Meeting Between Representatives of the Federal Reserve Board and Representatives of Citigroup, Inc.
March 12, 2014

Participants: Zion Shohet, Stuart Staley, and Curtis Tao (Citigroup)

Laurie Schaffer, Michael Waldron, April Snyder, Robert Brooks, Timothy Geishecker, and Will Giles (Federal Reserve Board)

Summary: Representatives of Citigroup Inc., New York, New York, described Citigroup's Physical Commodity Trading[*] activities. The representatives stated that Citigroup's activities were client-facing and that its clients include producers, refiners, and consumers of commodities as well as investors and sovereign entities. In addition, the representatives reported that the number of Citigroup clients in emerging markets, which have a close link to commodities risk, was expanding. The representatives also noted that Citigroup's revenues attributable to the activities were significantly smaller than other FHCs with authority to engage in Complementary Commodity Activities.

The representatives noted that there are "synergies" between the commodities derivatives business and traditional banking (e.g., trade financing). Citigroup uses its Physical Commodity Trading authority to provide better risk management services in connection with its financing activities, such as letters of credit and receivables factoring. Specifically, the ability to own and hold physical commodities permits the company to eliminate basis risk and therefore hedge commodities risk more accurately.

The representatives also noted that Citigroup does not engage in certain physical commodities activities conducted by other FHCs. Citigroup only has authority to engage in Physical Commodity Trading and not also Energy Tolling or Energy Management Services. Moreover, Citigroup does not own, operate, or invest in "infrastructure" related to physical commodities (e.g., oil vessels, oil refineries) under separate authority, such as the merchant banking authority of the BHC Act. The representatives noted that the ownership of such infrastructure presented potential conflicts of interest and additional risks regarding third-party liability.

In response to the Board's request in the ANPR for additional potential restrictions on Complementary Commodities Activities, the representatives recommended prohibiting FHCs

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[*] Defined terms have the same meaning as they do in the Board's advance notice of proposed rulemaking regarding complementary activities, merchant banking activities, and other activities of financial holding companies related to physical commodities. See 79 Fed. Reg. 3329 (Jan. 21, 2014).

from owning physical commodities infrastructure under separate authority and engaging in proprietary physical commodities trading.