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Draft- FRB Compliance Risk Management Horizontal Review Procedures for CCA on Citi

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CONFIDENTIAL
**Compliance Risk Management
Horizontal Review Procedures
for C&CA**

F.R. Restricted

District: New York
Institution: **Citigroup**
Reviewer: Tracy Anderson
Date: December 1, 2009

	Assessment Factors	Yes/No Partial	Comment
1	Process for Distribution, Dissemination, and Training		
1.1	SR Letter 08-8/CA 08-11 – Compliance Risk Management Programs and Oversight at LBOs with Complex Compliance Profiles (including U.S. operations of certain FBOs) was distributed and disseminated to appropriate consumer compliance staff.	Yes	Compliance Officer Rob Guterrez indicated that CA risk examiners received training on CA 08-11 and 08-12 in November 2009.
1.2	The key elements of compliance risk management programs are incorporated in consumer compliance examiner guidance.	No	In Progress, FRB NY is in process of updating examiner guidance for continuous monitoring which will incorporate the key elements of consolidated supervision.
1.3	Training on compliance risk management was provided to affected consumer compliance staff.	Yes	Compliance Officer Rob Guterrez indicated that CA risk examiners received training on CA 08-11 and 08-12 in November 2009.
2	Firmwide Compliance Risk Management and Oversight		
2.1	The Compliance Program is formalized and takes a firmwide approach that establishes the framework for identifying, assessing, controlling, measuring, monitoring, and reporting compliance risks, including consumer compliance risks, across the organization, and for providing compliance training, including consumer compliance, throughout the organization.	Yes	In the year since the new head of Compliance was named, Citigroup has created the Compliance and Controls (CCC) function, with a primary objective of streamlining compliance processes and controls across the organization. There is now a centralized compliance function operating with a reduced staff and a Compliance Controls Unit (CCU) within CCC to provide firm-wide oversight and coordination of key compliance control programs and to serve as an advisor to Citi's product and control management outside of CCC. The CCU is also responsible for managing the assessment and coordination and the Risk Control and Self Assessment (RCSA) process.
2.2	Firmwide compliance oversight includes processes established to oversee compliance risk management, including consumer compliance, across the entire organization, both within and across business lines, legal entities, and jurisdictions or operation.	Partial	<p>Citigroup internal audit (ARR) has been conducting very thorough and effective horizontal audits focusing on key consumer compliance regulations. These always include thorough coverage and transaction testing for Citifinancial North America (CFNA), which covers most of the systems and processes used by CFPR for its unsecured personal lending activity.</p> <p>The ARR reviews do <u>not</u> however typically focus on CFPR or include testing for CFPR because it represents less than 3% of CFNA consumer ending.</p> <p>CFNA branch audit performs monthly reviews of CFPR. Their risk methodology and frequency are excellent but there can be gaps in the coverage. For example every</p>

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			month audit reviews a sample of closed mortgage loans for Reg C (HMDA) compliance but they don't review any denied loan applications to confirm that are being reported accurately.
2.3	Adequate oversight is provided by the board of directors, various executive and management committees, and a corporate compliance function that has day-to-day responsibility for overseeing and supporting the implementation of the organization's firmwide compliance risk management program, including consumer compliance, and plays a key role in controlling compliance risks that transcend business lines, legal entities, and jurisdictions of operation.	Yes	The boards of directors of CitiFinancial Credit Company (the intermediate holding company responsible for CFNA) understands and has approved compliance strategies and policies for unsecured consumer lending, and ensures that senior management is capable of implementing them. They are briefed regularly on risk issues, and formal escalation channels have been established and are relied upon throughout the firm. Board and senior management MIS reports and other forms of communication are accurate and timely and contain the information necessary to identify adverse trends and evaluate the level of compliance risks facing the institution.
3	Independence of Compliance Staff		
3.1	Compliance staff is appropriately independent of the business lines for which they have compliance responsibilities. Inherent conflicts are avoided by ensuring accountability exists between the corporate compliance function and compliance staff within the business lines. Ultimate accountability resides with the corporate compliance function regarding the handling of compliance matters, personnel decisions, and actions relating to compliance staff, including retaining control over the budget for, and remuneration of, all compliance staff.		The organizational structure establishes clear lines of authority and efficient communication with regard to and responsibility for adherence to legal and compliance policies and procedures. The control functions (audit, legal and compliance) are independent from the businesses.

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3.2	Compliance staff within a business line that have a reporting line into management of the business also have a reporting line to the corporate compliance function with respect to compliance responsibilities. In organizations with dual reporting line structures corporate compliance plays a key role in determining how compliance matters are handled and in personnel decisions, including remuneration, and appropriate controls are in place to identify and address issues. Compensation and incentive programs are structured to avoid undermining the independence of compliance staff.	Yes	See previous comment.

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4	Compliance Monitoring and Testing		
4.1	<p>Risk assessments and monitoring and testing programs include the following:</p> <ul style="list-style-type: none"> a) Comprehensive risk assessment methodologies are developed and serve as the foundation of an effective compliance monitoring and testing program. b) Compliance monitoring and testing activities are based upon resulting assessments associated with a particular business activity. c) Periodic testing of compliance controls by compliance staff is conducted. If a function other than compliance conducts periodic testing (i.e. internal audit) high-risk compliance elements are not obscured by lower overall risk ratings of the broadly defined audit entity. 	Partial	<p>Most aspects of CFPR's consumer compliance risk monitoring system represent industry best practices. Key components are the business unit Regulatory Risk Matrix matrices and the RCSA (risk controls self assessment) program.</p> <p>Citibank Overseas Investment Corp/CitiFinancial Puerto Rico (CFPR) did not have an automated system to facilitate and monitor compliance with flood insurance and HMDA requirements for real estate secured loans. Nor did CFPR have an automated system for monitoring compliance with the requirements of the Servicemembers Relief Act and the spousal signature requirements (Reg B) for unsecured personal loans. In these instances the policies, procedures and training failed to provide operating personnel with sufficient guidance to fulfill their compliance responsibilities.</p> <p>Annually, business units contribute to a Regulatory Risk Matrix by performing Risk Control Self Assessments ("RCSAs"). The Regulatory Risk Matrix identifies all of the applicable consumer compliance laws and regulations for each product line. The RCSAs identify specific risks, controls to mitigate them, and a testing plan to conform that the controls are working. The RCSA transaction testing is performed primarily by business unit operations and quality control staff, working under the direction of local compliance managers. Business unit compliance staff teams from headquarters also perform their own independent testing to validate and supplement the RCSA testing.</p> <p>This approach has allowed Citi to have a larger, more extensive, testing program than if testing was only performed by compliance officers. However in some instances this benefit is compromised because Citi operations and quality control staff may not have a sufficient understanding of the compliance laws and regulations to recognize all types of compliance errors. For example at Citifinancial—Puerto Rico that operations and quality control staff had done a good job checking see that the customer was provided with the proper RESPA disclosure document, but didn't notice that some of the information required to be on the document was missing.</p>

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5	Responsibilities of the Board of Directors and Senior Management		
5.1	<p>The Board of Directors:</p> <ul style="list-style-type: none"> a) Sets an appropriate culture of compliance within the organization by supporting a sound and effective firmwide compliance risk management program that includes encouraging employees to conduct all activities in accordance with applicable rules and standard. b) Establishes clear policies regarding the management of key risks and has an appropriate understanding of the types of compliance risks to which the organization is exposed. c) Ensures policies are adhered to in practice and communicated by senior management across, and at all levels of, the organization through training and other means. d) Ensures senior management has established appropriate incentives to integrate compliance objectives into management goals and compensation structure across the organization, and that appropriate disciplinary actions and other measures are taken when serious compliance failures are identified. e) Ensures the corporate compliance function has an appropriately prominent status within the organization. 	Yes	Yes, see previous comments.
5.2	<p>Senior management:</p> <ul style="list-style-type: none"> a) Communicates and reinforces the compliance culture established by the Board, and implements measure to promote the culture. b) Implements and enforces the compliance policies and compliance risk management standards approved by the Board. c) In the corporate compliance function establishes, supports, and oversees the organization's compliance risk management program and reports to the Board, or designated committee, significant compliance matters and the effectiveness of the compliance risk management program. d) Of Foreign Banking Organization's U.S. operations provide sufficient information to governance or control functions in 	Yes	Consumer compliance and fair lending training is formally tracked by the Compliance Officer, and results monitored through MIS. New employees and transferees receive training for respective job assignments, and there is annual follow-up training on key consumer compliance laws and regulations (e.g. fair lending training for residential lending staff). The Compliance Officer also keeps management informed of any changes in the regulatory environment.

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	its home country; ensures responsible senior management, including in the home country, maintains a thorough understanding of the risk and control environment governing U.S. operations; and assesses the effectiveness of established governance and controls on an ongoing basis, including processes for reporting and escalating areas of concern and implementation of corrective action.		
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CONFIDENTIAL
**Consolidated Supervision
Horizontal Review Procedures
for C&CA**

F.R. Restricted

District: New York
Institution: **Citigroup**
Reviewer: Tracy Anderson
Date: December 1, 2009

	Assessment Factors	Yes/No Partial	Comment
1	Process for Distribution, Dissemination, and Training		
1.1	SR Letter 08-09/CA 08-12 - Consolidated Supervision of BHCs and the Combined U.S. Operations of FBOs was distributed and disseminated to appropriate consumer compliance staff.	Yes	Compliance Officer Rob Guterrez indicated that CA risk examiners received training on CA 08-11 and 08-12 in November 2009.
1.2	The key elements of consolidated supervision of BHCs and the Combined U.S. Operations of FBOs are incorporated in consumer compliance examiner guidance. Refer to Guidance and Expectations documents developed by LFIT, LCBOMG and RBOMG in evaluating Reserve Bank and CPC documentation.	No	In Progress, FRB NY is in process of updating examiner guidance for continuous monitoring which will incorporate the key elements of consolidated supervision.
1.3	Training on consolidated supervision was provided to affected consumer compliance staff.	Yes	Compliance Officer Rob Guterrez indicated that CA risk examiners received training on CA 08-11 and 08-12 in November 2009.
2	Institutional Overview, Risk Assessments, and Examination Plans		
2.1	The Institutional Overview provides an executive summary that communicates information demonstrating an understanding of the institution's present condition and its current and prospective consumer compliance risk profiles, as well as highlights key issues and past supervisory findings. A brief description of the organizational structure, governance, and primary business lines from which material consumer compliance risks emanate is included.	Yes	A separate institution profile is hard to discern in the lean RAP and supervisory plan the CPC created for 2009-2010. Through the various documents created for the annual exercise, the organizational structure, governance, and primary business lines are discussed, including consumer compliance risks.
2.2	The Risk Assessment provides an evaluation of the organization's inherent risk across the consumer compliance risk dimension and a view of the adequacy of controls. The assessment reflects a weighting of the underlying consumer compliance risk across business lines and functional activities, and serves as a foundation for determining the supervisory activities to be conducted. Supervisory activity of other functional regulators is considered in determining the adequacy of the organization's control framework. Also considers the consumer compliance risk management of significant nonbank subsidiaries. Risk assessment is updated in a timely manner.	Yes	The overall RAP identified inherent consumer compliance risks. The supervisory plan mentioned CA 09-8 regarding the identification of nonbank subsidiaries and indicated that a target event would occur in 2010. There is a separate consumer compliance risk assessment prepared by the CA risk folks in early 2009.

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2.3	The Examination Plan provides a comprehensive schedule of all consumer compliance examination and other applicable (e.g. Internal Audit) activities that will be conducted to address the institution's significant consumer compliance risk and business or functional activities as outlined in the supervisory plan. The plan also includes consumer compliance examination activities that will be conducted by other functional and bank supervisors to the extent they are relied upon to complete the supervisory plan. Supervisory plans of other functional regulators are evaluated. Supervisory plan is updated in a timely manner.	No	<p>There is no mention of examination events by the functional regulators of other banking entities under the company structure. Not apparent to what extent other regulators' supervisory and/or exam plans were reviewed for CPC team sup/RAP purposes.</p> <p>The Examination Plan includes only one consumer examination/target in 2010 – a risk focused consumer compliance examination of CitiFinancial North America will be conducted in accordance with CA 09-8 (nonbank subs).</p> <p>Two exam events were open as of the Ops Review – a HMDA (2007&2008) pricing review and Phase 3 from the COIC fair lending review.</p>
2.4	Supervisory products appropriately address consumer compliance supervisory issues raised at the subsidiary entity levels by the functional or primary regulators that are relevant to the consolidated organization.	No	See above.
3	Interagency Coordination		
3.1	<p>Evidence supports the following:</p> <ul style="list-style-type: none"> • Understanding of coordination and information sharing protocols and mechanisms among primary bank supervisors and functional regulators • Coordination of supervisory planning and the conduct of examinations, continuous monitoring, and other activities • Leveraging of the work of other involved supervisors and regulators • Sharing information, as appropriate, including confidential supervisory information, with the primary supervisor or functional regulator • Maintaining formal and informal channels to facilitate interagency information sharing and coordination, such as periodic meetings and calls, use of BOND, supervisory protocols and agreements, Memorandum of Understanding (MOUs), and bilateral exchanges of letters. • Understanding of cooperation and information sharing with Host Country 	Partial	The CPC team noted that they have standing meetings with the CPCs from the OCC, FDIC, and State. The L&C coordinator indicated that he prepares the risk assessment with input from OCC, State, and UK regulators for global perspective, and the CA risk folks review it.

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	<p>Foreign Supervisors.</p> <ul style="list-style-type: none">• Coordination with the Responsible Reserve Bank's senior supervision officer and representatives at the Board.• Follow-up conducted with primary regulator to ensure material consumer compliance weaknesses or risks are addressed appropriately.• Work with the primary regulator to ensure that the BHC activities, policies, and practices do not undermine its ability to serve as a source of strength to the subsidiary depository institution.• For nontraditional BHCs, rely on assessment of primary functional regulator to fullest extent possible		

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4	Supervisory Activities		
4.1	<p>Perform supervisory reviews to assesses the adequacy of primary firm-wide consumer compliance risk management or control mechanism based on the appropriateness of the following:</p> <ul style="list-style-type: none"> a) Control infrastructure and governance, including degree of oversight by the board and senior management b) Development, maintenance, and communication of appropriate consumer compliance policies, procedures, and internal controls c) Consumer compliance risk identification and measurement systems and processes, and associated MIS, that are adaptive to changing circumstances and capable of providing timely, accurate, and comprehensive information to senior management and the board d) Monitoring and testing the effectiveness of controls e) Processes for identifying, reporting, and escalating consumer compliance issues and emerging risks f) Ability to implement corrective actions in a timely manner g) Appropriate authority and independence of staff to carry out responsibilities h) Integration of consumer compliance risk management and control objectives within management goals and the organization's compensation structure. 	Partial	<p>Point-in-time consumer examinations are conducted every 2 years, as are wholesale CRA examinations.</p> <p>It was determined that an acceptable FL review was not performed during the 2008 consumer examination. Commercial lending was not considered as a potential focal point and was not discussed at all in the FL scope. Since a CRA examination was started in 2009 (open as of Ops Review), it is questionable how a CRA conclusion can be reached without accurate FL data.</p> <p>Issues were also identified in the 2007 CRA PE during the initial 2008 ops review onsite work.</p>
4.2	<p>To ensure that the internal audit program is appropriately designed and achieving its objectives, conducted testing activities as part of an audit infrastructure review (either by leading the activities and coordinating with other relevant primary supervisors or functional regulators, or participating in activities led by other relevant supervisors or regulators) on at least a three-year cycle.</p>	No	<p>It is unclear what internal audit targets were performed in 2008-2009.</p> <p>One IA target is scheduled for 2010 (Reg. W).</p>
4.3	<p>Uses continuous monitoring activities – including monitoring market conditions and indicators where available – and discovery reviews to understand and assess parent company and nonbank subsidiary consumer compliance policies and practices, as well as any potential negative impact these policies and practices might have on a subsidiary depository institution or the consolidated organization. Discovery reviews are used to address specific knowledge gaps identified in supervisory plans and to update supervisory and risk assessment plans.</p>	Yes	<p>See above.</p>