

CONFIDENTIAL

**MINUTES OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM**

DATE: March 5, 2001

TIME: 11:00 a.m.

LOCATION: Board Room

ATTENDANCE:

Mr. Greenspan, Chairman  
Mr. Ferguson, Vice Chairman  
Mr. Kelley  
Mr. Meyer  
Mr. Gramlich

Office of the Secretary

Ms. Johnson, Secretary  
Mr. Frierson, Associate Secretary  
Mrs. Lowrey, Associate Secretary  
Mrs. Doying, Assistant to the Secretary  
Mr. Hiratsuka, Technical Writer

Office of Board Members

Mr. Skidmore, Special Assistant to the Board

Legal Division

Mr. Mattingly, General Counsel  
Mr. Alvarez, Associate General Counsel

Division of Research and Statistics

Mr. Ettin, Deputy Director  
Mr. Kwast, Associate Director

Division of Monetary Affairs

Mr. Whitesell, Assistant Director

Division of Banking Supervision and Regulation

Mr. Spillenkothen, Director

Mr. Cole, Senior Associate Director

Ms. Barger, Deputy Associate Director

Ms. Bouchard, Assistant Director

Other supporting staff

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**BANK SUPERVISORY MATTER -- Request by Citigroup Inc., New York, New York, to treat subordinated debt as capital under the Board's Capital Adequacy Guidelines.**

**Discussed.  
March 5, 2001.**

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At today's meeting, the Board considered a request by Citigroup to treat \$4.25 billion of subordinated debt that had been issued in the fourth quarter of 2000 as tier 2 capital under the Board's Capital Adequacy Guidelines. Relevant documentation showed that the terms of the indenture permitted the debt to be accelerated under circumstances that were not permitted for debt qualifying as tier 2 capital. Because it was not feasible to change the terms, Citigroup proposed arrangements that included escrowing interest payments in advance to make the acceleration provisions inoperable.

During the discussion of the request, it was noted that the acceleration provisions had been included through inadvertence and had not benefited Citigroup financially. In this light, there was a consensus among Board members to grant Citigroup's request in a manner that limited its precedential effect and imposed an appropriate penalty relative to the value of the exemption to Citigroup. In addition, members of the Board believed that the document reflecting the Board's action should be made public.

At the conclusion of the discussion, it was understood that Governor Meyer would have the authority to approve the terms in the letter reflecting the Board's decision.

**Participating in this discussion: Chairman Greenspan, Vice Chairman Ferguson, and Governors Kelley, Meyer, and Gramlich.**

**Background:** Staff memorandum, March 2, 2001.

**Implementation:** Letter from Ms. Johnson to Skadden, Arps, Slate, Meagher & Flom LLP, counsel to the applicant, March 7, 2001.