

Collateral in Derivatives Trading (Credit Crisis)

2010 – Citigroup

WHEREAS the recent financial crisis has resulted in the destruction of trillions of dollars of wealth and untold suffering and hardship across the world;

WHEREAS taxpayers in the United States have been forced to extend hundreds of billions of dollars in assistance and guarantees to financial institutions and corporations over the past 18 months;

WHEREAS leading up to the financial crisis, assets of the largest financial institutions were leveraged at the rate of over 30 to 1;

WHEREAS very high degrees of leverage in derivatives transactions contributed to the timing and severity of the financial crisis;

WHEREAS concerns have arisen about the practice of rehypothecation: the ability of derivatives dealers to redeploy cash collateral that gets posted by one of its trading partners. "In the Lehman Brothers bankruptcy, one of the big unresolved issues is tracking down collateral Lehman took in as guarantees on derivatives trades and then used as collateral for its own transactions." (Matthew Goldstein, Reuter's blog, August 27, 2009)

WHEREAS the financial system was brought to the brink of collapse by the absence of a system and structure to monitor counterparty risk;

WHEREAS numerous experts and the U.S. Treasury Department have called for the appropriate capitalization and collateralization of derivative transactions;

WHEREAS Nobel economist Robert Engle wrote that "inadequately capitalized positions might still build up in derivatives such as collateralized debt obligations and collateralized loan obligations that continue to trade in opaque OTC markets. And this means continued systemic risk to the economy." (Wall St. Journal, May 19, 2009)

WHEREAS multilateral trading at derivatives exchanges or comparable trading facilities allows a wider variety of users, including non-financial businesses, to enter into trades at better prices and reduced costs

BE IT RESOLVED that the Board of Directors report to shareholders (at reasonable cost and omitting proprietary information) by December 1, 2010, the firm's policy concerning the use of initial and variance margin (collateral) on all over the counter derivatives trades and its procedures to ensure that the collateral is maintained in segregated accounts and is not rehypothecated;

Supporting Statement

For many years, the proponents have been concerned about the long-term consequences of irresponsible risk in investment products and have expressed these concerns to the company. We applaud the steps that have been implemented to establish a clearinghouse for over the counter derivatives. We believe that the report requested in this proposal will offer information needed to adequately assess our company's sustainability and overall risk, in order to avoid future financial crises.