

**NASD
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
20042000091**

**TO: Market Regulation Department
NASD**

**RE: Citigroup Global Markets, Inc., Respondent
CRD No. 7059**

Pursuant to Rule 9216 of the NASD Code of Procedure, Citigroup Global Markets, Inc. ("SBSH" or the "firm"), submits this Letter of Acceptance, Waiver and Consent ("AWC") for the purpose of proposing a settlement of the alleged rule violations described in Part II below. This AWC is submitted on the condition that, if accepted, NASD will not bring any future actions against the firm alleging violations based on the same factual findings.

The firm understands that:

1. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by NASD's Market Regulation Department and National Adjudicatory Council ("NAC") Review Subcommittee or Office of Disciplinary Affairs ("ODA"), pursuant to NASD Rule 9216;
2. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against the firm; and
3. If accepted:
 - a. this AWC will become part of the firm's permanent disciplinary record and may be considered in any future actions brought by the NASD or any other regulator against the firm;
 - b. this AWC will be made available through NASD's public disclosure program in response to public inquiries about the firm's disciplinary record;
 - c. NASD may make a public announcement concerning this agreement and the subject matter thereof in accordance with NASD Rule 8310 and IM-8310-2; and
 - d. the firm may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. Nothing in this provision affects the firm's testimonial obligations or right to take legal or factual positions in litigation or other legal proceedings in which NASD is not a party.

SBSH also understands that the firm's experience in the securities industry and the firm's disciplinary history may be factors that will be considered in deciding whether to accept this AWC. That experience and history are as follows:

SBSH has been a member of NASD since October 16, 1936 and its registration remains in effect. SBSH has the following relevant disciplinary history:

- On March 23, 2005, a cease and desist order became final in which SBSH was censured, subjected to an undertaking and fined \$20 million for violations of, among other rules, SEC Rule 10b-10.
- On January 28, 2005, an AWC became final in which SBSH was censured, ordered to pay restitution in the amount of \$1,706.01 and fined \$107,500 for violations of NASD Rules 2110, 2320, 3350, 3360, 4642(d) and 6130(d), and SEC Rule 11Ac1-4 (now SEC Rule 604).
- On September 15, 2003, an AWC became final in which SBSH was censured and fined \$72,500 for violations of NASD Rules 2110, 2320, 3320, 3340, 4613(b), 6130(d) and 6620, and SEC Rules 11Ac1-1 (now SEC Rule 602) and 11Ac1-4 (now SEC Rule 604).

I.

WAIVER OF PROCEDURAL RIGHTS

SBSH specifically and voluntarily waives the following rights granted under NASD's Code of Procedure:

- A. To have a Formal Complaint issued specifying the allegations against the firm;
- B. To be notified of the Formal Complaint and have the opportunity to answer the allegations in writing;
- C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made and to have a written decision issued; and
- D. To appeal any such decision to the NAC and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

SBSH specifically and voluntarily waives any right to claim bias or prejudgment of the General Counsel, the NAC, or any member of the NAC, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including acceptance, or rejection of this AWC.

SBSH specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of Rule 9143 or the separation of functions prohibitions of Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

II.

ACCEPTANCE AND CONSENT

In connection with 20042000091/MRD200341052, NASD's Department of Market Regulation (the "staff") conducted a review of SBSH's compliance with NASD's Trade Reporting Rules for the period of January 2, 2003 through April 30, 2003.

In connection with 20042000218/MRD200444720, the staff conducted a review of SBSH's compliance with NASD's Trade Reporting Rules for the period of September 1, 2003 through December 31, 2003.

20050002602/MRD200446954, is the result of the 2004 Trading and Market Making Examination of SBSH. In connection with this matter, the staff reviewed the following for trade date May 18, 2004:

- 73 customer sale transactions for compliance with NASD Conduct Rules 3110 and 3370;
- three proprietary sale transactions for compliance with NASD Conduct Rule 3370;
- 55 sales in Nasdaq National Market securities for compliance with NASD Marketplace Rule 6130;
- three short sales in NNM securities for compliance with NASD Conduct Rule 3350;
- 50 limit orders in market making securities for compliance with NASD Interpretive Memo ("IM") 2110-2, NASD Conduct Rules 2110, 2320, NASD Marketplace Rule, 6440 and SEC Rule 11Ac1-4 (now SEC Rule 604);
- 25 marketable orders received while holding "non-displayed" limit orders in the same security for compliance with NASD Conduct Rule 2320;
- 10 institutional market orders executed as principal for compliance with NASD Conduct Rule 2320;
- 52 limit and market orders executed in a principal or riskless principal capacity for compliance with capacity reporting under NASD Trade Reporting and Automated Confirmation Transaction Service ("ACT") Rules, now the Nasdaq Market Center ("NMC");
- 68 principal trades reported as riskless principal and trades credited with soft dollars for compliance with the safe harbor provision on soft dollar compensation in Section 28(e) of the Securities Exchange Act;
- 10 open buy limit orders and stop sell limit orders in securities traded ex-dividend for compliance with NASD Conduct Rule 3220;
- 25 trades reported in market making securities for compliance with SEC Rule 11Ac1-5 (now SEC Rule 605);

- 28 orders published on the firm's monthly order execution report for compliance with SEC Rule 11Ac1-5 (now SEC Rule 605);
- data published on the firm's quarterly order routing report for compliance with SEC Rule 11Ac1-6 (now SEC Rule 606) for the first quarter of 2004;
- SBSH's establishment and implementation of "regular & rigorous" reviews of the execution quality of orders sent to other market centers for execution for compliance with NASD Conduct Rules 2320 and 3010;
- 25 customer orders in Over-the-Counter Bulletin Board ("OTCBB") and/or Over-the-Counter ("OTC") Equity securities for compliance with NASD Conduct Rules 3110(b) and 2320;
- 18 persons engaged in the firm's trading and market making activities for compliance with NASD Registration Rules;
- 243 order/trade records for compliance with NASD Conduct Rule 3110 and SEC Rules 17a-3 and 17a-4;
- 336 trades reported to ACT, now the NMC, for compliance with NASD Trade Reporting and ACT Rules;
- 78 customer trade confirmations for compliance with SEC Rule 10b-10; and
- SBSH's establishment and implementation of a supervisory system and written supervisory procedures for compliance with NASD Conduct Rule 3010.

In connection with 20050010651, the staff conducted a review of SBSH's compliance with NASD's Best Execution Rule, for the period of October 1, 2004 through December 31, 2004.

- A. SBSH hereby accepts and consents, without admitting or denying the findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of NASD, or to which NASD is a party, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by NASD:

20042000091/MRD200341052

1. SBSH failed, within 90 seconds after execution, to transmit through ACT, now the NMC, 388 last sale reports of transactions in OTC Equity securities. These transactions constitute approximately 11 percent of the transactions reviewed that SBSH was required to report to ACT, for the period of January 2, 2003 through April 30, 2003.
2. SBSH failed, within 90 seconds after execution, to transmit through ACT, now the NMC, 487 last sale reports of transactions in eligible securities. These transactions constitute approximately two percent of the transactions reviewed that SBSH was required to report to ACT for the period of January 2, 2003 through April 30, 2003.

3. The conduct described in paragraphs one and two constitutes a pattern or practice of late reporting without exceptional circumstances in violation of NASD Conduct Rule 2110.
4. SBSH failed, within 90 seconds after execution, to transmit through ACT, now the NMC, 106 last sale reports of transactions in eligible securities and failed to designate through ACT such last sale reports as late.
5. The conduct described in paragraph four constitutes separate and distinct violations of NASD Marketplace Rule 6420(a).
6. SBSH failed, within 90 seconds after execution, to transmit through ACT, now the NMC, 79 last sale reports of transactions in OTC Equity securities and failed to designate through ACT such last sale reports as late.
7. The conduct described in paragraph six constitutes separate and distinct violations of NASD Marketplace Rule 6620(a).
8. SBSH failed to designate as ".T" through ACT, now the NMC, 14 last sale reports of transactions in OTC Equity securities executed outside normal market hours.
9. The conduct described in paragraph eight constitutes separate and distinct violations of NASD Marketplace Rule 6620(a)(3).
10. SBSH's supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to the applicable securities laws and regulations, and the Rules of NASD, concerning the transaction reporting of OTC Equity and Consolidated Quotation System ("CQS") securities. Specifically, the firm's supervisory system did not include written supervisory procedures providing for one or more of the following: (1) identification of the person(s) responsible for supervision with respect to the applicable rules; (2) a statement of the supervisory step(s) to be taken by the identified person(s); (3) a statement as to how often such person(s) should take such step(s); and (4) a statement as to how the completion of the step(s) included in the written supervisory procedures should be documented.
11. The conduct described in paragraph 10 constitutes a violation of NASD Conduct Rules 2110 and 3010.

20042000218/MRD200444720

12. SBSH failed, within 90 seconds after execution, to transmit through ACT, now the NMC, 585 last sale reports of transactions in OTC Equity securities. These transactions constitute approximately 14 percent of the transactions reviewed that SBSH was required to report to ACT for the period of September 1, 2003 through December 31, 2003.
13. The conduct described above in paragraph 12 constitutes a pattern or practice of late reporting without exceptional circumstances in violation of NASD Conduct Rule 2110.
14. SBSH incorrectly designated as late through ACT, now the NMC, 25 last sale reports of transactions in OTC Equity securities.
15. The conduct described in paragraph 14 constitutes separate and distinct violations of NASD Marketplace Rule 6620.
16. SBSH failed, within 90 seconds after execution, to transmit through ACT, now the NMC, 72 last sale reports of transactions in OTC Equity securities and failed to designate through ACT such last sale reports as late.
17. The conduct described in paragraph 16 constitutes separate and distinct violations of NASD Marketplace Rule 6620(a).

20050002602/MRD200446954

18. On May 18, 2004, SBSH failed, on five occasions, to submit New Order and Route Reports to Order Audit Trail Transaction System ("OATS").
19. The conduct described in paragraph 18 constitutes separate and distinct violations of NASD Marketplace Rule 6955.
20. SBSH failed, on 14 occasions, to provide written notification disclosing to its customer the firm's correct capacity in the transaction.
21. SBSH failed, on one occasion when the firm acted as principal for its own account, to provide written notification disclosing to the firm's customer that SBSH was a market maker in the security.
22. The conduct described in paragraphs 20 and 21 constitute separate and distinct violations of SEC Rule 10b-10.

23. SBSH's supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to the applicable securities laws and regulations, and the Rules of NASD, concerning SEC Rule 10a-1. Specifically, SBSH's supervisory system did not include written supervisory procedures providing for one or more of the following: (1) identification of the person(s) responsible for supervision with respect to the applicable rules; (2) a statement of the supervisory step(s) to be taken by the identified person(s); (3) a statement as to how often such person(s) should take such step(s); and (4) a statement as to how the completion of the step(s) included in the written supervisory procedures should be documented.

24. The conduct described in paragraph 23 constitutes a violation of NASD Conduct Rules 2110 and 3010.

20050010651

25. In 56 transactions for or with a customer, SBSH failed to use reasonable diligence to ascertain the best inter-dealer market and failed to buy or sell in such market so that the resultant price to its customer was as favorable as possible under prevailing market conditions, as reflected on Exhibit A, which is attached hereto and incorporated herein by reference.

26. The conduct described in paragraph 25 constitutes separate and distinct violations of NASD Conduct Rules 2110 and 2320.

B. SBSH also consents to the imposition, at a maximum, of the following sanctions:

A censure, a fine of \$42,500 (consisting of a \$20,000 fine for the best execution violations, a \$5,000 for the supervisory violations, \$10,000 for the trade reporting violations, \$5,000 for the OATS violations, \$2,500 for the SEC Rule 10b-10 violations) and an undertaking to revise the firm's written supervisory procedures with respect to the areas described in paragraphs 10 and 23. Within 30 business days of acceptance of this AWC by the NAC, a registered principal of the Respondent shall submit to the COMPLIANCE ASSISTANT, LEGAL SECTION, MARKET REGULATION DEPARTMENT, 9509 KEY WEST AVENUE, ROCKVILLE, MD 20850, a signed, dated letter, providing the following information: (1) a reference to this matter; (2) a representation that the firm has revised its written supervisory procedures to address the deficiencies described in paragraphs 10 and 23; and (3) the date the revised procedures were implemented.

The sanctions imposed herein shall be effective on a date set by NASD staff.

III.

OTHER MATTERS

- A. SBSH understands that it may attach a Corrective Action Statement to this AWC which is a statement of demonstrable corrective steps taken to prevent future misconduct. SBSH understands that it may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by NASD nor does it reflect the views of NASD or its staff.**
- B. SBSH agrees to pay any monetary sanctions imposed on it upon notice that this AWC has been accepted and that such payments are due and payable, and has attached the Election of Payment form showing the method by which the firm proposes to pay any fine imposed.**
- C. SBSH specifically and voluntarily waives any right to claim that SBSH is unable to pay, now or at any time hereafter, any monetary sanction imposed in this matter.**

Citigroup Global Markets, Inc. certifies that the firm has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it, and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein, has been made to induce SBSH to submit it.

12/04/06
Date

Citigroup Global Markets, Inc.
Respondent

By: [Signature]

Name: James O'Donnell

Title: Managing Director

Reviewed by:

[Signature]
Counsel for Respondent

Accepted by NASD

1/16/07
Date

[Signature]
Thomas R. Gira
Executive Vice President
Market Regulation Department

Signed on behalf of the Director of
ODA, by delegated authority

Attachment:
Standard Election of Payment Form