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### **FRBNY Letter from Joan Johnson to Michelle Sims Re examination letter report conducted by examiners for the Federal Reserve Bank of New York**

Joan Johnson

Homer Hill III

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FEDERAL RESERVE BANK OF NEW YORK

NEW YORK, N.Y. 10045-0001

AREA CODE 212-720-5000

March 30, 2004

Ms. Michelle Sims  
Board of Governors of the  
Federal Reserve System  
Division of Banking Supervision  
and Regulation  
Surveillance Section  
Mail Stop 198  
Washington, DC 20551



Dear Ms. Sims:

Enclosed are two copies of the following examination letter report conducted by examiners for the Federal Reserve Bank of New York:

<u>Name</u>	<u>Start Date</u>
Citigroup, Inc.	September 8, 2003

Target Area: Credit and Risk Review

Please acknowledge receipt of these enclosures by signing and returning the attached copy of this letter in the envelope provided.

Sincerely,

A handwritten signature in cursive script, appearing to read "Joan Johnson".

Joan Johnson  
Supervisor  
Examination Process Support

Enclosures

## FEDERAL RESERVE BANK OF NEW YORK

RESTRICTED FR

NEW YORK, N.Y. 10045-0001

AREA CODE 212-720-2164

February 4, 2004

**HAND DELIVERED**

Mr. Douglas Peterson  
 Chief Auditor  
 Audit and Risk Review  
 Citigroup, Inc.  
 399 Park Avenue, 3<sup>rd</sup> Floor  
 New York, NY 10043



**Copy for**  
 Board of Governors of the  
 Federal Reserve System

Dear Mr. Peterson:

Examiners from the Federal Reserve Bank of New York recently completed an examination of Audit and Risk Review's (ARR) corporate finance function. The purpose of the review was to evaluate ARR's ability to objectively assess corporate credit risk controls and highlight emerging issues within the CIB and International businesses. More specifically, the review covered the following areas:

- Business monitoring practices, including plan development, collection of information and the use of monitoring results in developing the Risk Appraisal Profile and Tailored Review Program;
- Processes for testing key credit risk controls including risk rating assignments, due diligence and problem recognition and;
- Independence and competence of staff and the role of the Global Credit Liaison.

Based on the scope of this review, ARR's corporate finance function is considered effective, reflecting well-developed processes that adequately identify and elevate credit risk and control concerns. Tailored review programs and control test steps are sufficiently rigorous to observe the functioning of existing corporate credit risk management practices. In addition, the role of the Global Credit Liaison is instrumental in providing a consistent approach to assessing the significance of business issues identified during audit reviews and in focusing attention on prospective credit concerns within the businesses. Moreover, the Monthly Credit Circle meetings provide an effective forum for developing a consensus view on topics such as business issues and risk condition materiality.

The issues presented below are broader business challenges which management will need to assess to ensure that the credit review methodology continues to be executed effectively.

COPY

Mr. Douglas Peterson  
February 4, 2004

### Business Monitoring

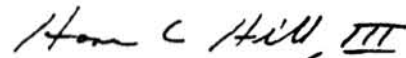
Audit management's focus on linking information gained from business monitoring with the functioning of credit risk controls within the tailored review program is an important aspect to gaining maximum efficiency from business monitoring efforts. However, we noted during the review that current approaches for documenting business monitoring practices vary to some degree across lead reviewers. A more consistent presentation of business monitoring plans across lead reviewers would assist in clearly documenting that business monitoring practices are focused on the appropriate business risks and key risk controls.

### Corporate Finance Staff

The Corporate Finance staff is experienced and possesses the necessary skills to assess business risks and the performance of credit risk controls within the businesses. The mixture of both previous audit and prior business experience provides the staff with a broader and more valuable perspective to assess the performance of risk controls and business practices. Given staff mobility and the reliance placed on the lead reviewer's judgement in assessing risks and controls, the continuing challenge for management is to maintain appropriate staffing levels and work quality in order to meet the requirements of ARR's review methodology.

Please provide us with a written response to the matters presented 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 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 or comments, please feel free to contact Glen Reppy at (212) 720-2142 or myself at (212) 720-2164.

Sincerely,



Homer C. Hill, III  
Vice President

CC: Ms. H. Andrion  
Mr. D. Bushnell  
Mr. M. Helfer  
Ms. B. Howard  
Ms. E. Leighton  
Mr. T. Rollauer  
Mr. T. Thomson  
Ms. M. Wadalowski  
Mr. M. Zucker

**- R E S T R I C T E D -**  
**NATIONAL EXAMINATION DATA**  
**BHC INSPECTION - LARGE INPUT FORM**  
 BHC's OVER \$150MM IN CONSOLIDATED ASSETS

SUPERVISORY DATA INPUT					
RSSD ID Number:	1951350				
Select Form:	Large BHC Inspection				
Name of BHC:	Citigroup Inc.				
Location:	City:	New York	State:	NY	
<b>DATES (CCYY-MM-DD)</b>					
Scheduled Start Date:	2003-09-08	Start Date:	2003-09-08	Financial As Of Date:	2003-06-30
Asset Quality Review Date:		Close Date:			2003-10-10
Exit Meeting Date:	2003-09-26	Report Disposition Date:			2004-02-04
Report Disposition:	<input checked="" type="checkbox"/>	Mailed to Institution	<input type="checkbox"/>	For Internal Use Only	

GENERAL					
Continuous Exam?	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/>	No	
Inspection Mandated?	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/>	No	
Location?	<input checked="" type="checkbox"/>	Onsite	<input type="checkbox"/>	Offsite	
Purpose:	<input type="checkbox"/>	Change In Control	<input type="checkbox"/>	Compliance	<input type="checkbox"/>
	<input type="checkbox"/>	Due Diligence	<input type="checkbox"/>	Routine	<input type="checkbox"/>
	<input type="checkbox"/>	Supervisory Assessment Activity	<input checked="" type="checkbox"/>	Target	<input type="checkbox"/>
Conducted:	<input type="checkbox"/>	Concurrent	<input checked="" type="checkbox"/>	Independent	<input type="checkbox"/>
Exam Scope:	<input type="checkbox"/>	Full	<input type="checkbox"/>	Limited	<input type="checkbox"/>
	<input type="checkbox"/>	Supervisory Assessment Activity	<input checked="" type="checkbox"/>	Target	<input type="checkbox"/>
<b>Targeted Area(s) - If a targeted examination, place an "X" by appropriate entry(s).</b>					
<input type="checkbox"/>	Accounting/Financial Reporting	<input type="checkbox"/>	Credit Administration	<input type="checkbox"/>	Investment Advisory Services
<input type="checkbox"/>	Asset/Liability Management	<input type="checkbox"/>	Earnings	<input type="checkbox"/>	Leasing
<input type="checkbox"/>	Asset Quality	<input type="checkbox"/>	Fair Lending	<input checked="" type="checkbox"/>	Loan Review
<input type="checkbox"/>	Bank Secrecy Act	<input type="checkbox"/>	Funding/Liquidity	<input type="checkbox"/>	Mergers and Acquisitions
<input type="checkbox"/>	Broker/Dealer	<input type="checkbox"/>	Infrastructure	<input type="checkbox"/>	Mgmt Information Systems
<input type="checkbox"/>	Capital Markets	<input type="checkbox"/>	Insurance	<input type="checkbox"/>	Mortgage Banking
<input type="checkbox"/>	Community Banking	<input type="checkbox"/>	Intercompany Transactions	<input type="checkbox"/>	Mutual Funds
<input type="checkbox"/>	Compliance	<input type="checkbox"/>	Interest Rate Risk	<input type="checkbox"/>	Other
<input type="checkbox"/>	Consumer Lending	<input type="checkbox"/>	Internal Controls/Audit	<input type="checkbox"/>	Supervisory Assessment
Lead Agency:	<input checked="" type="checkbox"/>	FRB	<input type="checkbox"/>	NASD	<input type="checkbox"/>
	<input type="checkbox"/>	OCC	<input type="checkbox"/>	OTS	<input type="checkbox"/>
	<input type="checkbox"/>	SEC	<input type="checkbox"/>	State	
Lead Office:	New York				
NAME OF PARTICIPATING AGENCY(IES)	OFFICE	ROLE			
		Participant	Reviewer		
		<input type="checkbox"/>	<input type="checkbox"/>		
		<input type="checkbox"/>	<input type="checkbox"/>		
		<input type="checkbox"/>	<input type="checkbox"/>		
		<input type="checkbox"/>	<input type="checkbox"/>		

<b>GENERAL (Continued)</b>										
Lead BOPEC/FM Rating:						/			Risk Management Rating:	
Problem Bank(s)?	<input type="checkbox"/>	Yes	<input type="checkbox"/>	No						
Reviewer BOPEC/FM Rating:						/			Risk Management Rating:	
Problem Bank(s)?	<input type="checkbox"/>	Yes	<input type="checkbox"/>	No						

<b>ASSET QUALITY Dollar Value in Thousands (000)</b>			
<b>CLASSIFIED</b>	<b>Parent</b>	<b>Bank(s)</b>	<b>Nonbank(s)</b>
Substandard			
Value Impaired Assets			
Doubtful Assets			
Loss Assets			
<b>OTHER</b>			
Special Mention Assets			
OTRP Assets			
<b>ALLOWANCES</b>			
ALLL			
ATRR			
Tier 1 Risk-Based Capital			

<b>STAFF RESOURCES FOR EACH AGENCY (Lead, Participant, and/or Review) (Last Name, First Name)</b>			
Agency (e.g., FRB Boston):	FRB New York		
Examiner in Charge:	Reppy, Glen (EIC) Torres, Mirtha Ryan, Jeff		
Reviewer:			

<b>EXAMINATION HOURS - Lead Agency</b>		Budgeted <input type="checkbox"/>	Actual <input checked="" type="checkbox"/>		
<b>BY STAGE:</b>			<b>BY CATEGORY:</b>		
	<u>On-site</u>	<u>Off-site</u>	Commissioned:		428
Preparation:	70		Noncommissioned:		
Examination:	271		Training:		
Report Development:		87			
Total By Stage:		428	Total By Category:		428
Travel:			GRAND TOTAL (+Travel):		428

<b>EXAMINATION HOURS - Participating Agency</b>		Budgeted <input type="checkbox"/>	Actual <input type="checkbox"/>		
Name of Participating Agency:					
	<u>On-site</u>	<u>Off-site</u>	Commissioned:		
Preparation:			Noncommissioned:		
Examination:			Training:		
Report Development:					
Total By Stage:			Total By Category:		

Travel:		GRAND TOTAL (+Travel):	
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<b>OTHER</b>			
Coordinated with SMB Examination?	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/> No
Coordinated with Lead Bank Examination?	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/> No
External Auditor Present at Exit Meeting?	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/> No
Board Meeting Mandated?	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/> No

<b>ADDITIONAL BHCs REVIEWED</b>					
RSSD ID	Offsite? (Y/N)	Separate Rpt? (Y/N)	BOPEC/FM	Risk Assmt? (Y/N)	Name and Location

<b>ADDITIONAL NONBANKs REVIEWED</b>			
RSSD ID	Offsite? (Y/N)	Risk Assmt? (Y/N)	Name and Location

Input Form Prepared By:	Glen Reppy
Date Prepared:	2004-01-13

<b>DATA/DATE INPUT</b>			
	<u>Open</u>	<u>Preliminary</u>	<u>Final</u>
NED Data Input By:			
Date Input into NED:			
Supervisory Event Number:	390207		