



April 12, 2016

Mr. Michael E. O'Neill  
Chairman  
Mr. Michael L. Corbat  
Chief Executive Officer  
Citigroup Inc.  
388 Greenwich Street  
New York, New York 10013

Dear Mr. O'Neill and Mr. Corbat:

On July 1, 2015, the Board of Governors of the Federal Reserve System (Board) and the Federal Deposit Insurance Corporation (FDIC) (together, the Agencies) received the annual resolution plan submission (2015 Plan) of Citigroup Inc. (Citigroup) required by section 165(d) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), 12 U.S.C. § 5365(d), and the jointly issued implementing regulation, 12 CFR Part 243 and 12 CFR Part 381 (the Resolution Plan Rule). The Agencies have reviewed the 2015 Plan taking into consideration section 165(d) of the Dodd-Frank Act, the Resolution Plan Rule, the letter that the Agencies provided to Citigroup in August 2014 (the 2014 Letter) regarding Citigroup's 2013 resolution plan submission, the communication the Agencies made to Citigroup in February 2015 clarifying the 2014 Letter (the 2015 Communication), other guidance provided by the Agencies, and other supervisory information available to the Agencies.

In reviewing the 2015 Plan, the Agencies noted improvements over prior resolution plan submissions of Citigroup. Nonetheless, the Agencies have identified shortcomings in the 2015 Plan. The Agencies will review the plan due on July 1, 2017 (2017 Plan), to determine if

Citigroup has satisfactorily addressed the shortcomings identified in Section II below. If the Agencies jointly decide that these matters are not satisfactorily addressed in the 2017 Plan, the Agencies may determine jointly that the 2017 Plan is not credible or would not facilitate an orderly resolution under the U.S. Bankruptcy Code.

In order for Citigroup to allocate appropriate resources and staff to address the shortcomings in Section II of this letter, the Agencies have jointly determined that the informational content of Citigroup's 2016 annual resolution plan submission will be satisfied by the following two items: a status report on Citigroup's actions to address the shortcomings and a public section that explains, at a high level, the actions the firm plans to take to address the shortcomings. The Agencies have jointly extended the submission deadline for the 2016 annual resolution plan submission to October 1, 2016 (2016 Submission).

#### **I. Background**

Section 165(d) of the Dodd-Frank Act requires that each bank holding company with \$50 billion or more in total consolidated assets and each designated nonbank financial company report to the Agencies the plan of such company for its rapid and orderly resolution in the event of material financial distress or failure. Under the statute, the Agencies may jointly determine, based on their review, that the plan is "not credible or would not facilitate an orderly resolution of the company under Title 11, United States Code."<sup>1</sup> The statute and the Resolution Plan Rule provide a process by which the deficiencies jointly identified by the Agencies in such a plan may be remedied.

In addition to the Resolution Plan Rule, the Agencies have provided supplemental written information and guidance to assist Citigroup's development of a resolution plan that satisfies the

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<sup>1</sup> 12 U.S.C. § 5365(d)(4).

requirements of section 165(d) of the Dodd-Frank Act. This information and guidance included:

- The April 2013 joint guidance to 2012 plan filers, which addressed a number of resolution plan issues and detailed five significant obstacles to orderly resolution in bankruptcy (multiple competing insolvencies, global cooperation, operations and interconnections, counterparty actions, and liquidity and funding).<sup>2</sup>
- The 2014 Letter, which outlined a number of shortcomings in the 2013 resolution plan submission and specific issues to be addressed in the 2015 Plan. The 2014 Letter explicitly reminded Citigroup that failure to make demonstrable progress in addressing these shortcomings and in taking the additional actions set forth in the 2014 Letter could result in a joint determination that Citigroup's 2015 Plan is not credible or would not facilitate orderly resolution in bankruptcy.
- The 2015 Communication, which provided additional staff guidance in response to Citigroup's December 2014 submission describing certain proposed elements of the 2015 Plan. Among other things, the 2015 Communication reminded firms to make conservative assumptions and provide substantial supporting analysis concerning certain of the proposed 2015 Plan elements.

Furthermore, since the release of the 2014 Letter, the Agencies have made staff available to answer questions related to the 2015 Plan.

In July 2015, the Agencies received the 2015 Plan and began their review. The Agencies reviewed Citigroup's 2015 Plan to determine whether it satisfies the requirements of section 165(d) of the Dodd-Frank Act and the Resolution Plan Rule. As part of their review, the Agencies assessed whether the 2015 Plan addressed each of the items identified in the 2014 Letter and the 2015 Communication, including whether the firm has made demonstrable progress to improve resolvability under the U.S. Bankruptcy Code based on the actions that the firm had completed by the 2015 Plan date against the firm's full-implementation schedule.

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<sup>2</sup> See "Guidance for 2013 §165(d) Annual Resolution Plan Submissions by Domestic Covered Companies that Submitted Initial Resolution Plans in 2012" (2013 Guidance), issued jointly by the Agencies on April 15, 2013. The 2013 Guidance further noted that "this list of Obstacles is not exhaustive and does not preclude other Obstacles from being identified by the Agencies in the future, nor does it preclude Covered Companies from identifying and addressing other weaknesses or potential impediments to resolution."

Firms were expected to provide a timetable for completion of the remaining actions after the 2015 Plan date that included well-identified interim achievement benchmarks against which the Agencies can measure progress. Planned future actions are generally expected to be fully implemented by the submission date of the firm's 2017 Plan or earlier.<sup>3</sup>

### **Progress Made by Citigroup**

Over the past several years, Citigroup has taken important steps to enhance the firm's resolvability and facilitate its orderly resolution in bankruptcy, including:

- Citigroup has enhanced its funding structure, liquidity management information systems, and increased its loss absorbing capacity through increased high-quality liquid assets. In particular, the firm has enhanced its capital and liquidity policies, improved the tracking abilities of its intercompany funding framework, and heightened its legal entity self-sufficiency requirements. Citigroup also has realigned its liquidity management framework with its legal entity hierarchy so that its funding and liquidity strategies can be managed at the individual material legal entity level.
- In addition to improving its overall capital position, Citigroup has complied with the clean holding company guidance from the 2014 Letter and 2015 Communication.
- Citigroup has developed specific legal entity criteria addressing resolvability and has developed discrete objects of sale, which provide additional optionality and flexibility under a variety of stress scenarios.
- Citigroup has reduced its asset size, number of businesses, and legal entities, and also has enhanced its ability to provide for the continuity of shared services in resolution. In particular, the firm has developed a centralized model for the delivery of shared services, has mapped internal and external shared service dependencies (including staff, technical infrastructure, systems, and real estate), and has documented these interaffiliate services in legal agreements that contain terms intended to ensure that these services will continue in resolution.

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<sup>3</sup> The 2015 Communication explicitly advised that remaining actions required by the Agencies in the 2014 Letter and the 2015 Communication to improve resolvability generally are expected to be completed no later than July 1, 2017.

- Citigroup has adhered to the International Swaps and Derivatives Association 2015 Universal Resolution Stay Protocol.

## **II. Shortcomings**

Citigroup must address the shortcomings identified in this letter in its 2017 Plan. If the Agencies jointly decide that these matters are not satisfactorily addressed in the 2017 Plan, the Agencies may determine jointly that the 2017 Plan is not credible or would not facilitate an orderly resolution under the U.S. Bankruptcy Code.

### **GOVERNANCE MECHANISMS**

*Playbooks and Triggers:* In the 2015 Communication, the Agencies directed Citigroup to identify the governance mechanisms in place or in development that would ensure execution of the required board actions at the appropriate time (as anticipated under Citigroup's preferred strategy), including pre-action triggers and existing agreements for such actions. Such governance mechanisms are important, and Citigroup will need to develop these mechanisms because the 2015 Plan contemplated the provision of financial resources from Citigroup to certain material operating entities. However, Citigroup's positioning of liquidity resources at its material operating entities reduces the reliance of the 2015 Plan on such mechanisms. Moreover, the Trust Structure Playbook contained in the 2015 Plan provided step-by-step actions that Citigroup would take to prepare for resolution while it pursued recovery.

Nevertheless, the Agencies identified a shortcoming regarding the governance mechanisms necessary to facilitate timely execution of the planned subsidiary funding and recapitalizations because the Trust Structure Playbook lacked detail regarding entry into resolution. In particular, it lacked specific triggers for escalating information to Citigroup's senior management and board, and actions that would be required upon reaching a trigger event.

To address this shortcoming, the 2017 Plan should include board playbooks with clearly identified triggers linked to specific actions for:

(A) the escalation of information to senior management and the board(s) to potentially take the corresponding actions at each stage of distress postrecovery, leading eventually to the decision to file for bankruptcy;

(B) successful recapitalization of subsidiaries prior to bankruptcy and funding such entities during the parent company's bankruptcy, to the extent that the preferred strategy relies on such actions or support; and

(C) timely execution of a bankruptcy filing and related pre-filing actions.<sup>4</sup>

These triggers should be based, at a minimum, on capital, liquidity, and market metrics. The triggers should incorporate Citigroup's methodologies for forecasting the liquidity and capital needed to operate following a bankruptcy filing.

*Pre-Bankruptcy Parent Support:* The 2015 Plan discussed an in-development Capital Contribution Methodology (CCM) but did not provide sufficient detail regarding Citigroup's methodology to ensure that all financial resources (capital and liquidity) necessary to execute the strategy would be placed in each material entity prior to the parent holding company's bankruptcy filing. The Agencies identified a shortcoming in the 2015 Plan regarding Citigroup's limited analysis of the range of potential legal challenges that could adversely affect its approach to providing capital and liquidity to the subsidiaries prior to parent's bankruptcy filing (Support).

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<sup>4</sup> Key pre-filing actions include the preparation of the emergency motion required to be decided on the first day of Citigroup's bankruptcy.

To address this shortcoming, the 2017 Plan should include a detailed legal analysis of the potential state law and bankruptcy law challenges and mitigants to the planned provision of Support. Specifically, the analysis should identify any potential legal obstacles and explain how Citigroup would seek to ensure Support would be provided as planned.

The 2017 Plan also should include the mitigant(s) to potential challenges to the planned Support that Citigroup considers most effective. In identifying appropriate mitigants, Citigroup should consider the effectiveness, alone or in combination, of a contractually binding mechanism, pre-positioning of financial resources in material entities,<sup>5</sup> and the creation of an intermediate holding company.

The Trust Structure Playbook (or other governance playbooks) included in the 2017 Plan should incorporate any developments from Citigroup's further analysis of potential legal challenges regarding Support, including any Support approach(es) Citigroup has implemented.

#### **DERIVATIVES AND TRADING ACTIVITIES**

The 2015 Plan proposed an [REDACTED] pathway to wind down \$ [REDACTED] of derivatives positions in the broker-dealers and in the noncore businesses of Citibank, National Association, outside of bankruptcy, through novation, maturity, trade compression, and terminations. Citigroup's 2015 Plan provided important details regarding how the firm would reestablish investment grade status and provided for separate wind-down approaches for over-the-counter (OTC) derivatives that are eligible for central clearing and for bilateral OTC derivatives that are not eligible for central clearing. Nevertheless, the Agencies identified a shortcoming because Citigroup also made optimistic assumptions about continued access to bilateral OTC derivative markets to hedge its portfolio risk and about the ability to novate

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<sup>5</sup> "Material entities" refers to the material entities identified in the 2015 Plan.

bilateral OTC derivatives without sufficient specificity on the nature, concentration, and illiquidity of the bilateral OTC derivatives. To address this shortcoming, Citigroup's 2017 Plan should include an active solvent wind-down pathway that considers the risk of only being able to use listed and centrally cleared derivatives.

## **LIQUIDITY**

*Resolution Liquidity Execution Need (RLEN):* The Agencies found Citigroup to have a shortcoming in its model and process for estimating the liquidity needed to fund its material entities during resolution. Citigroup developed a liquidity methodology designed to estimate the liquidity needs of material entities to include estimates for intraday liquidity requirements [REDACTED] [REDACTED] However, the 2015 Plan did not indicate that Citigroup had developed a process to fully estimate the amount of minimum operating liquidity needed beyond the intraday methodologies for each material entity. The estimate of the operating liquidity need should not only capture intraday liquidity requirements, but also should include funding frictions from interaffiliate transactions, other funding frictions, working capital needs, and any other conservative buffers needed to ensure that material entities can operate without disruption throughout the resolution period. The 2017 Plan should include a comprehensive estimate of the minimum operating liquidity needed for all material entities that are expected to be resolved outside of bankruptcy proceedings to ensure that material entities can operate following the bankruptcy filing of the parent company consistent with regulatory requirements, market expectations, and Citigroup's post-failure strategy.



### III. Conclusion

If you have any questions about the information communicated in this letter, please contact the Agencies.

Very truly yours,

*(Signed)*

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Robert deV. Frierson  
Secretary of the Board  
Board of Governors of the  
Federal Reserve System

Very truly yours,

*(Signed)*

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Robert E. Feldman  
Executive Secretary  
Federal Deposit Insurance Corporation