

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2005002206101**

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REGISTRATION & DISCLOSURE

TO: Department of Enforcement
Financial Industry Regulatory Authority ("FINRA")

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

Pursuant to Rule 9216 of the FINRA Code of Procedure, 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 below. Citigroup submits this AWC to FINRA on the condition that, if accepted, FINRA will not bring any future actions against Citigroup alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. 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 FINRA, or to which FINRA 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 FINRA:

BACKGROUND

Citigroup (f/k/a Salomon Smith Barney, Inc.) is a registered broker dealer and has been a member of FINRA (f/k/a NASD or the National Association of Securities Dealers), since October 16, 1936. The Firm's principal offices are located in New York, New York. The Firm operates a global research program. Citigroup and its affiliates employ approximately 900 research personnel worldwide.

OVERVIEW

From April 2005 through December 2006 (the "relevant period"), Citigroup permitted nearly 300 research analysts employed by foreign affiliates of the Firm ("non-U.S. research analysts") to publish research reports without being qualified by passing their Series 86 and 87 examinations as required by NASD Rule 1050. The rule became effective March 30, 2004. At that time, the Firm was aware that nearly 300 of its non-U.S. research analysts had already registered as General Securities Representatives (Series 7) and therefore were associated persons under FINRA (then known as NASD) By-laws. Thus, these non-U.S. analysts were subject to Rule 1050 and required to pass the Series 86 and 87 examinations or cease publishing research.

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As permitted under Rule 1050, Citigroup applied for and obtained a one-year grace period for each of its research analysts, including its non-U.S. research analysts, to take and pass the Series 86 and 87 examinations. The Firm, however, did not have its associated non-U.S. research analysts (with the exception of those residing in Mexico) take the Series 86 and 87 examinations. Instead, during the one-year grace period, Citigroup sought an exemption from Rule 1050 with respect to its associated non-U.S. research analysts, which was not obtained. Accordingly, as of April 1, 2005, Citigroup was in violation of Rule 1050 because nearly 300 of its associated non-U.S. research analysts had failed to obtain the required Series 86 and 87 qualifications yet continued to publish research.

On April 1, 2005, FINRA amended Rule 1050 to provide a limited conditional exemption for research analysts employed by foreign affiliates of member firms in the United Kingdom, China, Hong Kong, Singapore, Thailand, Malaysia and Japan. Eligibility for this exemption was conditioned, among other things, on the member placing certain disclosures on the front page of research reports prepared by associated research analysts residing in these foreign jurisdictions. Citigroup did not comply with this disclosure requirement during the relevant period and could not therefore avail itself of the limited exemption.

Accordingly, Citigroup violated NASD Rules 1050 and 2110.

FACTS

1. FINRA Required Research Analysts Who Were Associated Persons to Register and Pass the Series 86 and 87 Qualifying Examinations

On March 30, 2004, FINRA announced in Notice to Members 04-25 that the Securities and Exchange Commission approved NASD Rule 1050, a new requirement that research analysts who are "persons associated with a member" must register and pass the Series 86 and 87 examinations. Rule 1050 defines a "research analyst" as "an associated person who is primarily responsible for the preparation of the substance of a research report or whose name appears on a research report." Under FINRA By-laws, a person is "associated" with a member if that person "is registered or has applied for registration." Therefore, any person who has obtained or applied for a General Securities Representative registration is a person associated with a member and thus prohibited under Rule 1050 from publishing research reports without first obtaining Series 86 and 87 qualifications or an exemption.

The qualifying examinations consist of an analytic section (Series 86) and a regulatory section (Series 87). The purpose of the Series 86 and 87 qualification requirements is to ensure that associated research analysts possess a reasonable level of professional competence so that they can perform their research jobs effectively and comply with applicable rules and regulations. Prior to taking either the Series 86 or 87 examination, research analysts are required to pass the General Securities Representative Examination (Series 7), the Limited Registered Representative (Series 17), or the Canada Module of Series 7 (Series 37 or 38). Persons functioning as research analysts (as defined by Rule 1050) on March 30, 2004 could take advantage of a one-year grace period to meet the Series 86 and 87 qualification requirements, provided their member firm applied for registration by May 31, 2004. By that deadline,

Citigroup filed separate applications for the one-year grace period for every research analyst employed by the Firm and its affiliates, including the Firm's foreign affiliates. Accordingly, the Firm's associated analysts had until April 1, 2005 to pass the Series 86 and 87 examinations or cease publishing research.

2. Citigroup Violated Rule 1050 by Allowing its Associated Non-U.S. Research Analysts to Publish Research without First Obtaining Series 86 and 87 Qualifications

Citigroup operates a global research program headquartered in New York. The Firm's Equity Research Department is organized into five major geographic regions: the United States/Latin America, Europe/Middle East/Africa, Asia Pacific, Australia/New Zealand and Japan. During the relevant period, Citigroup required its non-U.S. research analysts to obtain General Securities Representative registrations (Series 7). Because they were Series 7 registered, these research analysts had unfettered access to U.S. investors and Citigroup could distribute their research in the United States without restriction. By virtue of their Series 7 registration, nearly 300 of the Firm's non-U.S. research analysts were associated persons subject to Rule 1050 and thus required to obtain Series 86 and 87 qualifications by April 1, 2005, the end of the one-year grace period, or cease publishing research.

In March 2004, after Rule 1050 was adopted but before it became effective, Citigroup was aware that nearly 300 of its non-U.S. research analysts were associated persons subject to the rule. Nonetheless, Citigroup did not have its associated non-U.S. research analysts (with the exception of its analysts residing in Mexico) take the required Series 86 and 87 examinations during the one-year grace period. Instead, during this time, the Firm sought an exemption from Rule 1050 for these analysts, which was not obtained. Accordingly, by April 1, 2005 (the end of the grace period), the Firm's nearly 300 associated non-U.S. research analysts had failed to obtain the required Series 86 and 87 qualifications. From April 1, 2005 to December 31, 2006, Citigroup permitted these non-U.S. analysts to publish research in violation of Rule 1050. On December 31, 2006, Citigroup deregistered its non-U.S. analysts.

3. Citigroup Did not Satisfy the Conditions for a Limited Safe Harbor in Seven Foreign Jurisdictions, Yet Permitted Associated Analysts in these Jurisdictions to Continue to Publish Research

Effective April 1, 2005, FINRA amended Rule 1050 to provide a limited exemption from the rule for research analysts employed by foreign affiliates of member firms in the United Kingdom, China, Hong Kong, Singapore, Thailand, Malaysia and Japan (the "exempt jurisdictions"). Pursuant to Notice to Members 05-24, eligibility for this limited exemption was conditioned, among other things, on a member firm placing certain disclosures on the front page of research reports prepared by associated non-U.S. analysts employed by foreign affiliates in the exempt jurisdictions. From April 2005 through December 2006, however, Citigroup did not comply with this disclosure requirement. Accordingly, during this time, Citigroup was not able to avail itself of the limited exemption from Rule 1050 for its associated non-U.S. research analysts, yet permitted these analysts to publish research.

VIOLATIONS

As described above, during the relevant period, Citigroup violated NASD Rules 1050 and 2110 by permitting nearly 300 of its associated non-U.S. research analysts to publish research reports without first obtaining Series 86 and 87 qualifications or meeting the requirements for an exemption from registration.

- B. Citigroup also consents to the imposition of the following sanctions:
1. Censure; and
 2. Fine in the amount of \$650,000.

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

II.

WAIVER OF PROCEDURAL RIGHTS

Citigroup specifically and voluntarily waives the following rights granted under FINRA'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 National Adjudicatory Council ("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.

III.

OTHER MATTERS

Citigroup understands that:

- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against Respondent; and
- C. If accepted:
 - 1. This AWC will become part of Citigroup's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against the Firm;
 - 2. This AWC will be made available through FINRA's public disclosure program in response to public inquiries about the Firm's disciplinary record;
 - 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8310 and IM-8310-2; and
 - 4. 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. Citigroup may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects the Firm's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.
- D. Citigroup 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 FINRA, nor does it reflect the views of FINRA or its staff.

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; that it has agreed to its provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce it to submit it.

February 13, 2008
Date

Citigroup Global Markets Inc.
Citigroup Global Markets, Inc.
Respondent

By: Eileen H. Madigan

Reviewed by:

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Robert M. Romano, Esq.
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Accepted by FINRA:

6/2/08
Date

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

James E. Day
James E. Day
Chief Counsel
FINRA Department of Enforcement
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