TRANSCRIPT

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PRESENTATION

ERIKA NAJARIAN: Morning, everybody. Up next, we are very pleased to have Citigroup presenting to us today. We have President and CEO of the Institutional Clients Group, Jamie Forese and we also have next to him CFO, John Gerspach.

Consisting of its Markets and Securities Services, Treasury and Trade Solutions, and Corporate and Investment Banking businesses, Citi's ICG business is among the premier capital markets franchises in the industry with top market share in Fixed Income. Jamie first joined the firm out of Princeton as part of the securities trading group at Salomon Brothers in 1985 and, since then, he has held various management positions through the Markets division and was promoted to his current role in January 2013.

And with that, I'm going to cede the stage to Jamie.

JAMIE FORESE: Thank you, Erika, and good morning, everyone. Thanks for joining us this morning. Today, I'll cover a few topics including an overview of Citi's Institutional franchise, how we are growing our business and, finally, our current efficiency and returns and what is likely to drive these going forward.

Starting with our franchise. Over the last 12 months, the ICG was a significant contributor to Citicorp results, generating over $33 billion in revenues and nearly $9 billion in net income. We operate the largest proprietary payment network in the world with direct connectivity to the banking systems in 97 markets. We have clearing and custody capability in over 60 markets, and we facilitate around $3 trillion a day of transaction flows.

Slide 3 shows our key execution priorities. Deepening our client relationships, leveraging our scale and network advantages, and improving efficiency, which are broadly consistent with the themes I shared two years ago when I spoke at this same conference. As I think about it, this really speaks to the consistency of our strategy and execution over the past several years. During this time, we've adapted to the challenging operating environment, honing our target client strategy, exiting a few small non-core product lines, realigning others, and adjusting our capacity overall. And this discipline has enabled us to continue investing where we have a competitive advantage and where we see opportunities to close wallet share gaps, while at the same time absorbing the cost of additional regulatory requirements.

As others have been forced to exit large-scale businesses or geographies, this thoughtful approach has not only preserved the strength of our core franchise, our global network, but has enabled us to remain agile in order for us to serve our clients where and when they need us most. As our target clients seek to streamline and optimize their operations, our network businesses in Treasury and Trade Solutions and Securities Services in particular, provide efficient, sophisticated solutions to these clients' most complex global needs.

And these operating relationships then become the backbone for adjacent revenues in areas like Markets and Investment Banking. At this stage, we believe our ICG infrastructure is scaled appropriately and can absorb additional volumes without significant incremental cost, as you saw in our recent third quarter results.

This doesn't mean, however, that we've stopped seeking further efficiencies in our middle and back office. In fact, this focus on continuous efficiency improvement should give us even greater capacity to reinvest to meet the ever-growing needs of our clients, all while maintaining an industry-leading efficiency ratio. And importantly, we are playing from a position of strength in capital and liquidity, giving us the capacity to support our clients without facing regulatory constraints.

I am sure many of you have seen this map before and I can't overemphasize the importance of our global network to the momentum we're seeing in our business today. We believe this network, again, on the ground in 97 countries and territories around the world, could not be easily replicated by any of our peers in today's environment and gives us a unique competitive advantage in serving large, sophisticated clients.

More specifically, it positions us well to be the core operating bank for these clients, serving their Cash Management, Custody and Clearing, Foreign Exchange, and other day-to-day banking needs in more markets around the world than any of our peers. This core operating business tends to be stickier and more recurrent and contributes to our scale advantage in areas like Rates and Currencies, where we benefit from significant corporate client flows.

Our strategy was developed with this network in mind, targeting clients who truly value our global capabilities. These clients include: developed market, multi-national corporations who are expanding into emerging markets, either organically or through M&A, who rely on our global platform and local market expertise, emerging market champions, who are expanding beyond the capabilities of their local bank providers, as well as financial institutions, large global investors, and public sector entities with a broad spectrum of financial needs.

Our goal is to deepen these existing relationships, serving our clients with more products in more markets. Because for us, the more complex the clients' needs, the better we are able to serve them. And the number of countries in which we serve a client is the best indicator of our revenue potential. Our corporate client revenues as an example increased 12-fold as we go up the spectrum from serving a client in fewer than 10 countries to serving them in over 50. This reflects that for corporate clients, we are not only providing operating accounts in each of these markets, but rather we are working strategically with our clients to optimize their balance sheets, strengthen their client and supplier relationships, and expand their reach on a global basis. As such, we are not trying to compete with local banks for domestic business, and we have carefully narrowed our target coverage universe from over 30,000 clients to roughly 14,000 today that we believe we're well positioned to serve.

As you can see, the impact of this strategy in our revenue performance where we're seeing strong revenue gains in those businesses most significantly tied to the global network. In total, TTS, Securities Services, and Rates and Currencies have demonstrated double-digit revenue growth in constant dollar since 2014. These operating relationships provide a strong foundation for adjacent revenue opportunities as well, including in Equities, Lending, Capital Markets Origination, and Advisory. So, while we faced industry headwinds in areas like Spread Products in Fixed Income and Investment Banking, we feel good about the underlying momentum in our franchise. Our goal is to continue to deepen these relationships and build on our scale and network advantages.

On slide 7, you can see our wallet share momentum in these network-driven businesses. In our Treasury and Trade Solutions franchise, the backbone of our Institutional network, we've made consistent share gains as measured by industry payment volumes. And similarly, in Fixed Income, we have captured an increasing share of industry revenues, given the strength of our global network and, in part, to the connectivity to our TTS franchise as we help manage our clients' liquidity and working capital across currencies.

Now, I would like to spend some time on each of our businesses starting with TTS. As I've said, TTS connects our clients to the banking systems in 97 countries around the world and is the most obvious beneficiary of Citi's global footprint. Our focus remains on delivering integrated working capital solutions to our clients, addressing their full spectrum of supply chain, trade service, liquidity management, procurement, and payment needs around the world. We're seeing the demand for our services increase as corporations seek to optimize those resources in a slow growth environment, at the same time as some of our peers are pulling back from global strategies. And so, despite the low interest rate environment, we have grown revenue and margin in TTS on a year-over-year basis in each of the last 11 quarters.

TTS is also a tremendous source of high-quality corporate deposits. As shown on slide 9, TTS generated over $400 billion in average deposits last quarter or over 40% of our deposits globally. And as we have improved the quality of these deposits, focusing on core operating accounts with better liquidity value, we have also improved our deposit spreads even in a low interest rate environment.

Some of the stable, low cost funding is used to support our trade business, with average loans of roughly $63 billion. We remain a leading originator of trade finance; however, we've been able to reduce our average trade loans by about $6 billion over the past two years by increasing asset sales. This distribution capability, allows us to continue to support our clients and grow revenue while reducing our balance sheet and preserving our returns.

The next business most closely tied to our global network and with clear adjacencies to TTS is Fixed Income. From a structural perspective, we benefit from a robust capital position with a Supplementary Leverage Ratio of 7.4%, enabling us to compete effectively in balance sheet-intensive products like rates, where leverage-constraint peers are more challenged.

And from a strategic point of view, our network provides unique advantages. In particular stemming from our operating relationships in TTS where, as an example, a great portion of the payments we execute also have a Foreign Exchange component to them. So, while people often cite the declining industry revenue pool in FICC, for us, you really need to dig a little deeper.

Rates and Currencies, which comprised on average roughly 60% of our FICC revenues over the past two years, has been a consistent source of growth. We believe a greater portion of our Rates and Currencies revenues are generated with corporate clients relative to that of our peers, which is directly tied to the strength of both our global network and our TTS business. These corporate revenues have been more stable over time and are more likely to recur year-on-year, as we are managing these clients' operating accounts across more countries and regions than any peer can offer.

On slide 11, we provide more details on our Rates and Currencies franchise. As you can see, in Foreign Exchange, over 60% of our client revenues are generated with corporate clients, with a heavy skew towards emerging markets, as we help these clients move funds around the world to support their operations. In Rates, more of our client revenues are driven by investor clients, and predominantly, in developed markets as you might expect.

Turning now to Securities Services. Our Securities Services business provides security settlement, clearing, custody, and asset servicing to Institutional Clients in 62 markets. This industry-leading franchise has continued to deliver strong and consistent revenue, measured in constant dollars, and asset under custody growth, up annually 7% and 4%, respectively, since 2012, even as we exited certain non-core businesses in 2015. We view the Securities Services business as similar to TTS in many ways, providing the core operating infrastructure for our investor clients to grow and transact around the world. And similar to TTS, we believe these operating relationships can help drive adjacent revenues over time.

We show more detail on Equities on slide 13. You can see that we've grown revenues by 6% annually over the past several years, even as the revenue pool for cash equities has remained under pressure, as we've outpaced the market in both derivatives and prime brokerage. We are pleased to see this growth in areas where we have made investments in technology, people, and balance sheet, and we believe there is additional opportunity that can be captured without significant incremental investment.

We have historically maintained the number eight or number nine rank among peers, and while we don't have expectations today to break into the top three, we do believe a number five or six rank is achievable over time and more representative of our natural competitive position relative to our Fixed Income markets franchise. We believe this gap to our current ranking represents up to an additional $1 billion in annual revenue.

Our Private Bank has also been a source of growth with revenues up 5% annually since 2012. Our business targets ultra high-net worth individuals around the world with at least $25 million of household net worth and at least $5 million of investable assets. These clients require a similar level of expertise as our corporate and investor clients ranging from traditional banking and lending to tailored investments strategies and advisory services.

By leveraging Citi's global presence, we deliver the full capabilities of our Institutional franchise to our Private Bank clients. And this integrated approach has led to continued strength in new client acquisitions, as well as the deepening of our existing client relationships, resulting in steady growth in business volumes and assets under management. And as seen on this slide, our revenues are diversified by region and balanced across products.

And finally, turning to Investment Banking. Industry revenues have been under pressure year-to-date as we faced a particularly slow start to 2016, but these trends started to improve in the third quarter and we are encouraged by the pick-up in overall market activity that we have seen more recently, including our participation in many of the high-profile M&A transactions announced so far this quarter.

As we've said in the past, our goal is to be a trusted advisor to the world's largest and most global firms. To this end, we have made progress in our advisory business growing revenue 10% annually since 2012 relative to a 4% market growth over the same period. And we continue to make selective investments in talent to position our Investment Banking franchise for further wallet share gains.

I've covered several areas today where we're investing across the franchise, but what you can see here on slide 16 is that we've been able to support the business without increasing our total expense base. In fact, our annual core operating expenses are down by roughly $400 million since 2013. We've reduced capacity in certain areas to make sure that we are right-sized to the current environment, while maintaining scale to ensure that we can effectively compete and absorb additional volumes without significant cost. This has allowed us to reallocate resources to areas where we have a distinct competitive advantage like TTS or where we believe we can close critical wallet share gaps at attractive returns such as Equities.

And the result is that both our efficiency ratio at 56% year-to-date and comp ratio at 27% compare favorably to peers. Of course, we remain focused on further improving our back and middle-office efficiency, using today's technologies to automate and simplify many more of our processes. And this continuous efficiency improvement should give us even greater capacity to reinvest in the future.

Year-to-date, ICG generated a return on assets of 76 basis points relative to Citigroup at roughly 84 basis points, reflecting the impact of lower ROA businesses such as our rates franchise for example. But while some of our businesses are more balance sheet-intensive, the RWA content of many of these assets is also quite low, translating to a return on allocated equity that remains attractive at over 12% year-to-date.

We believe that we can drive the RoTCE to 14% in ICG on a longer-term basis as we continue to grow the franchise and drive efficiencies, and benefit from a more normalized interest rate environment and GDP growth over time. But we feel good about the momentum and the returns of our franchise today as well as the embedded operating leverage we believe we can deliver if volumes continue to improve.

While I have covered many topics here today, I want to leave you with a few key thoughts. First, our Institutional franchise is unique and its global reach and diversification, which we believe position us well to serve our target market. We are focused on deepening our relationships, delivering the power of our global network on behalf of our clients as they grow and transact around the world. We remain focused on serving our clients in a cost effective and responsible manner and we believe the consistent execution of this strategy will deliver attractive, sustainable returns to our shareholders over time.

And with that, John Gerspach and I would be happy to address any of your questions. Thank you.

QUESTION AND ANSWER

ERIKA NAJARIAN: So, and Jamie if you can join us, I thought I would just start off by asking one of my own. It's a question that has come up consistently since Mr. Trump won the election, and this is for you, John.

JOHN GERSPACH: Wow. Okay. Pay attention.

ERIKA NAJARIAN: So...

JAMIE FORESE: I think we could guess what it's going to be.

JOHN GERSPACH: Why don't we have a polling question as to what it will be? No, go ahead.

ERIKA NAJARIAN: So, the DTA.

JOHN GERSPACH: DTA.

ERIKA NAJARIAN: DTA. Given the potential for lower corporate tax rates, how does that change the pace at which you are capturing your DTA?

JOHN GERSPACH: Yeah. Well, obviously, that's going to vary a little bit depending upon where we actually settle with tax reform. But just to set sort of a baseline, we've got $45 billion worth of DTA on our books today. About 15% of that would be foreign and state and local taxes, so that leaves us with about $40 billion of DTA that's really tied to the federal tax rate. Within that $40 billion though, there's about $3 billion that are NOLs, $16 billion is related to FTCs, foreign tax credits, and so the remainder, $21 billion, would really be the timing difference component of the DTA. So, that's sort of the baseline against then we all need to assess what any impact would be.

When you then take a look at what goes into tax reform, there are probably three factors that are most important. The first would be, rate – how low does is the rate actually go? The second would be what type of regime do we end up with? Is it a worldwide regime, similar to what we have today or do we move to something that's more territorial. And then the third would be how quickly do we move to effect the full impact of the change?

So and you think about rate, in the past when we've talked about what would happen if the tax rate moved – the U.S. tax rate moved down to 28%, what we've said is, probably, one way of getting to a potential impact would be to look at the rate of change, or change in rate, so, 28% would be a 20% lowering of today's tax rate. You take that 20% against the $21 billion worth of timing difference. That would leave you with about a $4 billion impact.

And that $4 billion then, if exactly the way it played out, we said that would have to be a charge that we would take to P&L. We would write-off some component of the DTA. However, since we have $7 billion of our timing difference DTA that is not currently includable in our regulatory capital, while we would take a $4 billion hit, it would have no impact on our CET1 capital or our CET1 ratio.

So, in similar fashion, if the rate move down to 25%, you'd do the same calculation, 25% would be a 30% reduction from current rate. 30% times the $21 billion. $6 billion charge to P&L but again, still since it's below that $7 billion that's not includable in regulatory capital, it would not impact our CET1. Now, both of those calculations are done assuming that we retain our current regime. If the U.S. were to move to a territorial regime, then there's an element, that element of our timing difference DTA that is resident in our foreign subs and that's about 30% of our $21 billion, that component then tends to lose its value at an accelerated rate.

So, if we did end up in a situation where we're at a 25% rate in a territorial type of tax regime, that could lead us to an impact of, say, $12 billion worth of DTA that we would have to take as some sort of either write-off or valuation adjustment. And at that level, we'd probably have a charge of about $4 billion, a reduction of $4 billion of our regulatory capital. Now, there's a lot of moving pieces, and clearly, to the extent that these changes were implemented over time, those impacts would likely be lower, but that's sort of where we are right now in just trying to do a very rough top-level assessment.

ERIKA NAJARIAN: That was very clear, actually. Thank you.

JAMIE FORESE: He was ready.

JOHN GERSPACH: I've given it some thought.

ERIKA NAJARIAN: Yeah. So, I thought this would be a good time to pick the audience's brain. So Bob, if you could have the first polling question up. Despite material progress, Citi's share still trade below tangible book value. What will drive shares to rerate closer to tangible book value?

One, continued increase in capital return from the $10.4 billion expected return under the 2016 CCAR cycle. Two, consistent improvement in revenue momentum. Three, continued core cost control with further reductions in legal and repositioning charges. Four, accelerated recapture of its DTA. And five, further simplification of its Global business model.

Five seconds on the shot clock. And then we'll ask you for your votes.

ERIKA NAJARIAN: Interesting, 37% – this is actually very consistent with the answers throughout this conference that investors are looking for revenue momentum to revalue bank shares. 37% of you say it's consistent improvement in revenue momentum. 34% of you say it's continued increase in capital return from what is targeted for 2016. Interestingly, given the number of questions you get on it, only 12% say it's expense control, and only 10% say it's DTA. And may I add, only 7% say it's further simplification of your Global business model.

Maybe, I'll kick it off here. The days during this rally, this post -election rally, when the shares have lagged, Mexico has come up. I mean, clearly, there's been rhetoric about a wall, but what is the market getting wrong when they're not – when the stock is lagging on that day?

JOHN GERSPACH: You want it?

JAMIE FORESE: Go ahead.

JOHN GERSPACH: Okay. I would never say that the market is getting something wrong, because the market has its view. I think the markets view of Mexico perhaps is not quite as constructive right now as our view of Mexico is. We still have a very good view long-term as far as the prospects for our franchise in Mexico. And we announced that we were putting $1 billion of investment in Mexico. Now, that's not going to be something that we put in in one year, but that is a series of investments that we will make over the next four years to improve our core infrastructure and we think we can get very good returns coming out of Mexico. We'll have to see exactly where this all translates to from trade protectionism and is there a wall, is it partially a fence, maybe. I don't know if that has any difference if part of it is it a fence as opposed to a wall, but we'll see. It's too early to tell on that. But we still think that there is a lot of value in that Mexico franchise.

ERIKA NAJARIAN: Second part of the – the second most popular answer was on capital return and this is a two-parter. We just finished a panel where the panelists had thought that under a Trump administration, the one piece of regulation that could be most fluid to change or softening is the CCAR process, which, by the way, all big banks say is the binding constraint.

One, how does CCAR change your behavior in, A, either allocating balance sheet to Jamie's business. And two, how much you ask for every year in the process. Or how much you think that – from just a pure balance sheet perspective, how much you think you should return to shareholders versus what you think the answer is?

JOHN GERSPACH: I think that without the CCAR restraint, obviously we would reevaluate where we have come out on our most recent capital asks that we've put through. I think that you've seen that we've made a lot of progress and steadily increasing that rate of capital return. Without the CCAR process, would it have been higher still? Perhaps. I don't want to call the end of CCAR just as yet. And so, we're going to continue to do our planning based upon the CCAR regime, but with or without CCAR, our goal is still to return ever increasing amounts of capital to our shareholders.

If you had asked, I think, either Jamie or I to respond to that polling question, we probably would have selected the top two as well because if you think about what we've said we're very focused on right now, is really both increasing our return of capital as well as our return on capital. We recognize that it's our ROE that is lagging. And so, that's going to be driven primarily by that revenue growth, with continued expense discipline, but also we know that we've got to do work on our denominator and that means returning more capital. So again, our answer would have been one and two just as well, maybe, we would have reversed the order, maybe not, but it's return on and return of capital.

ERIKA NAJARIAN: And of all the prudential regulation, is CCAR and surcharge the binding constraint for balance sheet allocation in Jamie's business? Because clearly SLR, you're head and shoulders above peers.

JAMIE FORESE: Yeah. I think when we allocate capital into the lines of business, we're looking at what our constraints are. What's keeping us from being able to return capital to shareholders and CCAR increasingly over the last few years has become the more binding of all of our constraints.

So, as we tinker with or calibrate our capital allocation models, we're very mindful of what drives CCAR capital and the capital gets allocated – equity capital gets allocated to the Consumer business, to the ICG, and as well as the capital that has to support Holdings, as well as capital that has to support the DTA. And from there, we're trying to again push down that capital allocation further so that we can incentivize our businesses to make the right decisions around return on the true binding constraint of our capital.

ERIKA NAJARIAN: So, this is a good spot to ask investors where they think the momentum is in your business, Jamie. So, let's pull up the next polling question Bob. Where do you think Citi's biggest opportunity is to take global market share within its ICG business? And I apologize for bucketing a bunch of businesses.

JOHN GERSPACH: No, it's okay.

ERIKA NAJARIAN: One, Fixed Income markets, despite Citi's already leading position, this continues to be a material capital constraint for certain players. Two, Equity Markets, given that Citi's market share falls outside of the top three. Or three, Banking, and we put in there Treasury and Trade Solutions, Advisory, and ECM and DCM.

Few seconds left to vote. And survey says, well...

JOHN GERSPACH: There you go, Jamie.

ERIKA NAJARIAN: There you go. 47% say it's in the Equity Markets, 31% say it's in Fixed Income markets, and 22% say it's in Banking. Jamie, before I ask you to comment on this result. You mentioned that you've built-out your infrastructure so that the incremental revenue growth is going to fall mostly to the bottom line if activity levels pick up. When you mentioned that $1 billion revenue goal in Equities, does that statement apply?

JAMIE FORESE: Well, against the – so, let me come back to that – maybe I'll just take a minute to talk about this distribution.

ERIKA NAJARIAN: Sure.

JAMIE FORESE: I'm not surprised by this. I was expecting that we'd have seen a distribution across all three of those areas, and I think we've got opportunity in all three. But I think probably if we can execute well, our best opportunity is in Equities, just given how unnatural it is that we are in eight or nine position in that business line, where we're at or above the median, even at number one in so many other markets. So, we sort of sit there with an unnaturally low share of that business, and it's extremely competitive. So, we're under no illusions about the competitiveness of the market and how difficult that's going to be, but I think we feel that we can bring that into greater balance, where there's a good – it is a good opportunity for us. And I think as others have identified too, we still have an opportunity in Fixed Income. There are still people withdrawing resources and capital from that around the world. And in Banking too, we talked about some of our natural advantages just a few minutes ago, so I think there's an opportunity to grow there too.

That $1 billion that we talked about, essentially the difference of where our current market position is bouncing between eight and nine, and so I'll call it a number five position overall, is about $1 billion. Now, against that, I said that a lot of that will drop to the bottom line, but we're going to have incentive compensation to pay against some of that. We'll have – with incremental revenues, we'll have some variable costs and transactional expenses and brokerage and clearing and the like. But we don't have a lot of things to build out to be able to capture that. So, I would expect that our incremental margin on that $1 billion of revenue is going to be accretive to our overall margin. We haven't sized it exactly, but it's not all $1 billion is going to fall to the EBT line, but it won't be – I don't believe it's going to also fall at the same proportion that our EBT does currently – or revenue does currently.

ERIKA NAJARIAN: Some of your global competitors are still under capital constraints or in the earlier stages of restructuring, and I'm wondering, we see the headlines, I'm wondering how much of that is real. So, are certain players really pulling back in certain products where, let's say they don't have great market share and is capital constraint or is it more of a dogfight in the trenches than the headlines would suggest it is? Because if you believe the headlines, the European banks are all ceding this massive share to the U.S., and I'm wondering if...

JAMIE FORESE: Well, I think they're very willing to cede share in Fixed Income markets to the stronger, better-positioned U.S. firms. I don't think they want to or intend to cede as much share in Equity markets or in the Banking segments of the business. Now, there's some interplay between those things because our industry wallets are connected into some degree, to varying degrees, but I think they would like to preserve their Equities franchise and their Banking franchise as much as possible, while reducing their activity in secondary Fixed Income markets. I mean, that I think is the broad-brush plan for many of them as they try to get more capital efficient.

I think underlying that, again, the European banks have a – I'm generalizing, of course – but they have a, they're typically a little bit more constrained by their Supplementary Leverage Ratio than other measures of capital right now. So, we are starting to see a little bit of de-emphasis in those areas that are good return on risk capital, but not necessarily good returns on raw balance sheet capital. So, that's why we think we've had been able to gain some share in the prime brokerage business because for firms that are constrained by their SLR, they've had to be a little bit more thoughtful. No one's exiting, but they're being a lot more judicious about how they deploy capital there because that's being their nearest constraint on capital.

ERIKA NAJARIAN: So, we had our CEO on stage here yesterday and he said that most of our tech budget for next year is really focused on risk and compliance. And I'm wondering as you think about ICG next year, how much of the tech budget is innovation versus defense?

JAMIE FORESE: Well, it's a bit of – I think it's a bit of both. Our technology budget in ICG is in part focused on improving our operational processes that exist today. There's about 50,000 employees in the ICG segment, and about 20,000 of them are in operational roles. So, there's huge scope. Now, they're not our most expensive roles, and so a lot of our compensation costs are not embedded in operations, but there's huge scope to continue to automate processes. When you think 20,000 people are in some way serving operational roles, 40% of our population is doing that, you can – just by that alone that number just jumps out at you as, there has to be opportunities to do that. So that's part of our technology is focused on reducing the human interaction within those processes. And I think, as we have in the past, we'll continue to chip away at that.

Then part of our, though, technology investment is to help our businesses grow to continue to evolve our platforms and our services, our offerings, to make things faster, to improve reporting for things, and to improve our execution quality, to design new algorithms for execution, and that will always be ongoing and we've also had to make mandatory – we've had to spend money on technology to help adjust to the regulatory requirements and that's starting to flatten a little bit. It's taken up a bigger portion of our spend today than it used to pre-crisis, but it's not growing at the same pace as it was. And so now, our technology dollars can be more focused on the things that we want to do, either improving efficiency or in growing, trying to be offensive, in ways that we can innovate and drive more revenue.

ERIKA NAJARIAN: So, just to follow-up on that. John, a few big bank management teams are asked this question. As you're thinking about budgeting for 2017 and the budget that is for risk and compliance, is it too early to ratchet back that budget?

JOHN GERSPACH: No. I'd say, we're very, I think Jamie captured it well. Which is that what we're seeing now is a plateauing of the budget that's going into risk and compliance. So, you're not seeing that same rate of growth. But similar to what Jamie was talking about, now as we think about what's the next phase, the next phase isn't necessarily just wholesale, pull the expenses out, it's actually taking some of those technology budgets and then figuring out, and also doing some process reengineering, and figuring out how to lower the cost that we have. Still do the same things, but at a lower cost.

When you first get hit with some of the regulations, your first reaction is you got to throw people at it. And so you throw people at it, you produce the analysis, the reports, whatever it is that you need to do. Then you have a chance to sit back and say, okay, now that I know what I've got to do, what's the most efficient and effective way of actually executing those requirements, and that's really where we are now. So, I think we've got a great opportunity even without regulatory change to take expenses out.

ERIKA NAJARIAN: Great. So, I thought this would be a good spot to ask the next question. Bob, if you don't mind pulling it up. John, I swear, this is not forcing you into guidance for next year, just wanted to pick their brains. Where do you see Citicorp's efficiency ratio settling in 2017, and this is phrased for comparability, we know that, that concept's going away...

JOHN GERSPACH: This is a trick question.

ERIKA NAJARIAN: It's not a trick question, that's why I mentioned that caveat. Below the 58% reported year-to-date in 2016, that's one. Two, in line with the 58% reported year-to-date in 2016. And three, above the 58% reported year-to-date in 2016. For those generalists in the audience and, we have quite a bit of generalists attending this conference, what we're talking about is, Holdings will go away next year as a separate reportable segment. So, it might not be completely comparable, but nonetheless, you have two seconds left to vote.

ERIKA NAJARIAN: Well, the gauntlet is thrown.

JOHN GERSPACH: That's a shock. Wow. Okay.

ERIKA NAJARIAN: 71% of you say below the 58% reported year-to-date in 2016. 21% of you say in line. So, that's a clear message. Any thoughts here? Jamie did mention that there continues to be opportunity in taking out costs in middle and back office.

JOHN GERSPACH: Like I said, that does not surprise me, nor would it surprise our management team.

ERIKA NAJARIAN: And so, thinking about good expenses, since the theme of this conference is the future of financials, are there any promising innovation projects within ICG that you're excited about, whether it's payments or the use of big data that you think could be implemented sooner rather than later that would really help your relevance to your clients?

JAMIE FORESE: I wouldn't put my finger on any one thing that is going to change our world or change our clients' world in the near future. A lot of our innovation work is distributed throughout a whole host of things that we're trying to do better for our clients. We leverage a number of client advisory boards to understand really what's topical for them and what their problems are today that they're trying to solve for. We may be trying to think of something grandiose around block chain and our clients really don't care, they want – they have another problem, a more acute problem that they would rather see solved. And so, we try to lever that.

So, I think our innovation is sort of dispersed, dozens of things happening at the same time to probably improve a lot of little things all at the same time. I don't see a single big thing that we're working. I think perhaps in Consumer some of our digital efforts that we're working on is a little bit more impactful for the future of that business line but, in ICG, it's sort of a hundred things at the same time.

ERIKA NAJARIAN: And with that, I'd like to open it up for questions from the audience. Right here in front.

SPEAKER # 1: Thank you. Hey, Jamie, a question for you. Obviously, over the years, we've been seeing a lot of consolidation happening in the custody business, mainly with the North American banks, say, opposed to the Europeans. Do you have a view or does Citi have a view on any sort of consolidation or what the effects would be over the next few years from a custody point of view?

JAMIE FORESE: So I think you're talking more about the investor custody business rather than a direct custody business.

SPEAKER #1: Correct.

JAMIE FORESE: The business that I was talking to that leverages our network effectively is really our direct custody business. It's those custody operations in those 60-plus markets that I mentioned. That uniqueness I don't think is under any risk at all right now in the business and I don't see, if anything, you've seen deconsolidation, people are abandoning their own custody networks and relying on partners to provide some custody such as Citi. It's really expensive to build that network out to try to grow business when there's so many efficient providers, such as Citi, that can help you do that.

I think with respect to the global custody business, which is a much bigger wallet, and what we do for investors around the world, I don't see greater concentration necessarily as an industry standard. I think the large custodians are probably under just as much pressure here to not get any bigger. They're still seen as banks. They're still this desire to not see big banks get any bigger and even if they are in a different line of business than the riskiest parts of banking, I just – I don't see too much of consolidation or M&A activity in custody.

ERIKA NAJARIAN: Any other questions from the audience, Jim?

SPEAKER #2: Jamie, in your prepared remarks, you talked about your Equity markets business and suggesting even though you don't have, I guess, dreams or aspirations of being a top three player, your current rank of eight or nine is below what you think is achievable, near term, five to six. And getting there would be potentially an additional $1 billion in revenues. So now, the tough question is how do you get there? What do you do?

JAMIE FORESE: Well, we have – to sound a little bit simple, we have to earn a bigger share of our clients' execution wallet. That is how we sustainably get from eight, nine, to five, six. It's not by taking more risk in the business or by – or taking a shot on something in the marketplace. We just have to sustainably earn a bigger share of what our clients are doing. And that's – there's a lot of components to why clients transact with their counterparties and why they allocate greater shares to one versus the other.

In cash business, the research product is still very important to the allocation of their execution wallet. At the same time, when they may be targeting execution to certain firms because of the quality of that firm's investment research and investment advice, they're still looking for best execution all the time. And so, the capability of your execution and your algorithms and your methodologies and the ways in which you can help clients execute, execute in a seamless fashion as well, settle easily, perhaps even settle in cash and then finance the positions easily as well and so connecting them from your cash to technologies that help you execute and connecting that to your prime business or to your alternative forms of financing is really important.

We earn, again, a bigger share of our derivative business based on a whole host of things too including our capability to structure and execute more complex products. The prime broker, itself, businesses is related to core capabilities and reporting and standards like that, but also requires balance sheet. We have to commit balance sheet to that. So, the component pieces of trying to earn a bigger share are investments in people, in technology, in balance sheet, and in research across the board. And it's a little bit of trying to raise the legs of the stool all at the same time while trying to move your market positioning.

And again, it's not – that's not – that may sound easy, but it certainly isn't going to be easy because firms seven and six and five and four aren't exactly going to stand aside and say, here, Citigroup, have our share. I mean, they want to keep their share too, although there are some things in there, particularly around the balance sheet of the European banks, that may help us little bit, give us some windows of opportunity. And we do think that we have to out-invest a little bit the peer group there to build on some of those capabilities. So, it's going to take us some time. We're happy with the progress that we've seen to-date, it's been observable, but it's still modest in the scheme of where we want to get to in the intermediate term.

ERIKA NAJARIAN: And one final question. I know I'll get shot if somebody doesn't ask this, but all the big banks were asked this question. Are you prepared to give us any insight on what activity levels are in Markets?

JAMIE FORESE: Well, that's another one we were expecting. I think similar to what some of the other banks have said, in our Markets activity, we are expecting that we will see a seasonal decline from the third quarter, but with activity levels remaining robust post the election in this quarter, we would anticipate that they will still be meaningfully better than the year-ago quarter, but there's still plenty to play out still, and Banking activity still seems to be relatively consistent with prior quarters.

ERIKA NAJARIAN: Well, let's end there. It's a good note. Thank you so much for joining us today.

JOHN GERSPACH: Thank you very much.

JAMIE FORESE: All right. Thank you.

ERIKA NAJARIAN: Thank you.