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Minutes of the Board of Governors of the Federal Reserve System 6-17-2009

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Kevin Warsh

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MINUTES OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

DATE: June 17, 2009

TIME: 2:15 p.m.

LOCATION: Board Room

ATTENDANCE:

Mr. Bernanke, Chairman
Mr. Kohn, Vice Chairman
Mr. Warsh
Ms. Duke
Mr. Tarullo

Office of the Secretary

Ms. Johnson, Secretary
Mr. Frierson, Deputy Secretary (participated by telephone)
Ms. Ross, Manager, Minutes Section
Mr. Hiratsuka, Technical Writer

Office of Board Members

Ms. Smith, Director
Mr. Blanchard, Assistant to the Board
Mr. Skidmore, Assistant to the Board
Mr. Gross, Special Assistant to the Board

Legal Division

Mr. Alvarez, General Counsel
Ms. O'Day, Deputy General Counsel

Division of Research and Statistics

Ms. Liang, Associate Director

Division of Banking Supervision and Regulation

CONFIDENTIAL

Mr. Clark, Senior Adviser
Mr. Foley, Senior Adviser

Other Supporting Staff

Federal Reserve Bank of New York

Mr. Dudley, President
Mr. Rutledge, Executive Vice President
Mr. Angulo, Senior Vice President
Mr. Whynott, Vice President

BANK SUPERVISORY MATTER -- Update on Citigroup Inc., New York, New York.

**Discussed.
June 17, 2009.**

At its meeting on June 5, 2009, the Board had discussed the response by Citigroup Inc. (Citigroup), New York, New York, to the results of the Supervisory Capital Assessment Program, a "stress test" of the nineteen largest bank holding companies by the federal bank regulatory agencies. Today, staff from the Board and the Federal Reserve Bank of New York updated Board members on the steps proposed by Citigroup to improve its capital structure and operations. Citigroup would (1) complete an exchange of preferred securities for common shares; (2) review senior management and augment current management with executives who have commercial banking experience; and (3) closely evaluate the execution of its capital plan, particularly those portions involving divestitures, liquidity enhancements, and improvements in risk management. Board members requested additional information about the timelines for completing these steps and measures to be used by supervisory staff to assess Citigroup's performance in each area.

In the ensuing discussion, Board members generally agreed that it was important for the preferred-for-common exchange to proceed as planned. Board members also discussed whether Citigroup's proposed efforts were sufficient to address supervisory concerns. It was pointed out that Citigroup appeared to lack a sense of urgency about the need to have more-specific plans for addressing several areas, including (1) the addition of senior managers and directors who have expertise and experience in risk management and in commercial lending and other key business lines; (2) the divestiture of core assets, if necessary, to raise capital or reduce the size of the organization; and (3) the need for resources to resolve potential operational and liquidity problems while carrying out its reform efforts. Board members also commented on the possibility of

winding down Citigroup's operations if the company's efforts were unsuccessful. In addition, it was noted that Citigroup's responsiveness to input from, and its willingness to work cooperatively with, the Federal Deposit Insurance Corporation (FDIC) needed to improve without delay.

At the conclusion of the discussion, it was understood that staff would discuss any shared supervisory concerns with the FDIC and convey those concerns to Citigroup in a manner that reflected today's discussion. It was also understood that staff would inform the Board of further developments concerning Citigroup.

Participating in this discussion: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Duke, and Tarullo.

Background: Board staff and Federal Reserve Bank of New York staff presentations, June 17, 2009.

Implementation: None.