

**NASD
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2005000792101**

**TO: Department of Enforcement
NASD**

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

Pursuant to Rule 9216 of the NASD Code of Procedure, Respondent Citigroup Global Markets Inc. ("Citigroup," "Respondent" 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. Citigroup submits this AWC to NASD on the condition that, if accepted, NASD will not bring any future actions against Citigroup alleging violations based on the same factual findings.

Citigroup 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 Department of Enforcement 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 Respondent; and
3. If accepted:
 - a. This AWC will become part of Citigroup's permanent disciplinary record and may be considered in any future actions brought by the NASD or any other regulator against Respondent;
 - b. This AWC will be made available through NASD's public disclosure program in response to public inquiries about our 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. Citigroup 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 the NASD is not a party.

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

Citigroup, formerly known as Salomon Smith Barney, Inc., has been a registered broker-dealer and a member of NASD since October 16, 1936. Its principal offices are located in New York, New York. Citigroup engages in a full-service securities business, including retail and institutional sales, investment banking, trading and research. The Firm employs approximately 350 research analysts throughout the world and publishes over 40,000 research reports every year.

Respondent has the following relevant disciplinary history:

On September 23, 2002, pursuant to Letter of Acceptance, Waiver and Consent No CAF020043, NASD made findings (which Citigroup neither admitted nor denied) that Citigroup issued research reports from January 2001 to April 2001 on Winstar Communications, Inc. that, among other things, contained misleading statements and omissions of material facts. NASD found that, as a result, Citigroup violated NASD Rules 2210 and 2110. NASD censured and fined Citigroup \$5 million.

On April 21, 2003, pursuant to Letter of Acceptance, Waiver and Consent No. 030018, NASD made findings (which Citigroup neither admitted nor denied) that Citigroup issued fraudulent research reports on two companies and reports on six other companies that violated NASD Rule 2210, issued a report on AT&T that violated NASD Rule 2210, failed to manage conflicts of interest created by the influence of investment banking over research analysts in violation of NASD Rule 2110, engaged in improper allocations of IPO shares in violation of NASD Rule 2110, failed to have policies in place to prevent the potential misuse of material, non-public information in violation of Section 15(f) of the Securities Exchange Act of 1934, and failed to establish and maintain adequate procedures to protect research analysts from conflicts of interest from its investment banking operation, and failed adequately to supervise the activities of its research analysts. Citigroup consented to the entry of a censure and to pay total monetary penalties of \$400,000,000, which consisted of a fine of \$150,000,000, disgorgement of \$150,000,000, a payment of \$75,000,000 to fund the procurement of independent research and a payment of \$25,000,000 to fund investor education programs.

I.

WAIVER OF PROCEDURAL RIGHTS

Citigroup 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 it;

- 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.

Further, Citigroup 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.

Citigroup further 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

Citigroup 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:

SUMMARY

From July 2002 to May 2005 (the "relevant period"), Citigroup failed to include in any of its technical and quantitative ("tech/quant") research reports disclosures required by the NASD research analyst conflict of interest rules.

Citigroup failed to disclose in many of its tech/quant research reports whether Citigroup or the analyst had an ownership interest in the company, whether Citigroup or the analyst had a material conflict of interest, whether Citigroup or the analyst received income from investment banking transactions with the company, whether the analyst or a member of his household held a position as officer or director, or whether Citigroup acted as a market maker for the stock. Moreover, none of the Firm's tech/quant research reports included a description of the ratings used, a distribution of the ratings, or a price chart illustrating closing prices for particular stocks.

In Notice to Members 02-39, dated July 2002, NASD notified the industry of new rules requiring its conflict of interest disclosures in research reports. In May 2004, NASD's Advertising Regulation Department ("NASD Advertising") initiated a spot-check

review of Citigroup's research. In response to this inquiry, Citigroup acknowledged, in June 2004, that its tech/quant research reports were not in compliance with Rule 2711 disclosure requirements. At this time, NASD Advertising instructed the Firm to bring its tech/quant research reports into compliance with Rule 2711(h). NASD Advertising reiterated its concerns in December 2004.

Nevertheless, Citigroup did not fully remedy its defective disclosures in its tech/quant reports until May 31, 2005. The Firm's inadequate efforts to correct its disclosure deficiencies were plagued by extended delays. At different times, Citigroup placed these efforts "on hold" or "in limbo" by failing to commit the necessary funding, resources or guidance to ensure completion in a timely manner.

Accordingly, the Firm violated NASD Rules 2711(h), 3010 and 2110.

A. Citigroup's Disclosure Failures

Rule 2711, NASD's conflict of interest rules for research analysts, was intended in part to address conflicts arising from investment bankers who pressured research analysts to manipulate research and issue positive recommendations of covered stocks to help the firms obtain lucrative investment banking business. Rule 2711 was further designed to restore investor confidence and to provide a more reliable basis upon which to make investment decisions by, among other things, requiring members and research analysts to disclose clearly and prominently in research reports information concerning potential conflicts of interest.

Among the research reports Citigroup published during the relevant period were technical and quantitative research reports made available to institutional and retail customers. The Firm's technical research reports contained analyses of equity securities or groups of securities based on prices and trading volume. Citigroup's quantitative research reports covered equity securities or groups of securities, focusing on statistical or quantitative analysis of publicly available data. Citigroup distributed these tech/quant reports directly to investors and through postings on the Firm's research report website.

Citigroup's tech/quant research reports, and other firms' tech/quant reports, are subject to NASD Rule 2711. Rule 2711 contains no exception for tech/quant research reports.¹ Throughout 2002 and 2003, NASD and NYSE staff made public statements that tech/quant research reports were subject to Rule 2711. Additionally, on July 29, 2003, the SEC issued an order approving changes to Rule 2711, stating that tech/quant research reports fell within the definition of "research report" under Rule 2711 and thus had to meet the disclosure standards of Rule 2711(h) under appropriate circumstances. The following year, NASD, in Notice to Members 04-18, repeated the regulatory guidance regarding the applicability of Rule 2711 to tech/quant research reports.

¹ NASD Rule 2711(a)(8) defines "research report" to mean "a written or electronic communication that includes an analysis of equity securities of individual companies or industries, and that provides information reasonably sufficient upon which to base an investment decision."

Nevertheless, Citigroup, in over 2,500 tech/quant research reports – every report published from July 2002 to May 2005² – omitted one or more of the following disclosures:

- Ownership and Material Conflicts of Interest (Rule 2711(h)(1)): Citigroup failed to disclose in certain reports whether the analyst or a member of the analyst's household had a financial interest in the securities of a subject company and the nature of any such financial interest; whether Citigroup or any of its affiliates owned a beneficial interest in 1% or more of the securities of a subject company; and whether there was any other material conflict of interest which Citigroup or a Citigroup analyst knew about or had reason to know about at the time the research report is published.
- Receipt of Compensation (Rule 2711(h)(2)): Citigroup failed to disclose in certain reports whether the analyst received any compensation based upon Citigroup's investment banking revenues and whether Citigroup received, expected to receive or intended to seek compensation for investment banking services from the subject company.
- Position as Officer or Director (Rule 2711(h)(3)): Citigroup failed to disclose in certain reports whether the analyst or a member of the analyst's household served as an officer, director or advisory board member of the subject company.
- Meaning of Ratings (Rule 2711(h)(4)): Citigroup failed to disclose in certain reports the meaning of Citigroup's ratings.
- Distribution of Ratings (Rule 2711(h)(5)): Citigroup failed to disclose in certain reports the percentage of all securities to which Citigroup assigns a "buy," "hold/neutral" or "sell" rating and the percentage of subject companies within each of these three categories for whom Citigroup has provided investment banking services within the previous 12 months.
- Price Charts (Rule 2711(h)(6)): Citigroup failed to include in certain reports a price chart depicting the daily closing prices of a subject security together with any changes to ratings or price targets for the subject security; and
- Market Making (Rule 2711(h)(8)): Citigroup failed to disclose whether it was making a market in the subject security at the time the research report was published.

² With the exception of two research analysts publishing in Japan, the Firm ceased publishing technical research on February 17, 2005.

NASD Advertising discovered that the Firm's tech/quant research failed to contain these required disclosures in June 2004 during a routine examination of the Firm's research reports, including a review of Citigroup's disclosure practices. Citigroup acknowledged that its tech/quant research reports did not include required Rule 2711(h) disclosures. At this time, in June 2004, staff of NASD Advertising instructed the Firm to include required Rule 2711(h) disclosures in its tech/quant research reports and reiterated its position in a December 2004 meeting. Nevertheless, Citigroup did not commit adequate resources until late 2004 and did not bring its tech/quant research fully into compliance with Rule 2711(h) until May 2005.

B. Citigroup Failed to Correct Its Defective Disclosures by Failing to Provide Adequate Funds and Resources Necessary to Complete the Tech/Quant Project in a Timely Manner

Citigroup did not comply with Rule 2711 disclosure provisions until May 2005, almost three years after the effective date of the Rule. The Firm's failure to comply with Rule 2711 arose from its failure to provide funding or support sufficient to ensure compliance with Rule 2711 disclosure requirements. Citigroup acknowledged that it needed to bring its tech/quant research reports into compliance with Rule 2711 but any effort to do so was hampered by a lack of effective or timely support from the Firm.

Citigroup's delinquent efforts to comply with Rule 2711 were placed "on hold" until May 2004. During that time, Citigroup was aware that the effort to bring the Firm's tech/quant project into compliance with Rule 2711 was hampered by the diversion of resources to other projects but did not respond adequately to these warnings. Thereafter efforts to upgrade the Firm's tech/quant disclosures were stymied by ongoing "resource constraints." As of June 2004, the Firm had yet to determine the specific steps needed to ensure that the disclosures in its tech/quant research reports complied with NASD Rule 2711. Lacking sufficient funds and without a game plan for conclusion, the tech/quant disclosure project was characterized in a June 2004 email as being "in limbo."

Due to Citigroup's failure to commit adequate funds and resources, as late as December 2004 none of the Firm's tech/quant research published in the United States contained price chart disclosures required by Rule 2711(h)(6). These price chart disclosures were not included until April 2005. Moreover, much of the Firm's tech/quant research generated outside the United States failed to contain required Rule 2711(h) disclosures until April 2005 and was not brought fully into compliance with the Rule until May 2005.

C. Citigroup Failed to Enforce Its Written Procedures Concerning Compliance with Rule 2711(h) Disclosure Requirements

Citigroup failed to enforce its written supervisory policies and procedures concerning compliance with Rule 2711(h). The Firm's written policies and procedures charge the Firm's supervisory analysts with responsibility for reviewing research reports, including tech/quant research reports, prior to publication to ensure compliance with Firm policies and all applicable NASD rules. The Firm's written policies and procedures also expressly require research reports to include Rule 2711(h) disclosures, including

the various disclosures omitted from the Firm's tech/quant research reports during the relevant period. Despite having written policies and procedures in place, the Firm failed to enforce them during the relevant period, permitting over 2,500 tech/quant research reports to be published without required Rule 2711(h) disclosures. Additionally, Citigroup failed to implement a supervisory system that facilitated an effective and timely response to regulatory notice regarding NASD research disclosure requirements.

VIOLATIONS

1. Citigroup's Research Report Disclosure Violations

As described above, during the relevant period, Citigroup violated NASD Rules 2711 and 2110 by failing to include in at least 2,521 tech/quant research reports conflict of interest disclosures required by Rule 2711(h), including disclosures required by Rules 2711(h)(1)-(6) and 2711(h)(8).

2. Citigroup's Supervisory Violations

As described above, during the relevant period, Citigroup violated NASD Rules 3010 and 2110 by failing to establish and maintain a supervisory system reasonably designed to detect and prevent the Firm's repeated violations of Rule 2711(h) and by failing to implement Rule 2711(h) in a timely manner.

SANCTIONS

Citigroup also consents to the imposition, at a maximum, of the following sanctions:

1. Censure; and
2. Fine in the amount of \$350,000;

Citigroup further consents to undertake the following:

Review of Tech/Quant Research Reports: Citigroup shall undertake a comprehensive review of its disclosure in its tech/quant research reports, including but not limited to reviewing a meaningful sample of its tech/quant research reports. Within 60 days of Notice of Acceptance of this AWC, the General Counsel, Global Wealth Management, Citigroup, shall describe the methodology used to review its reports and certify in writing to NASD's Department of Enforcement that the Firm has complied with the disclosure requirements of NASD Rule 2711(h). The Firm shall continue to review its disclosure in tech/quant research reports, including a review of a meaningful sample of its tech/quant research reports, and certify in writing as described above to NASD's Department of Enforcement every three months thereafter for one year. For good cause shown and upon receipt of a timely application, NASD staff may extend the certification deadline set forth above.

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

III.

OTHER MATTERS

- A. Citigroup understands that it may attach a corrective action statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Citigroup 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. Citigroup 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 have attached an Election of Payment form showing the method by which it proposes to pay any fine imposed.
- C. Citigroup specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, any monetary sanction imposed in this matter.

Respondent Citigroup certifies that it 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 it to submit it.

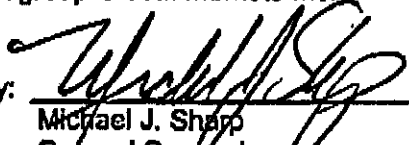
6/16/06
Date


Reviewed by:
Robert M. Romano, Esq.
Morgan, Lewis & Bockius LLP
101 Park Avenue
New York, NY 10178-0060
Counsel for Respondent

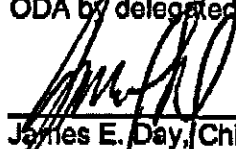
Accepted by NASD:

7/17/06
Date

Citigroup Global Markets Inc.

By: 
Michael J. Sharp
General Counsel
Global Wealth Management

Signed on behalf of the Director of
ODA by delegated authority


James E. Day, Chief Counsel
NASD Department of Enforcement