis?

A    During this crisis?

Q    Yes.

A    Well, I don't know much about credit rating agencies. Obviously, in retrospect, the ratings of the triple A, what was rated as triple A were horribly misguided. I shouldn't say obviously; they certainly seem in retrospect to have been horribly misguided, and I think that was at the very center of what happened.

You take the discussion we had a bit ago about Citi. There was a lot of reliance on those triple A ratings. So the question then I guess is what do you do, if anything? What do you think the problem was in the credit rating agencies, and I don't know enough about it to know. I mean I have read stuff and I know what people say. And
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then once you have identified what you think the problem is, what do you do about it?

Q    This may be in hindsight, but any broad perspectives on either Mr. Bushnell or Mr. Prince during the crisis and their performance?

A    Yeah.  I think Chuck Prince did what he should have done, which is once he knew, once he became concerned -- let me get my head back in time because we are back into something else.

I guess it was in August or maybe it was July -- no, I guess it was July -- that the market, there was real market turmoil developing, and it was really predominantly focused on the LBOs, I think that is where it was. He started having these special calls that you referred to before, I forgot what they were called, but these special calls.

And then once those problems, as those problems heightened, he then -- I think we are in the end, must be the end of August or early September, where he had that
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first meeting with the fixed income people when I was in Korea. That must have been the early part of September, and then we had the meeting of September 12th which I have described, and I think once these problems surfaced he really got on top of it.

And then of course he just, then he tried to make judgments or he did make, worked to get his judgments about what he thought happened, why it happened, and then he acted, because that is when Tom stepped down and so forth.

Q    And Mr. Bushnell?
A    I know less about what David did. We had that September 12th -- David Bushnell as head of independent risk management participated in all these processes as we go along. I don't have a specific kind of comments about David.

Q    There is a view that there was for various reasons significant liquidity in the market which would, was a driver of the crisis. Do you have a perspective on that?
A    I have a view on that, yeah, I do.
Interview - ROBERT RUBIN

Q. If you could provide it, please?

A. I will even provide it.

Yeah, if you go back to 2005, 2006, and there were people around, and I said I was one of them, but there were quite a few people who started talking about the markets were in excess and so forth, the common explanation was that there was an enormous amount of liquidity, and liquidity was driving this excess.

So I make two observations, if I may. I had a slightly different view. My view is that liquidity -- it still is, by the way, my view was and is -- that liquidity is not predominantly a monetary phenomenon, that it is a psychological phenomenon, and that once the psychology of markets changed -- I used to say this in my speeches, actually. Back then I used to say people are saying there is a lot of liquidity that is driving markets and that should make us feel comfortable.

What I say is different. What I say is that liquidity is a psychological
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phenomenon and that at some point the psychology, if it changed -- now, maybe it won't change, maybe these aren't excesses, but if it does change, then what you are going to see is prices go down and people are going to say liquidity has dried up.

And actually, I remember exactly how I used to say this. It wasn't that liquidity changed, it was that the psychology had changed, and that is exactly what happened, in my opinion.

Secondly, the notion that that caused the crisis implies this was sort of a unifactorial, if you will, in terms of causation of the crisis, and I just don't think that is right. I think this was a crisis -- I said this before -- of a very large number of factors all operating at the same time, and it was that extraordinary situation and the interplay then between all those that led to the crisis.

MR. GREENE: All right. Let's make those our last words. Thank you very much.
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EXAMINATION BY MR. GREENE

EXHIBITS

Sketch was marked RR Exhibit 1

Excerpt of minutes of board meeting dated 4/17/07 was marked RR Exhibit 2

Document from Mercer Oliver Wyman dated June 2005 was marked RR Exhibit 3

Document was marked RR Exhibit 4

Exchange between Robert Rubin and Carl Levinson was marked RR Exhibit 5

Letter and attachment dated Dec. 7, 2007, from Citigroup to Office of the Comptroller of the Currency, was marked RR Exhibit 6
Interview – ROBERT RUBIN
Letter from Federal Reserve Bank of New York to Citi's board of directors dated April 15, 2008, was marked RR Exhibit 7
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 18th day of March, 2010.

_______________________
JESSICA R. BERMAN

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