The Economic Club of New York

495th Meeting
111th Year

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November 14, 2018
New York City

Interviewer: David Westin, Co-Anchor
Bloomberg Daybreak Americas
Bloomberg Markets: Balance of Power

Introduction

Vice Chairman Michael O'Neill

Alright, welcome to the 495th meeting of the Economic Club of New York in our 111th year. I'm Mike O'Neill, Vice Chairman of the Club and Chairman of Citigroup. The Economic Club of New York is the nation's leading nonpartisan platform for speeches and conversations on economic, social and political issues. More than 1,000 prominent speakers have appeared before the Club over the last century and have established a strong tradition of excellence.

I'd like to first recognize some of the now-272 members of the Centennial Society seated in the front of the room, each of whom has contributed at least $10,000 to the Centennial Fund, which serves as the financial backbone of the Club. We also have joining us today several members of the 2018 Class of Fellows, a new program which enables us to introduce the Club to the next generation of diverse, forward-thinking business executives. We're also pleased to welcome today 20 students from Columbia University School of Business.

Wearing both my hats – Chairman of Citi and Vice Chairman of the Economic Club of New York – makes it especially rewarding to be able to introduce our guest speaker today, Mike Corbat, who I've gotten to know reasonably well. Mike leads the world's global bank with approximately 200 million customer accounts and activities in more than 160 countries and jurisdictions. Since becoming CEO in 2012, Mike has focused on leveraging Citi's unique global network to serve its institutional and consumer banking clients with an emphasis on strong execution and the highest ethical standards. In the process, Mike has made Citi a simpler, smaller, safer, and stronger institution. He's been at Citi and its predecessor companies since his graduation from Harvard University with a bachelor's degree in economics in 1983. I'll come back to that in a minute.

Prior to his current role, Mike was CEO of Europe, Middle East and Africa where he oversaw all of Citi's business operations in the region – still our largest – including consumer banking, corporate and investment banking, securities trading and private banking services. Previously, he served as the CEO of Citi Holdings, Citi's portfolio of non-core businesses and assets, which is where he and I first intersected. In total, Citi divested more than 60 businesses and more than $800 billion in assets, reducing risk on the company's balance sheet and freeing up capital to invest in Citi's core banking business.

Mike has also served as the CEO of Citi's Global Wealth Management Unit and was Head of the Global Corporate and Commercial Bank at Citi, a role in which he led the firm's efforts to provide best-in-class financial services to top-tier multi-national corporations and financial institutions around the world.

Mike serves as the President of the Federal Advisory Council to the Federal Reserve Board, Vice Chairman of The Clearing House Association Supervisory Board, and Co-Chair of the

Partnership for New York City.

I'm going to go off-script now and talk a little bit about Mike on a more personal level. I watched Mike take on a very tough job in the case of Citi Holdings. It was sub-par assets or non-strategic assets that needed to be shed – $850 billion worth – in a very difficult time to sell assets of that type. Mike no only accomplished it, he accomplished it very well, always focusing on making commercially viable deals. Everyone wanted us to sell things quickly at any price and Mike resisted that and saved the shareholders absolutely billions of dollars. Since that time, he has, since I gave him the poison chalice, he has done extremely well with it, I have to say.

Perhaps his best preparation for running Citi was his time spent at Harvard on the football team. I'm not sure all of you know but Mike was an All-American football player. And everybody says, oh, he was the quarterback. He was not the quarterback. He was an offensive lineman. He was a little larger than he is today. But you know those jobs, right, you get down and you bump into someone as hard as you can and they bump into you as hard as they can and you spend a lot of time on the ground and it hurts. But he kept getting up. And that was terrific training for taking on Citi in 2012...(Laughter) because you needed to keep getting up. I mean it was very tough. And he has taken on challenges, he's a wonderful organizer of people, and just a terrific role model. If I were young enough to have young boys, I would say, you know, if you want a role model, Mike Corbat's the guy – honorable, ethical, hardworking, just a terrific guy to work with. So, needless to say, I think extremely well of him.

Our format today is a conversation and we're pleased to have David Westin, Bloomberg Daybreak Americas and Bloomberg Markets: Balance of Power co-anchor, conducting the interview. As Mike and David come forward to take their seats, I'd like to remind everyone that this meeting is on the record and there is media in the back of the room. Now I like media better than some others...(Laughter) but still I think we need to be careful.

Discussion with Michael Corbat

DAVID WESTIN: Michael Corbat, thank you for doing this.

MICHAEL CORBAT: Thank you, David.

DAVID WESTIN: It would be a good occasion to talk to you on any day, but the day after you got a new neighbor in Amazon is particularly telling. Tell us what you know about how that came to be and what difference it's going to make for Citi and for the city.

MICHAEL CORBAT: Sure. Before I do that, I would just like to say it's a real pleasure and honor to be here at the Economic Club of New York. And Mike, thank you for your kind words. I've enjoyed our partnership over the years. And, as many of you know, Mike will be stepping back from chairman. I will miss our time together, but I know we'll stay friends, and I look forward to continuing my relationship as I've had with Mike, with John. So thank you. Amazon is great news, it's big news, right? It's, you know, something I think as a city we've thought about. I think we actually had dismissed it along the way as maybe not being in contention and then it kind of came roaring back. And so, as a company, David, that's 206 years old, our headquarters has always been here. We've tried to be great citizens. There was this opportunity that presented itself around moving some things around to create space. What you're referencing is we actually today have a quite large operation in Long Island City. We were pioneers there in 1989 when we built a couple of buildings. One of them was about a million square foot tower. We had announced, as part of moving some things around, we've got about 6 million square feet of real estate in New York that we'd be pulling back from that space and we came forward and said if it helps, we're more than happy to try and expedite that. It might require a couple of moves on our part, but if it helps, we're happy to do it. And so we freed up space to be able to push this forward so we certainly hope we helped a little bit. It's exciting.

DAVID WESTIN: Will it change the footprint for Citibank in New York? It'll change where it is maybe, but will it change its size and its scope?

MICHAEL CORBAT: Absolutely not. We employ about 17,000 people here, in what we describe Metro New York, away from the city. Always one of the largest employers – as I described, about six million square feet of space in and around Manhattan. You know, one of the things that we're doing, and I've had you down and you've seen it, we've actually – after 62 years right down the street from here at 399 Park – we moved our headquarters back downtown to Tribeca. We've got just under three million square feet there that we're renovating. It's actually the largest single tenant renovation ever done in New York and lots of technology, lots of open space, I think an exciting environment for our employees to come to work. So we're always continuing to evolve and invest in our footprint.

DAVID WESTIN: What does it say, if anything, about New York in the global competition for capital, for talent, for business?

MICHAEL CORBAT: I would say it says something I think we all know. It's that, in particular, young people like cities. They want to be in cities and New York is one of those places. And today, you know, in particular, in the tech space, it's all about, not only your ability to attract, but actually the real challenge is retaining that talent. And I think New York is a place that people come, they want to stay, they want to be here. They enjoy the excitement of it. And so I think it's a place that Amazon is going to find what we would describe as a very target-rich environment that will be good for them.

DAVID WESTIN: You've been CEO of Citigroup for six years plus at this point. And, as we've heard, you took over at a challenging time – I think it's fair to say. Where are you in your plan? I mean when a CEO takes over they have a plan. Where are you in that plan? How far along are you? What comes next?

MICHAEL CORBAT: So we, phases to the plan, so as we think about, one was, coming out of the crisis was basically to stabilize the institution. What Mike described was a very large scale, politely-put, restructuring of the company. In many ways, going back to our roots. And at our roots, we think there's really two core attributes that define us and will have the ability to define us over time. One is we're a bank. We're not an insurance company. We're not an asset manager. We're not a hedge fund. We're not private equity. We're a bank. And the second is our globality. And Mike talked about the 160 countries in the world where we're operating and a network that actually we believe has fairly high barriers to entry that we can use on behalf of our clients. So one was the stabilization and re-focus of the company on that. Once we got to that point of capital, balance sheet, safety, soundness, liquidity, all of the pieces, getting the business model set, it was really the pivot back to growth. Right? And when you think about growth and the way the company, or the way the industry in many ways had grown historically – through acquisition – we knew that wasn't the future. It was really a pivot back to organic growth. And then, where are the places? How do we want to do it? With whom? And then we went back to that and we've now pivoted back. And what we talked about at our Investor Day last year was reasonable kind of GDP...GDP plus topline growth, which we've been delivering, good expense discipline, reasonable cost of credit. And again we've got this, in some ways phenomenal and in some ways unique, ability to generate capital based on our business model, to put back into the business what we need to grow it and to return all the rest of it back to our shareholders. And so we're very much on that path and continuing to execute against that.

DAVID WESTIN: As you say, I mean you've certainly stabilized. You're making money. You're returning capital to shareholders. You're in a good position there. When you talk about growth, where do you expect it's going to come from? Are we talking about investment banking? Are we talking about trading? What are we talking about? What are the places that you think are the opportunities for you going forward?

MICHAEL CORBAT: The answer is yes. So when you think about, and I'll drill down, when you think about, we have two businesses. We have an institutional business and we have a consumer business. In our institutional business, the backbone of our business is really this global network I spoke about. And a big part of that is our payments infrastructure, what we call our TTS business, our Treasury and Trade Solutions business. We are day in and day out amongst – we're the largest mover of money. We move between $4 and $5 trillion a day around the world through our pipes – a very unique system. Off the back of that, securities trading, capital raising, lending, advisory businesses, private banking, all of those, all growing. All growing at various levels. But again, when we look at our institutional business, it's growing about 5% on a global basis. Not surprisingly, the U.S. is quite strong. Europe, and on the back of some of the dislocations of the European banks, you've seen not just Citi, but U.S. banks taking share, in particular in the institutional space. We've been, I think, a good recipient of that, continue to do that, and obviously with the things going on in terms of Asia. On the consumer side, the combination of our credit card business, not necessarily the U.S. but the world's largest issuer of credit cards globally, moving towards payments – forget about cards, but really that payments infrastructure. Tying those things back together. Wealth management, a depository, and that business is growing somewhere around 4% as well around the globe. So good, consistent, uniform – we don't believe outsized or out-risked in terms of chasing that growth.

DAVID WESTIN: So, let's talk about risk because it does come back to risk at some point or another. That's what got us all into trouble a few years ago, ten years ago or so. Right? As you look at that growth pattern, can you achieve the growth that you need to, you hope to achieve without taking substantial more risk on? And I say that in part because you're in a competitive business. And it's not just the other big banks you're competing against, you're competing against non-banks. You're talking about all sorts of different institutions. Can you do that without taking that risk on that you got rid of?

MICHAEL CORBAT: So, one is when we talk about our firm and the focus that's there, it's as much about what you don't do as what you do. And a couple of things we did, one is we narrowed the scope of our business from a product perspective. But probably as or more importantly, we've radically shrunk the number of institutional clients that we deal with. So roughly the time I became CEO, we were dealing with about 32,000 institutional clients around the world. That number is about 13,000 today. So in there, again not this long tail of risk. But again understanding, or we understand that when you're in a bank or the things that we do in markets and lending, you're in the risk business. But those risks can't be outsized – who you are, and your capital and your liquidity and your earnings. And, you know, we'll – along the way –

we'll kind of nick our toe as any risk organization can or will, but they just can't be outsized. And I think pre-crisis what you saw in terms of leverage and balance sheets and concentration of risk, you saw an industry, and certainly from our perspective, a company that had gotten outsized to a lot of those things I described. Something we pay attention to, we operate in a lot of interesting, a lot of challenging places around the world, and it's a perspective we've got to have because we're there and we're committed to those places.

DAVID WESTIN: Let's spend a minute on credit cards. You raised it. It's at the core of a lot of your business. You're a leader in that area. We've had people, prominent people, on this stage at the Economic Club of New York recently – Dan Schulman from PayPal, the Head of Synchrony – who have come and said credit cards are going away. Dan Schulman says they're not going to exist in 20 years. Margaret Keane says it's five to ten years. Is that a potential threat to a core business of yours?

MICHAEL CORBAT: Well, I would just make sure people understand the nuance of what I think they're saying or I'll be clear in terms of what I'm saying. The piece of plastic is going away. And you can already operate today – tap and go – your phone, your smart device, tablet, whatever it may be – and the need to actually carry that piece of plastic. And so then the question is, in the payments ecosystem, how are you going to take advantage of that? So when you think about the way I think of payments and some of the partners that we have in the payment space, it's not just our own Citi proprietary products, but great partners like American Airlines or

Costco or Home Depot or Macy's or Best Buy. You go on and on. So when you go there, how are we helping you live your financial life in facilitating those payments – whether it's a debit type transaction or you've decided to go to Home Depot and buy new cabinets for the kitchen. I think Sherry would love that.

DAVID WESTIN: She would, I'm sure. No doubt about it.

MICHAEL CORBAT: And you, you know, you've looked at what we have to offer, and that makes sense. So how do we help curate your financial life? And what part do payments play in that? And the plastic is going away.

DAVID WESTIN: And can you do that without losing market share, for example, to a PayPal or for that matter, an Alipay? There are a lot of people going into the payments business. What is your niche as opposed to what they do?

MICHAEL CORBAT: Well, our niche, or I wouldn't call it a niche because at the scale we operate...

DAVID WESTIN: Okay, I didn't mean to...(Laughter)...

MICHAEL CORBAT: ...The balance of our business and the portfolio that we represent, so if you look at many card or payment institutions, they've got their own product. If you look at some, they may have a smattering of others. In our case, we have a big proprietary portfolio of all of our Citi products as well as all of those partners. So when you think of that ecosphere that we represent, and again not just by those products but in terms of geography and our ability to stitch those together, and payments are just part of your financial life in terms of, you know, when you think of the big activities, in terms of borrowing, savings, protecting, investing, and spending, spending is partially at the center of that but it drives borrowing, it drives a lot of other pieces, and we believe that payments in many ways is that link.

DAVID WESTIN: When we think of banks, I mean we naturally think about interest rates and, for that matter, the yield curve – how steep or shallow it might be. Where do you see the Fed right now? And where do you see – let me be specific – the ten-year yield and where is it going?

MICHAEL CORBAT: Well, I think if you look at the U.S. economy, there's a few things going on. One is I would describe the U.S. economy in a highly technical term, and that's in pretty good shape. Right? When you look at the U.S. economy, roughly a $20 trillion economy, about two-thirds driven by the consumer, and when we know, go back and look at the empirical data coming out of the crisis, what really mattered to the consumer? Jobs. Do I have a job? Am I going to keep my job? If I don't have a job, how long will it take to get one? What will it look and feel like? And we can look today, virtually record low unemployment. We can argue wage. We can argue labor participation. But pretty good, so I'd give us a check there. The second piece is housing. Typically the single largest investment in a U.S. family's life is their home. And if we look at where housing is today, yes maybe housing sales have slowed a bit, but housing valuations are in pretty good shape. So, in general, around the two most important things in a consumer's life, I'd give us a check. And, by the way, the balance sheet is in reasonable shape. If you actually look then at the next level, which is really corporate America, I would describe corporate America as coming out the Trump elections as having been optimistic, but I would say after tax reform where we, again significant, 35% to 21%, global tax to territorial tax, repatriation with no time limit on it, big, big things, we saw corporate America move from optimism to confidence. And how has that shown itself? It's shown itself in terms of Cap-X investment, hiring plans coming off the board, and I think you've seen an acceleration in terms of corporate's contribution to the U.S. economy such that with the consumer in pretty good shape, we had an economy growing in the low 2s. Today, depending on where you take your snapshot, we're somewhere right up around 3. And I think the question is, is how sustainable is that? So I think the first piece, pretty good shape today. From a Fed perspective, they've put out a policy statement around wanting to target approximately 2% inflation. And between all the things that they've gone after – housing prices, unemployment – the inflation target has proven to be the toughest and the most challenging to get there. We're getting there. We're now starting to kind of move in that. And if you look at the yield curve today and say that we've got a yield curve between overnight and ten years that runs somewhere from the low 2s to the low 3s, and you tell me we've got core 2% inflation, interest rates feel not only okay, but I would say based on historic risk premium, around a 3% economy, have more room to run. I think the important piece behind that which I agree with the Fed on is that the old adage, while the sun's shining, you make hay. And what I mean by that is when you think about the economy and where we are, this recovery is not going to live forever. I'm not smart enough to tell you when it will end. But when we get to the next recession, the Fed will want, we will want the Fed to have as much capacity in the balance sheet as possible for stimulus. And we will want interest rates at a reasonable level that gives them the ability to cut rates. And you juxtapose or compare that against the challenges of Europe today where you've got the ECB in a different place but somewhere between zero to negative rates and a balance sheet that really still continues to go in the wrong direction, which means they're going to have a whole less amount of latitude to be able to go into the toolbox to address these things.

DAVID WESTIN: So if you take all that and put it together, it sounds like if you were to choose between what the Fed has been projecting in terms of rate hikes, which is higher than what the market is really anticipating right now as you go into 2019, you think the Fed is closer to right, barring some unforeseen development?

MICHAEL CORBAT: I think closer to right. You know if you look at the economy and you believe the numbers and, you know, I would say that my own belief is I don't think the Fed is emotional about this. They've said they're completely data-driven and data-dependent on this. And if you look at the economy growing somewhere around 3%, if you look at Cap-X spending, if you look at the general state of the economy, I think it certainly has the ability to support rates where we are. And I think, I would say consensus is over the next year likely three more hikes, 75 basis points more. Likely December, probably one in March or June, and probably one in September.

DAVID WESTIN: What about the...

MICHAEL CORBAT: But again, what they've also said is they're going to remain flexible. And if they see things that concern them, if the data starts to tell a different story, they're not committed or obligated to do that.

DAVID WESTIN: Data-dependent. That's what we've heard repeatedly.

MICHAEL CORBAT: Data-dependent.

DAVID WESTIN: What about the dreaded inversion of the yield curve where the shorter term rates actually go up higher than the longer term? The Fed actually came out and announced the results of a survey from October of a lot of banks and there seemed to be an overwhelming consensus that if in fact that yield curve inverted – I'm not saying it's going to, but if it did – there would be substantially less borrowing. The banks would get much more conservative. Is that true from your point of view?

MICHAEL CORBAT: Well, just, so we've got this economy we've described. The U.S. economy growing somewhere around 3, the global economy growing 3.1, 3.2. Again kind of going back to risk, we've grown loans in the past year north of 5, 6%, in parts of our business approaching 7%. So again, loan demand is there. The global economies feel good. The U.S. economy, relatively speaking, feels particularly strong. And we really haven't seen a significant slowdown in terms of loan demand. And so I would say based on where we are and what we see, I think we're okay. And then I think it again becomes data-dependent and if we end up inverted because of recessionary fears, and those fears start to come to fruition or start to bear out, obviously I think you can see things slow relatively, pretty quickly

DAVID WESTIN: Do you have any concern at all about the corporate balance sheet, how much leverage has been taken on? Because I've seen numbers that say we're approaching sort of the record number of – 72% I think is the record – as a percentage of GDP. Are you seeing anything from your point of view, because you have tentacles into so much of the business community, of really some cracks developing?

MICHAEL CORBAT: You know I think as we look at corporate balance sheets today, they're relatively healthy. And I think one thing, David, that I think people miss or don't necessarily calculate in is the impact of the tax cuts. Right? When you think about, you know, all of a sudden you get a significant more amount of after-tax net income as a result of tax cuts means that you can service more debt as a result of that. So we tend to operate with fairly large companies –

U.S., global, multinational companies – and I would argue that their balance sheets are in pretty good shape. I think what you've seen is some of that move out of the formal system and I think you've seen more leverage going into the non-bank sector around leverage transactions. But I wouldn't describe that certainly here in the U.S. as being in the formal system. And there's likely to be some pain on that, that a lot of that sits in hedge funds, a lot of that sits in mutual funds and they're willing to lend in different ways than we are today.

DAVID WESTIN: Should the Fed or others be regulating some of those non-banks for just that reason?

MICHAEL CORBAT: I think the Fed keeps a close eye on it and spends a fair time. One thing, you know Mike mentioned, is I serve on the Federal Advisory Council, and we spend time looking at the non-bank system. And while the percentage of non-bank lending has continued to grow, I think as we look across the system we wouldn't describe anything as being overly systemic at this point in time. But, you know, when you think about things going on today, 80% of auto lending occurs away from banks. Over half of the mortgages originated occurs away from banks. So I think as that continues to grow, we need to keep an eye on it, but I would say today we're not probably there yet.

DAVID WESTIN: One of the things you mentioned that really differentiates Citibank is what I think you called globality, right? That you really are international in a way that a lot of your competitors are not, to the degree that you are. There's a lot going on internationally. Let's start with one today – Brexit. Theresa May, the Prime Minister of the U.K., has just been meeting with her cabinet to persuade them to back her on this tentative deal the negotiators got. Where are you on Brexit? What is it doing to Citi's operations today? What do you think it will do over the next, let's say three to five years?

MICHAEL CORBAT: Sure. So, we have an expert in the room here. We've got Lord King here with us so I'll let him answer the bigger question, but I'll speak specifically in terms of what we're doing. We've had no choice all along other than to assume a hard exit meaning no transition-type agreements. We've got to be prepared on basically Brexit plus one to be fully open and have the ability to serve our client. And so what we've tried to take in that approach is a distributed model. I think we were fortunate that we already had an existing bank in Ireland with full passporting rights into the rest of Continental Europe. We reestablished a broker-dealer in Germany. We have reestablished a broker-dealer in France. And so we've got latitude. I think the second piece that makes us maybe in some ways a bit different is that today, yesterday, last year, five years ago, we've operated on the ground in 22 of the 26 EU countries. So we've already been there so for us that connectivity has already existed in terms of, in many ways, being local on the continent. And so, like everybody else, we'll be, we're in the process of moving. We actually just had our board of directors over in Frankfurt to look at our preparedness for that. I think we're in good shape. But I think in general on Brexit there's probably more questions than answers today. You know it feels like it'll probably come right up to the edge.

And I think from our perspective, and I would guess from the industry's perspective, we've had to prepare for the worst case.

DAVID WESTIN: You said you're prepared for the worst case which is the so-called hard Brexit. If that didn't happen, are there things that you would do differently? Would you pull back on some things? Or are there actions you've taken that are basically irrevocable? Is it going to change Citigroup's path?

MICHAEL CORBAT: You know I would say likely not meaning that we're planning for the inevitability of the separation. We're taking the Brits at face value in terms of their voted desire to leave the EU and that that will eventually come. It could change some pacing in terms of what those transition agreements look like, but we're fully prepared to go the distance. And obviously the only thing that, you know, could really potentially change that would be if there was the so-called second vote and it changed the course of things. But, you know, we can't bet on that. We can't count on that so we've got to continue to make sure we're prepared.

DAVID WESTIN: Brexit's not the only place in the world where people seem to be pulling back from integration across borders. We see it in Europe. We see it in trade issues here in the United States. As a truly international bank, to what extent, let's take for example China and our trade disputes right now with China, to what extent does that affect potentially Citigroup's business?

MICHAEL CORBAT: Well, you look at trade, you know, global trade is important, you know you can just go back and look at history, look at what globalization and global trade has done. The second thing I think people need to recognize is that all things aren't created everywhere. You know there's not oil in every nation. You know there's different nations, different areas have certain advantages and Balkanization or protectionism doesn't simply mean that I declare that I'm going to have access to those resources on a local basis. So I think there needs to be the recognition of that. I think more importantly, David, I think what, in many ways what we're seeing is this complication in the global economy today of the confluence of economics, politics, and society. And what I mean by that is when you look at a world that I just described, developed markets growing at about 2%, emerging markets growing mid-4s, down from numbers that were significantly higher than that historically, technology disruption, jobs, job movement or job pure displacement, I think has caused the combination of politics and society to really push back. And therefore protectionism comes forward in terms of protect the job, protect our borders, immigration and other pieces that complicate the economics of the world. So I think you continue to see some pushes towards Balkanization, but we don't believe global trade is going away. And one of the things we say is, you know, when you look at U.S.-China trade, it accounts for about 20% of the trade in the world. Interestingly, at Citi when we look at our trade business, U.S.-China trade accounts for about 20% of our business. But simply because you put tariffs on soy, that may affect U.S.-China soy trade. It likely re-routes to Argentina and Brazil to fill that void and we're there to help facilitate that. So does trade go away? Does it re-route? What does that look and feel like? And I would say today that, you know, we're seeing some challenges on the edges, but again I don't think you've seen big impacts as of yet from the trade skirmishes.

DAVID WESTIN: So, in listening to you it sounds like we have pulled back a bit or are pulling back a bit from a high water mark on globalization. It's not going away. International trade is not going away. But it still is disruptive, it changes patterns. How do you prepare Citigroup for that? And, as important, how do you help your clients prepare for that? Because that can lead to different decisions about investments, about capital.

MICHAEL CORBAT: Absolutely. So when you think of big things going on today, for a U.S. company operating here and around the world, one is the tax changes. We talked about really it's causing U.S. multinationals that operate anywhere outside the United States to completely rethink business strategy, the how, the why, the where, etc. And I think the second piece is trade because today we know in terms of supply chain, supply chain management, in terms of the ready now access to your supplier's products is critical. So we are helping. The trade supply chain management is a big part of what we're doing. So we are working with our clients to make sure that they have access to the products, to the trade routes, and that as they go and seek potentially new purveyors or to seek goods or services from different jurisdictions, that we make the financial part of that as easy as we can for them to be able to make sure and that it's seamless and that we avoid any interruptions in terms of their businesses.

DAVID WESTIN: You said with respect to Brexit that you've prepared for a hard Brexit and you said to assume that's happening, hope it doesn't, but assume that's happening. Talk about U.S.-China in this sense. Others have done work on what happens when a rising second number two power comes up and takes over from a number one and conflict often happens. Hank Paulson has talked about it as being potentially an economic Iron Curtain. Are you preparing for Citigroup but also for your clients the possibility really that there is a really substantial disruption? I'm not talking about military conflict right now, although you can't rule that out, but I'm talking about really a substantial economic disruption with – as I say, Mr. Paulson says – economic Iron Curtain. What would that mean?

MICHAEL CORBAT: So we've obviously, for ourselves and others, spend a lot of time looking at that. And so as an example with our clients what we will be doing is examining their supply chain and their dependence on, in this case goods coming out of China. And what would the Plan B be in that instance that there was some blockage or extraordinary tariffs and limited access to whatever those goods in this case may be. And so companies have had to plan for that. We've helped them think about, again knowing all the places that we operate and the things that we do to help them put their contingency plans in place. Hard to predict where it goes. You know so far we've seen a lot in terms or the pieces in terms of agriculture or steel or certain types of things. Hard to predict necessarily where it goes beyond that.

DAVID WESTIN: So before you get to that more extreme version that I asked about, are we seeing effects on global growth? It was only three or four months ago we were talking about synchronized global growth every day. I don't hear that so much anymore. It seems to have gone softer. Is that in part because of trade? Are you seeing effects already in disruptions that are affecting global growth?

MICHAEL CORBAT: I would say minimally. The answer is yes, but minimally today. So we had some growth numbers this morning come out, third quarter numbers come out of Germany, out of Japan, and I think both cited slowdowns, trade-related. Again, not necessarily significant numbers, but as we would describe, you know, growth going in the wrong direction as a result of that. So I think we've seen some de minimis effects, but I wouldn't say large scale effects at this point in time. And depending on how it escalates, it could have greater impacts. And clearly if you look at the way the markets behave based on the news coming out in trade and trade negotiations, obviously the market is concerned about it.

DAVID WESTIN: Besides Brexit, besides Amazon, another story in the news today is oil. What's happened with the price of oil has been very disruptive. Certainly in the oil market, maybe in the high yield bond market as well. As you take a look at that and you go back to your office at Citigroup, what are clients asking you about it? What are you telling them? To some extent, it's tied in perhaps to global growth because there's a concern not just on the supply side, but on the demand side as well, it may be softening. What's your analysis? And what are you advising clients on that?

MICHAEL CORBAT: So I think one is the question of why in the past week or so has oil gone from $75 to $55? I was meeting with a group this morning and I said there are shades of this that remind me of the latter part of 2015 when we had oil go, and you remember at that point, it was potential U.S. recession, potential hard landing in China, slower global growth had driven what people saw in terms of the global economy lower, and therefore reflecting itself – to use your words – a little bit of the canary in the coal mine manifesting itself in oil prices. I think the question today is, is oil again pretending to be that canary in the coal mine around slower global growth? Because when you look at the supply-demand figures, nothing at all has materially changed in the last week or two. So, is there some foretelling that's going on here? Interestingly last time, oil was wrong. Right? The prognostications were wrong. We didn't hit a recession in the U.S. We didn't have a hard landing in China. And actually by the time we got to the summer of '16, we actually got to the place really for the first time since 2010 of actually revising growth estimates up and 2017 was a full year of growth estimates going back up. We're now just maybe starting to tip back into that place that the revisions to growth are starting to come back down and oil is manifesting that in terms of price perceptions.

DAVID WESTIN: So that's the story with oil, but it strikes me that oil is not the only story of the last two or three weeks. Before that it was Apple and their suppliers, if you remember. And there have been a series of things that the market has really reacted very strongly to, often in ways that people say is an over-reaction. Why is that? And very specifically, to what extent is that a reflection of the fact that liquidity is coming out of the global marketplace as quantitative easing comes off the United States, is in the process of coming off in Europe, and should we expect more of that kind of uncertainty and turmoil in the markets?

MICHAEL CORBAT: So, in some ways you answered your question a little bit. And that is that, you know, when you think about the unprecedented era we've lived in in terms of quantitative easing, central banks all over the world pumping cheap money and low interest rates, asset price inflation, that therefore becomes a bit of a timing and a bit of a carry trade. And therefore, as an asset manager you want to get it right. And you've seen the natural devolution of that where people have come back and on the back of higher U.S. rates, potentially slower growth, we've started to point to parts of the emerging markets, around current account deficits. We've started to call out debt-to-GDP levels. We've started to pay a lot more attention to U.S. interest rates and the strength of the dollar. And that's manifested itself in a lot of volatility in terms of the emerging markets. And then I think you've seen that naturally carry on to companies and supply chains that operate in those markets – disruptions, slower sales, impediments to manufacturing, etc. And I think that that's rippled back. But I would also argue that it doesn't stop there. Meaning that as we look at risk in the world – I described a U.S. consumer in pretty good, I described a global consumer as being in pretty good shape – if we look at companies, it's not just U.S. companies, but global companies are in reasonable shape. And the vulnerability today in our view sits much more at the governmental level. We talked about the emerging markets and the tails in terms of, you know, the questions of current accounts and the sustainabilities, but you've got to go to the developed markets as well where you've got unprecedented levels of debt to GDP. And if you get this shake to confidence, do those governments actually have the policy tools to be responsive as they need to be. And I think the markets are questioning that. Again, as we look, just to be clear in terms of what see, in particular when we look in the U.S., we don't see that in '19. But we also look, as I'm sure everybody does, try and figure out how this cycle changes or comes to an end. And I think our own prognostication is it won't necessarily be economic. It will largely be confidence-driven and it will likely be driven by a disruption of confidence around governments' abilities to finance themselves in a reasonable way into the future.

DAVID WESTIN: As CEO of Citigroup, you're not only responsible for paying the bills, making sure your employees are paid, making money for your shareholders, making sure you're growing, but you're also responsible for values, the values of the company. And you have taken some positions on that subject and I'm curious about it. I mean take, for example, gun sales. You were out front on that. Not everyone joined you and you got some criticism for it. How did you make that decision and what were the consequences for Citigroup?

MICHAEL CORBAT: Kind of going back to almost where we started in terms of people, most of the things that we've talked about, David, we actually haven't gone out and necessarily talked publicly about with guns probably being a little bit of an exception to that. But whether it was Charlottesville or whether it was the Equator Principles or whatever the things were, it was actually very important for our people to understand the firm's position and where we stood.

Because again in terms of people today, from the human perspective, they really want to understand the values of the company that they're working for and they want to be proud of those values. In the case of firearms, and just to be clear in here, what we didn't do is we did not affect in any way, any Citi account holders, credit card holders' ability to go purchase a firearm. That's their constitutional right. But what we did say, as a company that seeks best practices in many, if not most everything we do, what are the things that we should think about that we think would constitute best policies. And what was interesting, when I asked the question around this, as a company that has a policy for everything, we actually don't have a policy. We didn't have a policy on this. And so we sat and we thought about what reasonableness would look like and what some of those things may be. We studied some other best practices of some good companies out there. And we really walked away with three things that we felt made sense, in terms of a company, how we would think and support our clients. One is full background check. Just, you know, people should be checked. Second is that from a firearms perspective that sale to people under 21 years old should be limited. And again, as a hunter, a gun owner, my wife, our children all, you're not walking out of our house unless you've been trained. You know you're not going to get in the car and drive it until you've been trained to do that and you're not going to pick up a firearm and use it until you've been trained to do that. And the third piece was around really the ability to convert weapons into semi-automatic or automatic weapons, around bump stocks and other things. And a lot of what pushed us there was that in almost every event, and certainly most every U.S. event, we had a Citi employee or Citi family member affected directly in those events. And again you said, kind of going in, that some people were upset and some people were happy with it. And I would say we got the response that we largely expected. There were those that felt we had woefully overstepped our reach, and I think there were those that felt we hadn't gone as far as we should have gone. But we feel it's the right policy for us.

DAVID WESTIN: And finally, as we approach the end of 2018, looking at 2019, what's the biggest risk that you have in your mind, either for Citigroup or for the economy more broadly, for society?

MICHAEL CORBAT: I would describe it as a disruption of confidence. You know it's interesting, in all of my travels and I've been around the world a couple of times in the last couple of months, that business confidence in the world is probably in the best place I've seen it in a long time. I was in France recently and I've got to say I haven't seen the businesses as excited about some of the things that they're doing here in the U.S. We had said we had the board in Germany and parts, in Asia, and you know what would be the shame is if we allow the political rhetoric or squabbling or other things that are within our control to undermine the confidence that's out there and I think the willingness of consumers and business people to continue to invest in themselves, their countries, and the economies and to keep pushing this place forward.

DAVID WESTIN: Michael Corbat, thank you so much. (Applause)

VICE CHAIRMAN MICHAEL O'NEILL: Well, that was very, very interesting. Thank you gentlemen. I've been instructed by Barbara Van Allen to do a commercial here so I will obey. We've got a lot of really exciting events. First of all, all members are invited to join a conference call tomorrow at 12:30 for an hour program with political analyst Charlie Cook and former Treasury Secretary Bob Rubin who will provide perspectives on the midterm elections. They, I guess, gave us a sense of what they thought would happen and it'll be interesting to hear what they now think happened. Commissioner of the NBA, Adam Silver, will be here for a luncheon on November 20. Federal Reserve Chair Jay Powell for a luncheon on November 28, always a blockbuster event and this should be no exception. And then December 5 will be, we'll have our closing dinner hosting Former Secretaries of the Treasury, Tim Geithner and Hank Paulson. And we hope that all of you can join us for these obviously very exciting events. Thank you all very much. (Applause)