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FEDERAL RESERVE BANK OF NEW YORK

NEW YORK, N.Y. 10045-0001

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September 23, 2005

Mr. Thomas F. Rollauer  
Executive Director, Compliance Policy  
And Regulatory Relations  
Citigroup Inc.  
399 Park Avenue, Second Floor  
New York, NY 10043

Dear Mr. Rollauer,

EXAMINERS FROM THE FEDERAL RESERVE BANK OF NEW YORK recently completed a review related to Citigroup's compliance with the July 28, 2003 Written Agreement ("Written Agreement"). The primary objective of the review was to assess the adequacy of business-level control processes surrounding transactions that pose or may pose heightened legal or reputational risks, especially complex structured finance transactions. The review specifically addressed the monitoring, reporting, and escalation of such transactions within various businesses in the Corporate Investment Bank ("CIB"), Global Consumer Group ("GCG"), and Citigroup Private Bank ("CPB").

The examination confirmed that individual businesses have enhanced the transparency, accountability, and overall effectiveness of controls surrounding structured transactions and Citigroup is in substantial compliance with provisions of the Written Agreement. The establishment of In Business Control Groups in the CIB, as well as more robust transaction monitoring and attestation procedures in the CIB, GCG, and CPB, has increased the transparency of key processes, thereby further facilitating the independent validation of these controls. The CIB's development of substantive training programs that address transaction escalation criteria and key policy adherence also promote awareness of transactions that may pose heightened legal or reputational risks. The businesses that were reviewed have made considerable progress in integrating key policies that address reputational risk into the Risk Control Self Assessment process ("RCSA"), as well as within general risk management practices.

Nevertheless, management must continue to strengthen business-level control processes surrounding complex structured finance transactions in order to ensure that such processes become embedded in Citigroup's ongoing risk control infrastructure. Moreover, independent validation of such controls is critical to ensuring process validity and robustness.

Through transaction testing, examiners observed key business-level control processes. The recommendations that follow represent areas where enhancements should be implemented to further

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strengthen control processes in all applicable businesses:

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- Although business-level control processes have been largely developed based upon key policy adherence, certain complex structured finance transactions may not fall within policy criteria and therefore may not receive heightened review. Transaction review processes should include a continuous assessment of potential legal and reputational risks to ensure the proper capture of applicable transactions beyond policy limitations. Transaction review control processes may include the need for a consolidated global view of transactions where applicable, pre-deal analysis, or regular analysis of transaction metrics and trends.
  - Assessments of transaction selection criteria and related transaction categorization (i.e., complex vs. routine) within business-level controls should be conducted on a regular basis in order to maintain robust review standards. These assessments and their supporting rationale should be documented accordingly.
  - Individual businesses should refine their RCSA process to reflect transaction escalation criteria and associated testing procedures, thereby embedding these key elements within business-level controls. Although RCSAs incorporate key policies, the inclusion of specific transaction escalation criteria will ensure that a robust testing program will address transactions that may fall outside key policies.

In addition to ensuring that business-level controls are adequately validated by independent control functions (i.e., Internal Audit and Compliance), we will continue to monitor the following areas to ensure full compliance with the Written Agreement:

- Aggregation Risk Management and other firm-wide initiatives that relate to Section 2(f) of the Written Agreement, which requires a higher level review of the overall customer relationship between the counterparty and Citigroup and its subsidiaries independent of the business lines, in all instances that present heightened risk. Key elements of this provision include understanding the implications of individual (or series of) transactions that may pose heightened legal or reputational risks to the overall customer relationship.
- Credit risk management initiatives regarding the various programs that address the credit risk management provisions of the Written Agreement (Section 1a-d). Specifically, we will be monitoring continued progress in consistently implementing franchise risk reviews and related approval processes, as well as credit risk reporting enhancements.

Please provide a written response to the matters discussed above within 45 days of the receipt of this letter. In closing, we wish to note that this letter contains confidential bank examination material and should be treated accordingly by your organization. As such, the contents of this letter

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are subject to the rules of the Board of Governors of the Federal Reserve System regarding disclosure of confidential supervisory information. If you have any questions, please feel free to contact Glen Snajder at (212)527-2319 or me at (212) 527-2521.

Very truly yours,



Homer C. Hill, III  
Vice President  
Federal Reserve Bank of New York

Cc: D. Bushnell, M. Helfer, B. Howard, M. Wong, M. Zuckert, S. Krawchek

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