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FRB Letter to Carl V Howard at Citi

Robert deV. Frierson

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ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

OCT 05 2000

Carl V. Howard, Esq.
Citigroup Inc.
425 Park Avenue
2nd Floor/Zone 2
New York, New York 10043

Dear Mr. Howard:

This is in response to your letter dated August 8, 2000 and subsequent correspondence, requesting that the Board grant Citigroup Inc., New York, New York ("Citigroup"), a one-year extension of time within which to divest or conform its impermissible nonbanking activities pursuant to section 4(a)(2) of the Bank Holding Company Act (the "BHC Act").

On September 23, 1998, the Board approved the application by Travelers Group Inc., New York, New York ("Travelers"), to become a bank holding company by acquiring all the voting shares of Citicorp, New York, New York, a bank holding company ("Citicorp"), pursuant to section 3(a)(1) of the BHC Act.¹ In approving the application, the Board recognized that section 4(a)(2) of the BHC Act granted Travelers, as the acquirer of Citicorp, a period of two years from the acquisition date, to divest or conform all its impermissible activities to the limitations that apply under the BHC Act to bank holding companies.² Travelers

¹ See Travelers Group Inc., 84 Federal Reserve Bulletin 985 (1998).

² The impermissible activities included underwriting property and casualty, life, and commercial insurance and annuities; general insurance agency activities; investing in more than 5 percent of the voting shares of commercial companies; controlling and distributing shares of open-end investment companies registered under the Investment Company Act of 1940 ("mutual funds"); real estate management and investment activities; proprietary trading in physical

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Oct. 5, 2000 JAF

consummated its acquisition of Citicorp on October 8, 1998, and changed its name to Citigroup Inc. The two-year period provided in section 4(a)(2) will expire October 8, 2000.

The vast majority of Citigroup's activities and investments are now in conformance with the BHC Act. After the Board's approval of Travelers's acquisition of Citicorp, the Gramm-Leach-Bliley Act (Pub. L. No. 106-102 (1999)) (the "GLB Act") was enacted, permitting bank holding companies to become financial holding companies and thereby engage in a broad range of financial activities. Most of the activities or investments that were impermissible when Travelers consummated its acquisition of Citicorp are now permissible due to Citigroup's election to become a financial holding company, an election that became effective on March 13, 2000. For example, all Citigroup's insurance underwriting and agency activities now conform to the BHC Act.³ Citigroup has also informed the Board that the holding company has divested all the impermissible assets it held through its subsidiaries LT Investment I LLC, LT Investment II LLC, Smith Barney Offshore, Inc. and Southwest Warranty Corporation.⁴

In 1998, when Travelers consummated its acquisition of Citicorp, the activities conducted by Citigroup that were permissible for a bank holding company represented approximately 85 percent of the combined company's total assets. The remaining nonconforming activities represent less than 2 percent of its total assets. Citigroup requests a one-year extension to divest or conform these remaining activities, which are:

- (1) engaging in the delivery of physical commodities beyond the scope allowed under the BHC Act, through, Phibro, Inc. and its subsidiaries (collectively "Phibro");⁵

commodities; operating oil and gas exploration businesses; and engaging in certain other impermissible activities and investments.

³ See section 4(k)(4)(B) of the BHC Act (12 U.S.C. § 1843(k)(4)(B)).

⁴ These companies have discontinued their operations and hold only financial assets, but have not completed their corporate dissolutions.

⁵ Engaging in cash-settled transactions as principal is permissible for a bank holding company under section 225.28(b)(8) of Regulation Y (12 C.F.R. 225.28(b)(8)).

- (2) engaging, within the United States, in investment advisory, money management, and commodity fund management activities conducted through The Nikko Securities Company, Ltd., Tokyo, Japan ("Nikko"), in which Citigroup holds a joint venture investment under Regulation K;⁶ and
- (3) operating Genesis Energy L.L.C. ("Genesis"), which is the general partner for a group of limited partnerships engaged in crude oil gathering and pipeline distribution.

Citigroup has made efforts to divest or conform the activities of these subsidiaries. It has engaged in a number of discussions to divest its impermissible interests in both Phibro and Genesis, but has not been able to enter definitive agreements for either business. Citigroup has also worked to restructure most of Nikko's activities to conform with section 211.4(e) of the Board's Regulation K (12 C.F.R. 211.4(e)). The activities that Nikko has discontinued or conformed include entering transactions for the repurchase of U.S. government securities, engaging in securities brokerage, underwriting U.S. government and U.S. government agency securities, engaging in a managed futures business, and lending in secured transactions. In addition to restructuring and reducing its investments, and ceasing its U.S. broker/dealer business, Nikko has reduced the workforce of the New York office of its subsidiary, The Nikko Securities Co. International, from approximately 300 employees in 1998 to fewer than 20 now.

The Board is authorized to extend the two-year period provided in section 4(a)(2) of the BHC Act for not more than three one-year extensions if, in the Board's judgement, a one-year extension would not be detrimental to the public interest.⁷ In deciding whether to grant an extension, the Board is required by the statute to "consider whether the company has made a good faith effort to divest such interests and whether such extension is necessary to avert substantial loss to the company."⁸

⁶ Under Regulation K, Nikko's U.S. activities are limited to those activities in which an Edge corporation is permitted to engage in the United States. 12 C.F.R. 211.5(b)(4)(i)(B).

⁷ See section 4(a)(2) of the BHC Act (12 U.S.C. § 1843(a)(2)).

⁸ Id.

Based on the foregoing and all the facts of record, the Board has approved Citigroup's request for a one-year extension of time within which to conform its activities under section 4(a)(2) of the BHC Act to October 8, 2001. In granting this approval, the Board has relied on the representations made in connection with your submissions; in particular, the Board has considered these representations as they relate to actions that Citigroup has taken to comply with the BHC Act, the terms of the commitments that Travelers made in connection with the Board's approval of the acquisition of Citicorp in 1998, and the Board's policies relating to divestitures. The requirement to conform Citigroup's impermissible activities and investments by October 8, 2001, is a condition imposed in writing by the Board in connection with its findings and decision and may be enforced in proceedings under applicable law.

This action is based on the representations made in your submissions. Any change in the facts presented could result in a different conclusion and should be reported immediately to Board staff. This approval should not be construed as granting relief from any other conditions or commitments to which Citigroup may be subject or as Board agreement with any other matter raised in your submission.

Very truly yours,

(signed) Robert deV. Frierson

Robert deV. Frierson
Associate Secretary of the Board

cc: Federal Reserve Bank of New York

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bcc: Mr. Frierson - MS 29
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Mr. Reilly - MS 408
Ms. Richardson - MS 4
Mr. Clubb - MS 4
Ms. Caesar - MS 9
Mr. Meade - MS 1
Ms. Ellis - MS 1
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