Host
Peter Kapp, Head of Fixed Income Investor Relations

Speakers
John Gerspach, Chief Financial Officer
Eric Aboaf, Treasurer

PRESENTATION

OPERATOR: Hello, and welcome to Citi's Fixed Income Investor Review with Chief Financial Officer John Gerspach, and Treasurer Eric Aboaf. Today's call will be hosted by Peter Kapp, Head of Fixed Income Investor Relations. We ask that you please hold all questions until the completion of the formal remarks, at which time you will be given instructions for the question-and-answer session. Also, as a reminder, this conference is being recorded today. If you have any objections, please disconnect at this time. Mr. Kapp, you may begin.

PETER KAPP: Thank you, Brent. Good morning and thank you all for joining us. On our call today our CFO, John Gerspach, will speak first. Then Eric Aboaf, our Treasurer, will take you through the fixed income investor presentation, which is available for download on our website, citigroup.com. Afterwards, we will be happy to take questions.

Before we get started, I would like to remind you that today's presentation may contain forward-looking statements, which are based on management's current expectations and are subject to uncertainty and changes in circumstances. Actual results and capital and other financial condition may differ materially from these statements, due to a variety of factors including the precautionary statements referenced in our discussion today and those included in our SEC filings including, without limitation, the risk factor section of our 2012 form 10-K. With that said, let me turn it over to John.

JOHN GERSPACH: Okay, thank you Peter and good morning everyone. We're very pleased to be hosting our fixed income investor review this quarter. Today we are going to update you on our continued progress in several areas. Eric Aboaf, our Treasurer, is going to review some specifics on our strong balance sheet, liquidity profile and capital position, as well as our recent issuance activity and funding plans for the remainder of 2013.

Before I turn it over to Eric, however, there are some key points from our third quarter results that I'd like to highlight on slide 2. We reported $3.3 billion of net income for the third quarter of 2013, excluding CVA and DVA and a tax benefit in the quarter. Our results reflect the challenging operating environment, including a slowdown in capital markets activity, as well as lower mortgage refinancing volume.

However, even in this challenging environment, we continue to make progress on our execution priorities. We remain on track to achieve the savings from the repositioning efforts we announced last December. We continued to reduce the earnings drag associated with Citi Holdings, and Holdings assets declined to $122 billion, or 6% of our total balance sheet.

Legal costs remained elevated, but our agreement with Freddie Mac marks further progress in resolving legacy issues. Regarding DTA, we utilized $500 million in the third quarter, bringing the total utilized to $1.8 billion year-to-date. Our credit quality continued to perform favorably, with net credit losses down 38% year-over-year.

Our capital and liquidity remain strong as our Basel III Tier 1 Common ratio increased to an estimated 10.4%. Our Supplementary Leverage Ratio increased to an estimated 5.1%, and we ended the quarter with an estimated LCR of 113%.

Turning to slide 3, we summarize Citigroup's financial results for the quarter. We earned $3.3 billion in the third quarter, roughly flat to last year, as lower operating expenses and lower credit costs were offset by a decline in revenues, as well as a higher tax rate. As I discussed, the revenue environment was challenging in the third quarter, but we maintained our focus on expense discipline. Year-to-date, revenues grew 2% while expenses declined 1% and credit costs also improved, driving 14% net income growth year-over-year. And, as Eric will cover in more detail, Citigroup end of period loans were flat year-over-year at $658 billion, as growth in Citicorp was offset by the continued decline in Citi Holdings. And, deposits grew to $955 billion. And with that, let me turn it over to Eric.

ERIC ABOAF: Thank you, John. Let me start on slide 4, where I'd like to review our continued progress in building our Citicorp franchise while winding down Citi Holdings. Citicorp assets have grown since the end of 2012 as we continue to lend to both consumer and corporate clients.

At the same time, Holdings' assets declined by $9 billion this quarter and by nearly $50 billion in the past year to $122 billion, or 6% of our consolidated balance sheet. The $9 billion reduction of the third quarter reflected $4 billion of asset sales and $5 billion of net pay downs. The Citi Holdings risk-weighted assets declined by $14 billion to approximately $233 billion, or 20%, of our total Basel III risk-weighted assets.

We also continued to reduce the earnings drag associated with Holdings. Pre-tax losses in Holdings have declined sequentially for each of the last three quarters to approximately $500 million this quarter, even excluding the release of roughly $300 million of incremental mortgage reserves. While we expect legal and related costs to remain elevated in the near-term, our agreements with Freddie Mac in September, Fannie Mae in June and the FHFA in May indicate our continued progress in resolving our legacy legal matters.

On slide 5, we show credit trends in the Citi Holdings North America mortgage portfolio, which is our largest remaining legacy pool. We ended the quarter with $76 billion of North America mortgages, down 20% from a year ago and 4% quarter-over-quarter. We sold roughly $500 million of mortgages this quarter, most of which were non-performing, for a total of $6.3 billion of mortgage sales year-to-date.

Credit trends continued to be favorable in the third quarter, with net credit losses declining to just over $400 million, down 50% from last year and down 24% from last quarter. We utilized existing reserves to offset NCLs and released an incremental $300 million of reserves as well, driven by continued improvement in delinquencies and home prices year-to-date. Our current reserves against this portfolio are $5.7 billion representing 40 months of NCL coverage and 115% of 30-day delinquent loans.

Looking to the fourth quarter, assuming the U.S. economic environment remains favorable, we expect to utilize loan loss reserves to offset virtually all our mortgage net credit losses. But we do not currently anticipate additional reserve releases beyond that point.

The NCL rate improved by nearly 50 basis points sequentially to 2.1%. Our $76 billion portfolio includes approximately $12 billion of legacy CitiFinancial loans, the majority of which are residential first mortgages. While the NCL rates on CitiFinancial loans have improved, the loss rates on these loans tend to be higher at just over 5% in the third quarter, as compared to less than 1% for residential first mortgages originated by CitiMortgage.

We have also witnessed a significant decline in the balances of our delinquencies in this portfolio, with 30-day delinquencies down 40% since last year, and 9% sequentially to $5 billion, with improvement across all our delinquency buckets. Within this portfolio, we have seen the most significant balance reductions in the buckets with the highest LTV and lowest FICOs as you can see in detail on slide 26 in the appendix.

Let me now turn to slide 6, with a review of how we're managing our overall balance sheet to achieve our returns targets. Over the last two years, we've managed our balance sheet down from the $2 trillion average we had been running, while adding both client loans and deposits in a disciplined manner. This quarter, we again maintained our average and end of period GAAP assets at approximately $1.9 trillion. We believe that by managing a compact balance sheet, we can focus on our net interest margin which helps improves our returns while continuing to operate at appropriate levels of leverage.

Sequentially, total assets increased as our cash balances were up due to deposit inflows, and the depreciation of the dollar increased the value of our other non-dollar assets. Sequentially, loans grew by $15 billion during the third quarter as we increased lending to our core client base and added the Best Buy cards portfolio.

On the liability side, to the right, we've maintained our deposits at roughly half of our balance sheet. Sequentially, deposits increased $17 billion as we experienced significant inflows of corporate deposits both during and late in the quarter, a trend we have seen recently. Our long-term debt was flat in the third quarter and our equity base grew by $5 billion due to our retained earnings, a $1 billion improvement in our AOCI and our issuance of $1 billion of preferred stock. Overall, our balance sheet structure provides a stable funding mix and has allowed us to maintain a relatively stable net interest margin in the face of declining interest rates globally.

On slide 7, let me summarize the regional composition of our loan portfolio as we deploy capital in support of our core client activities. Excluding FX in our Consumer businesses, we saw year-over-year growth in all regions. North America Consumer loans grew 3% year-over-year, primarily reflecting the addition of the nearly $7 billion of receivables from our Best Buy portfolio acquisition.

International Consumer Banking loans increased 5% year-over-year, led by double-digit growth in Mexico, Hong Kong and Singapore, and offset by our ongoing repositioning in South Korea. Our overall corporate loan portfolio grew 9% year-over-year, excluding FX, with 9% growth in Asia and 7% growth in Latin America. Overall, our loan portfolio in Transaction Services grew 20%, reflecting origination growth and a consolidation of our trade loan portfolio in North America last quarter.

We saw more modest 2% growth in our traditional corporate lending portfolio. Loan demand remains muted, given corporate clients high cash balances, access to alternative means of liquidity in the corporate bond markets and general macroeconomic uncertainties.

Turning to slide 8, I'd like to review the credit trends in our Citicorp consumer and corporate loan portfolios globally, so you can see how our geographically diversified portfolios have performed over time.

The top half of the page illustrates Citicorp's consumer credit trends across our four regions. In the third quarter total consumer credit losses continued to fall, reaching 2.4% of the portfolio, which reflects the high quality of our loans. We have approximately $11 billion of reserves against this portfolio for 19 months of coincident NCL coverage.

Credit quality in North America continued to improve in the third quarter with the decline in the NCL rate, reflecting both underlying improvement in the portfolios, and the impact of the purchase accounting for the Best Buy portfolio acquisition. In Asia and EMEA we also saw stable to improving credit trends. And in Latin America the net credit loss rate has remained fairly flat for the past several quarters.

We expect the fourth quarter NCL rate in Latin America to remain roughly flat to the third quarter levels. However, as we discussed last week, we have added reserves for our exposure to the top three Mexican homebuilders as well as for the potential effects of recent hurricanes, each of which could possibly increase our NCL rate in the coming quarters.

The bottom half of the page highlights the quality of our corporate portfolio. Non-accrual loans as a percentage of corporate loans continues to improve and, as of the third quarter, was approximately 67 basis points for the entire portfolio. Current loan loss reserves allocated to our corporate loan portfolio provide non-accrual loan coverage of approximately 1.4 times. We believe our portfolio is high quality and well diversified. Approximately 70% of the portfolio is investment grade and no country outside of the U.S. or the U.K. is greater than 5% of the total corporate loan portfolio.

On slide 9 I'd like to provide some further texture around the largest emerging market exposures in our consumer and corporate credit portfolios. We believe emerging markets GDP growth will continue to outpace the developed markets growth, even though recent EM growth has slowed. And we are uniquely positioned to benefit from this opportunity. We target high quality consumer and corporate segments globally, and we benefit from long-established franchises in the emerging markets which provide us with the local market expertise to manage these portfolios.

In the consumer business, we are focused on high quality consumer segments in the 150 largest cities in the world. In general, these customers have proven to be more resilient through economic cycles. As you can see on the top half of the page, 42% of our consumer loans are in the emerging markets, with the largest 5 emerging markets representing 28% of loans.

The largest of these exposures are in Mexico and South Korea. NCL trends in Mexico have remained fairly stable for the past few quarters with a loss rate of just under 4%. And in Korea, while we are currently repositioning that market to better reflect our franchise around the world – which is having an impact on revenues – credit trends have remained favorable with an NCL rate of 1.2% in the third quarter. Singapore, Hong Kong and India round out our top five EM exposures, and our consumer NCL rate in each of these countries was 80 basis points or less in the third quarter, as you can see on slide 34 in the appendix.

On the bottom of the page, we cover our institutional business. Our core clients here are top multinational corporates. These clients value both our international network and the depth of our local capabilities. Just under half of our corporate loans are in the emerging markets, but no country accounts for more than 5% of the total. Of our EM loans, 45% are generated by our Transaction Services business, mostly trade finance which is generally short-term secured loans. And about 40% of the EM portfolio is traditional corporate lending, generally the global multinationals and large locally based multinational corporations. While the composition of the corporate loan portfolio varies by market, you can see the breakdown of our largest EM exposures in Brazil, India and China on slide 35 in the appendix. Importantly, you can also see on that slide that our net credit losses year-to-date in these markets have been low.

Emerging market growth rates have slowed and will likely remain uneven. While this has affected our revenue growth in certain markets, the credit quality of our portfolio has remained broadly stable. This is a function of both our focus on target clients – as opposed to a mass market approach – as well as the improved resiliency of these markets. As compared to a decade or two ago, many emerging markets are in better fiscal health, and therefore better able to manage through economic cycles and other global events.

Turning to slide 10, let's spend a moment looking at deposits, which serve as our primary source of funding for our bank. Average deposits were roughly flat year-over-year, notwithstanding the transfer of $23 billion in deposits to Morgan Stanley during the third quarter.

Year-over-year, consumer banking deposits increased 2% ex-FX, as 8% domestic growth was offset by a decline in Asia where we consciously reduced our cost of funds and lowered our high deposit-to-loan ratios. Corporate deposits increased 1% year-over-year. Transaction Services deposits increased 4% year-over-year, or $15 billion, with strong deposit growth in North America and EMEA. In Asia we purposely reduced our high cost time deposits. Deposit growth in Transaction Services was offset by an 8%, or $9 billion, decline in Securities and Banking. Within this segment, Private Bank deposits continued to grow while we reduced deposit balances with our Markets counterparties.

Although our average deposits were approximately flat sequentially, our end of period deposits increased by $17 billion, driven by underlying business growth, as well as some episodic inflows in our Transaction Services business around quarter end. As expected, some of these episodic deposits have already flowed out. Our deposit base remains a low cost and flexible source of funds. Costs have declined significantly in recent quarters to a new low of 53 basis points this quarter.

Now let me turn to slide 11 to cover our long-term debt, which is the primary source of funding for our non-bank subsidiaries, and provides supplemental funding for our banking subsidiaries. This chart shows the composition of our long-term debt outstanding, with a breakdown of parent company and bank level debt. As you can see, we've re-shaped our long-term debt footprint to better match our funding needs, as we've deleveraged our balance sheet, and reduced the size of Citi Holdings.

This quarter, our total long-term debt balance remained flat as the continued reduction in unsecured debt at the parent company was offset by issuance of credit card securitizations at the bank. In the fourth quarter we expect these trends to continue with a modest further reduction in unsecured parent company debt offset by growth in our securitization activities at the bank.

We have maintained our weighted average maturity in the seven-year range to ensure the stability of our long-term debt funding base. We will continue to optimize our funding profile, tapping a variety of markets to achieve our funding costs, liquidity and capital objectives. And of course our debt profile will also depend on pending new regulatory debt requirements.

During 2013, we re-entered the credit card securitization issuance market after a multi-year absence. On slide 12, we offer some historical perspective on this portion of our bank level funding. During the last decade, Citibank with the leading issuer of credit card securitizations, with term issuances peaking at $18 billion in 2007. However, as our deposit balances grew and we optimized our balance sheet, we had little need for long-term borrowings at the bank. So, we reduced outstandings in card securitizations through runoff and buybacks, from $62 billion in 2007 to $23 billion at the end of last year.

As we look to optimize both our funding and liquidity position, we find that card securitizations are once again an attractive funding source to complement our deposit base. We have issued $7.4 billion of term ABS out of CCCIT so far in 2013, diversifying our offerings across a range of maturities to accommodate various investor preferences. The funding costs in the securitization markets are very stable, and are attractive relative to our other term funding sources, while also providing term structure that helps us manage our liquidity profile. We wouldn't expect our outstanding balances to reach the levels we saw in 2009, but we expect our borrowings in this market to grow over the next few years as we take advantage of this funding opportunity.

Our U.S. Citi-branded cards business manages nearly $70 billion of credit card receivables and achieved a net credit loss rate of 3.5% in the third quarter, down over 60 basis points year-over-year. We share data on our credit card master trusts, which include a subset of our receivables, on our Investor Relations website.

Slide 13 provides further context for our issuance and buyback activity at our parent company. In 2012, we significantly reduced our debt outstanding through a combination of maturities and liability management initiatives, offset by issuance, for net long-term debt redemptions of $60 billion. In 2013, we’ve followed a similar approach to reduce our parent long-term debt outstandings, although at a much more moderate pace, and expect approximately $20 billion of net redemptions for the full year.

We expect full year 2013 maturities at the parent company of approximately $29 billion, of which $22 billion have already occurred, and $7 billion mature in the fourth quarter. We're targeting buybacks, tenders and redemptions of $12-$15 billion for the full year, which is slightly higher than what we said previously because we have already completed $11 billion year-to-date, which leaves somewhere between $1-$4 billion during the fourth quarter. As such, we expect our total issuance volume to also increase somewhat to $20 billion to $25 billion for the full year, given the $19 billion we've issued during the first three quarters of 2013.

Our issuance for the fourth quarter will ultimately depend however, to some extent, on our liability management actions during the quarter. If we see attractive buyback opportunities, our issuance for the quarter could be as much as $5 billion, including the $2 billion earlier this week. If these opportunities don't materialize, our issuance for the quarter could be only a few billion dollars, again including what we've done so far earlier this week.

During 2013, we also exchanged $3 billion of trust preferreds, the last of the securities held by the U.S. government, and saw them placed with private investors. And let me also mention our preferred stock issuance. During the third quarter we issued nearly $1 billion of preferred stock with strong retail sponsorship, to increase our total outstandings to $5 billion. We expect to issue additional preferred stock over the next few years as we ease into the Basel III capital requirements. We expect that issuance to occur at a measured pace, in light of our overall capital strength and the extended timeline to full Basel III implementation through to 2019.

Now that I've covered deposits and long-term debt, on slide 14 I'd like to discuss our liquidity position. We currently have $410 billion of high quality unencumbered liquid assets, up from $404 billion a year ago, and up from $388 billion last quarter. We size our liquidity resources to ensure that we have sufficient liquidity available to meet our operating needs, and to withstand a wide variety of stressed market conditions.

As we have said previously, we expect to operate with a Basel III LCR in the range of 110% going forward, with the potential for some modest variability as we saw this quarter. At the end of the third quarter, our estimated LCR was approximately 113%, representing excess liquidity of roughly $48 billion above the proposed fully phased-in 100% LCR threshold.

The quarter-over-quarter increase in our LCR was driven by the episodic corporate deposit inflows we experienced in late September. And since some of these deposits have already runoff, other things being equal, we would expect our fourth quarter LCR to return closer to our 110% target.

As you know, our estimates of LCR are based on the Basel committee's proposal from earlier this year. The Fed has announced they will be considering proposed U.S. rules relating to quantitative liquidity requirements at a meeting tomorrow. We will of course be reviewing any such proposed rules.

On slide 15, you can see how the balance sheet trends that we reviewed affect our net interest revenue and margin. In the third quarter, net interest revenue of $11.5 billion was flat sequentially ex-FX, while net interest margin decreased by 4 basis points to 2.81%, reflecting lower loan yields and an increase in cash balances, partially offset by an improvement in funding costs. Loan yields declined by 11 basis points in the quarter. Our deposit costs continue to decline as well. Total deposit costs decreased to a new low of 53 basis points this quarter with improvements in both our U.S. and international deposit base. Looking to the fourth quarter, we expect NIM to remain roughly flat.

As we've discussed on previous calls, our net interest revenues and margin would benefit from rising rates. In a 100 basis point upward parallel rise in rates around the world, we estimate our net interest revenue would increase by $1.8 billion, or an 11 basis point benefit to NIM in line with last quarter – as our assets would re-price faster than our liabilities, allowing us to reinvest at higher spreads. Similar to last quarter, we remain more sensitive to rate moves inside of five years than to the longer end of the curve.

In this scenario we estimate our OCI would decline by approximately $2.5 billion after tax, as declines in our securities portfolio would be partly offset by improvements in the OCI related to our pension plans.

The net effect of this change in our OCI equates to a decline of approximately 35 basis points in our Basel III Tier 1 Common ratio, and remains an important component of how we size our capital buffers.

Turning to slide 16, let me summarize our capital position, which remains among the strongest in the industry as compared to both our U.S. and international banking peers. During the third quarter, our capital ratios continued to strengthen, driven by retained earnings and DTA utilization. Under Basel III, our estimated fully phased-in Tier 1 Common ratio increased to 10.4%, up from 10% in the second quarter.

Our reported Basel III capital ratios are based on our advanced approach methodology, as that yields a lower capital ratio than under the standardized approach. As you know, the fully implemented U.S. rules require that we report the lower of the two ratios.

Citigroup's Supplementary Leverage Ratio, as calculated using the final US Basel III rules, was an estimated 5.1% for the third quarter. And the SLR at Citibank remained above 6%.

Separately, we are still awaiting guidance on how the potential regulatory requirements under OLA could impact our capital structure. As we said last quarter, and as we show on slide 21 in the appendix, we believe that we are well positioned for a range of proposals.

Moving on to our last slide, let me summarize four major points. First, while the environment remains challenging, we continue to make progress on our execution priorities and we continue to grow Citicorp deposits and loans year-over-year.

Second, we are well reserved and our credit trends remain favorable reflecting the high quality of both our consumer and corporate portfolios.

Third, our capital base continues to be one of the strongest in the industry. This is reflected across each of our significant capital ratios, including our Basel III Tier 1 Common, which reached 10.4% at the end of the third quarter. Our liquidity remains strong and our estimated Liquidity Coverage Ratio was 113%, comfortably above the proposed minimum.

Fourth and lastly, we have efficiently managed our balance sheet at approximately $1.9 trillion and expect to remain around this level. Our NIM outlook is stable for the fourth quarter, and our estimated Supplementary Leverage Ratio was 5.1%.

That concludes our fixed income review. John and I will be happy to take your questions.

Question and Answer

RYAN O'CONNELL, MORGAN STANLEY: First of all, thanks for the extra charts on the emerging markets exposures, those are very helpful. Then, the question I'd like to talk about is, frankly because of all the JPMorgan news, I think that Citi is in a very different place in terms of mortgage-related litigation, but I just want to confirm a couple of things.

First of all, as you mentioned you've got settlements with Fannie, Freddie and FHFA, so just to be painfully clear about this, is it correct to assume that you've resolved all material repurchase claims from Fannie and Freddie and any related FHFA claims? That's the first question, just to confirm that.

JOHN GERSPACH: Using absolutes is always something that is a bit worrisome to either a risk manager or CFO. So absent the absolutes, yes, for the most part. I can't think of any that are still open. Let's leave it that way.

RYAN O'CONNELL: Okay, and that's fair, John. I realize this is litigation so one never knows. Now, with respect to private label MBS litigation from other parties, I hunted around the 10-Q a little bit and there was a reference to one particular litigation, New Jersey Carpenters Health Fund or something like that, which referred to an original principal amount of $8 billion in mortgages. My question is, is that the only one out there or are there other relevant disputes right now? And if so, what is the total amount of outstanding private label mortgage-backed securities that Citi sold that are involved in litigation?

JOHN GERSPACH: Yes, actually, Ryan that's a great question. I would say that private label securitization – issues related to private label securitizations – is probably the last big, or it certainly is the biggest of any remaining mortgage-related issues that we have. And we tried to provide you with relevant information in the 10-Q.

I can't quote you the page reference, but we actually give you the total amount of private label securitizations that we did in the period of 2005 to 2008. And if memory serves me right, they total about $91 billion and it roughly breaks down from about $25 billion that we did from our mortgage business in St. Louis, and I want to think that something like $15 billion of that $25 billion would have been prime. And then we did $66 billion from our Securities and Banking business. And of that $66 billion I think roughly we had another $15 billion that would've been prime. So $91 billion in total, out of which roughly one-third would have been prime mortgages.

RYAN O'CONNELL: Okay, thanks, that's really helpful. I'll go back. I did hunt around but I'll look some more. Thanks a lot.

BRIAN MONTELEONE, BARCLAYS: Hi, good morning guys. There was a couple speeches recently, one from Governor Tarullo at the Fed and then on Monday from Jeremiah Norton over at the FDIC and they raised this topic of having a sufficient amount of inter-company debt to recapitalize a failed bank subsidiary, but they kind of worded it slightly differently with Norton talking about having a certain amount of debt that needs to be apportioned to, or pre-positioned in a certain way towards certain subsidiaries. Could you guys maybe talk about how you interpret those two different comments first, and then secondly, how you're set up for it?

ERIC ABOAF: Brian, it's Eric. There have been continued developments and discussions on this topic, including the last couple of days as you know. We profile a little bit of that on page 21 in our appendix, including some of the quotes.

The developments are hard to read, because it seems to be something that's still in process and in development. The timing we got tended to be 2 to 3 months from now, so we'll see what we learn between now and then and as something comes to bear. The evolution of the discussion seems to be around long-term debt plus equity, so that's been clearer and clearer as the core of the numerator, so to speak, the capacity to help for resolution.

The denominator has been uncertain, we've heard a lot about risk-weighted asset based denominator in the calculation, we've learned a little bit about GAAP assets recently and if you look at the bottom right of page 21 you see that we did some calculations in different ways just so that you and others could get a range, or a sense of what the data would be.

I think what I noted is that Governor Tarullo mentioned that the banking system actually has high levels of long-term debt relative to the past. And the Governor's intention broadly is to keep it that way, and you know we fair pretty well relative to long-term debt in general, and versus others in the industry.

I think your final point on apportionment or pre-positioning continues to be something that's been in dialogue over the last few months and it sounds like it's going to continue. I think there's a desire to have some of the debt that's raised at the parent company pre-positioned into the underlying subsidiaries. If you read the Norton speech or listened to it carefully, there was a discussion about pre-positioning some but not too much because at both extremes there might be some disincentives, or some knock-on consequences that they didn't seek to have. But that's still in development. I think as we think about it, we certainly do pre-position some of our long-term debt, but we'll need to see how the rules play out and obviously conform as they do.

BRIAN MONTELEONE: Okay, thanks. And just on that pre-positioning concept, is that just that you issue certain debt and then inject it down into the subsidiary? Or is there some potential structure going forward where you have one particular Holdco bond being related to a particular subsidiary, versus a different Holdco bond being related to a different subsidiary? Is that what he's implying or is it just something different?

ERIC ABOAF: I think you're asking the right questions and the truth is we really don't know, right? It could be Holdco debt on a deal-by-deal basis, that seems a little complicated.

BRIAN MONTELEONE: It does.

ERIC ABOAF: It could be in aggregate down streamed in. Certainly debt pre-positioned down into the subsidiary seems like it's the kind of theme that they're building off of, but it could also be deposits, right, from the parent company into the subsidiaries. We just don't know.

BRIAN MONTELEONE: Right.

ERIC ABOAF: And I think part of what we're trying to do is, and what you're trying to do, is just try to stay abreast of the developments. We want to be thoughtful about how much long-term debt we continue to hold at the Holding Company, because that's important. And we'll adapt as we learn more.

BRIAN MONTELEONE: All right. Thanks, Eric.

OPERATOR: That concludes the question-and-answer session. Mr. Kapp, do you have any closing remarks?

PETER KAPP: Thank you everyone for joining the call today. If you have follow-up questions please don't hesitate to reach out to us in Investor Relations and we'll talk to you again soon.

OPERATOR: Thank you. This concludes today's conference call. You may now disconnect.

