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FRB Memo from Phyllis L Harwell to Citigroup File Re Citigroup Layoffs

Phyllis L. Harwell

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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

DIVISION OF CONSUMER AND COMMUNITY AFFAIRS
Large Financial Institutions/Large Complex Banking Organizations

DATE: May 2, 2007
TO: Citigroup File
FROM: Phyllis L. Harwell
CC: Suzanne Killian
Mayank Patel
SUBJECT: Citigroup Layoffs

On April 26, 2007 Mayank Patel and I traveled to the New York FRB Citigroup offices to meet with Cathy Voigts, Deputy CPC for Citi, and Will Hilton, L&C Risk Coordinator for Citi, to discuss the recent layoffs within Citigroup.

An action plan was not made available to the FRB NY examiners for review, so the information provided to the FRB NY Citi team, and in turn provided to DCCA LFI/LCBO staff, was based on discussions with Citi's executive management.

Executive management stated the information in the press was inaccurate and misleading. In the U.S. there will be direct cuts of 17,000, and 9,500 will have their job descriptions re-written. Citi has indicated these will be the only layoffs in the U.S. for the near future and these layoffs are not part of a larger redeployment plan. As attrition occurs temps are hired to fill gaps until the plan is fully executed. Those with performance issues were part of the initial cut.

Layoffs in Compliance and Audit will be minimal with no "key" staff redeployed. There will be some restructuring within the controls groups due to duplicative efforts in the current environment; however, most of the layoffs will come from the business lines rather than Corporate Compliance. Some Compliance jobs, primarily those in Markets Banking (formerly the CIB group) will be moving to Buffalo, NY due to operational cost savings achieved there versus in New York City; however, existing employees were given the option of moving to Buffalo in order to keep their jobs. Those who declined the offer were given an incentive in the form of pay increases or retention bonuses to stay with Citi until the official move of the group occurs and the Compliance group in Buffalo is functional. Recruiting efforts in Buffalo, NY have been very successful thus far. Many experienced Compliance staff are being hired from local competitors such as UBS and M&T which we will now need to monitor from the UBS and M&T perspective.

The Control Testing and Advisory (CTA) function will be combining with Compliance's QA function to gain synergies. It was determined that certain QA activities require product knowledge while others simply need trending results provided; therefore, activities performed by CTA combined well with those performed by Compliance without compromising the level of independent review.

Audit extended its low risk audit cycle from three to four years; however, the cycle did not change for medium and high risk categories. The FRB NY Citi team is not aware of any

consumer compliance audits impacted by this change. Although the Audit Plan is not yet available the team is aware of a special review of the flood program currently underway due to OTS issues noted. In addition, HMDA will be reviewed enterprise wide this year. Due to the layoffs Audit is closely monitoring the business lines most heavily impacted and instituting enhanced business monitoring procedures such as promoting the Ethics hotline and closely monitoring complaints in addition to other measures taken. Audit ensures there is a corrective action plan put in place when issues are noted and tracked to closure within a specified timeframe. If issues become more than 90 days old, they appear in Audit's report to the Board which occurs quarterly.

The majority of the layoffs in the U.S. came from the Global Consumer Group (GCG). GCG cut many of its middle management staff based on redundant functions and the lack of need for excess layers of management. Redundant staff functions will be consolidated into central groups (i.e. Human Resource functions, Legal functions, etc.). In addition, if an individual in middle management was expected to manage a certain number of staff due to their current level and they did not manage that number, then the manager was either given additional staff to manage or was no longer considered necessary to the company's operations and was either cut or took an offer for a lower level position.

Business line reporting structures will remain as they are today. Only redundant staff support functions will change, as mentioned above. GCG will continue to be the most decentralized business line even after the cuts and restructuring occur.

The Global Head of Human Resources utilized the normal exit procedures for those who were redeployed with the exception of those mentioned previously who received incentives to stay until the plan was appropriately executed. Following normal exit procedures should mitigate any potential legal concerns regarding unfair treatment among those redeployed.

Citi's 5-point Culture Plan was evident throughout this layoff process. Executive management made it clear that they have worked their way out of many of the orders/constraints they were under and they do not want to be back where they were a few years ago.

From an ongoing communication perspective the FRB NY Citi team has discontinued its monthly meetings which were held primarily throughout the compliance monitoring build and the project execution to address the OCC's Part 30 AML issues. The FRB NY is now meeting with Citi quarterly to discuss compliance monitoring and testing given the build is complete. As part of compliance monitoring and testing, Citi has identified all laws and regulations that apply to each institution and business line and they are now providing updates by business line with the first report forthcoming in June followed by a report each month thereafter in order to allow for trending. Citi is taking compliance monitoring and testing "best practices" in place within Wealth Management and using them in other groups. GCG now has a formalized testing process, as well as someone experienced leading the team; therefore, GCG should be getting better with its monitoring and testing efforts.

Follow-up Items

- 1) Monitor level of controls during layoffs and until stabilization occurs
- 2) Monitor the Compliance resource loss impact to UBS and M&T