Federal Financial Analytics, Inc.

CITI, CHASE ORDERS TO UNSTRUCTURE STRUCTURED FINANCE, FEDFIN REPORT CONCLUDES

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> "We're going back to plain-vanilla deals, with reputational risk, not just profit, a driving decision force for the foreseeable future," Petrou says.

WASHINGTON, D.C. -- The orders reached on July 28 between the U.S. bank regulators and Citigroup and J. P. Morgan Chase (JPMC) will have profound impact on financial markets, a report released today by Federal Financial Analytics concludes. Much attention has focused on the big-dollar settlements between these companies and the SEC. However, FedFin review of the orders issued on the same day by the Federal Reserve and Office of the Comptroller of the Currency (OCC) finds new requirements that will force significant restructuring of structured finance and derivatives markets. "Now, senior management outside the business unit must review and approve the structure and – more dramatic – the ethics – of each major complex transaction," said Karen Shaw Petrou, FedFin's managing partner. "This means that risk control, not just profit, will drive these deals going forward – a sea-change for financial markets," she continued.

The client report, part of FedFin's Financial Services Management series, analyzes the SEC, Federal Reserve and OCC actions against JPMC, Citigroup and Citibank. It notes that the new independent control mandate for structured transactions applies directly only to JPMC and Citi, but concludes that competitive forces will quickly drive their broader adoption, much as the conflict of interest standards mandated in the huge SEC settlement earlier this year now govern the industry as a whole. Any big bank not planning to implement the new controls will find them forced on it," Petrou adds.

The bank regulators' actions for the first time also mandate new legal and reputational risk management plans, detailing how all deals – not just structured ones – must be reviewed and by whom. Board involvement is required and it's clear that the bank and its parent company must take responsibility not only for its actions, but also for those of its customers. "This means a new approach to corporate finance," Petrou said, "and even

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certain retail deal structures must now be analyzed to ensure that no costly assertions about their propriety will be raised going forward that might force expensive unwinding later on." Again, any bank that doesn't have the type of legal and reputational risk management plan mandated for Citi and Chase will be forced to have one, the FedFin report concludes.

A copy of the report is attached.

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