

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20070112994-01**

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

RE: Citi International Financial Services LLC, Respondent
Broker-Dealer
CRD No. 17053

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Citi International Financial Services LLC ("CFSC" 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. This AWC is submitted on the condition that, if accepted, FINRA will not bring any future actions against the firm alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. The firm 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

The firm became a member of FINRA on January 27, 1987, and its registration remains in effect. The firm has no relevant disciplinary history.

SUMMARY

The matters described below involve reviews conducted by the Fixed Income staff of FINRA's Department of Market Regulation (the "staff") regarding the firm's compliance with the applicable securities laws and regulations, and the Rules of FINRA, concerning fair pricing and/or best execution of fixed income transactions, as well as reviews of the firm's supervisory systems and procedures regarding the pricing of and/or best execution of fixed income transactions, during the review periods described below, which ranged from July 1, 2007 through September 30, 2010.

In Review No. 20070112994, the staff conducted a Corporate Bond Fair Pricing Sweep for the review periods July 1, 2007 through September 30, 2007, and April 1, 2008 through June 30, 2008.

In Review No. 20090198029, the staff conducted a Corporate Bond Fair Pricing Sweep for the review period January 1, 2009 through March 31, 2009.

In Review No. 20100218957, the staff conducted a Corporate Bond Fair Pricing Sweep for the review period October 1, 2009 through December 31, 2009.

In Review No. 20100252853, the staff conducted a Corporate Bond Fair Pricing Sweep for the review period July 1, 2010 through September 30, 2010.

In Review No. 20100233784, the staff conducted a Corporate Bond Best Execution Pricing Sweep for the review period January 1, 2010 through March 31, 2010.

In Review No. 20110260831, the staff conducted a U.S. Government Agency Fair Pricing Sweep for the review period July 1, 2010 through September 30, 2010.

In Review No. 20100212506, the staff conducted a Corporate Bond Best Execution Pricing Sweep for the review period April 1, 2009 through June 30, 2009.

In Review Nos. 20090198029, 20100218957, 20110260831, and 20100212506, the staff also reviewed the firm's written supervisory procedures regarding the pricing of and/or best execution of fixed income transactions during review periods which extended from July 1, 2007 through September 30, 2010.

FACTS AND VIOLATIVE CONDUCT

As a result of the reviews described above, pertaining to fair pricing and best execution of fixed income transactions from July 1, 2007 through September 30, 2010, FINRA found the following:

Fixed Income Fair Pricing and Best Execution

20070112994

1. During the review period July 1, 2007 through September 30, 2007, in eight pairs of transactions, the firm bought or sold corporate bonds from or to its customers and failed to buy or sell such bonds at a price that was fair, taking into consideration all relevant circumstances, including market conditions with respect to each at the time of the transaction, the expense involved and that the firm was entitled to a profit. The markups for these paired transactions ranged from 3.01 percent to 3.07 percent. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rules 2110, 2440, IM-2440-1, and IM-2440-2.

2. In addition, during the review period April 1, 2008 through June 30, 2008, in 63 pairs of transactions, the firm bought or sold corporate bonds from or to its customers and failed to buy or sell such bonds at a price that was fair, taking into consideration all relevant circumstances, including market conditions with respect to each at the time of the transaction, the expense involved and that the firm was entitled to a profit. The markups for these paired transactions ranged from 3.0 percent to 3.10 percent. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rules 2110, 2440, IM-2440-1, and IM-2440-2.

20090198029

3. During the review period January 1, 2009 through March 31, 2009, in 27 pairs of transactions, the firm bought or sold corporate bonds from or to its customers and failed to buy or sell such bonds at a price that was fair, taking into consideration all relevant circumstances, including market conditions with respect to each at the time of the transaction, the expense involved and that the firm was entitled to a profit. The markups for these paired transactions ranged from 3.77 percent to 16.85 percent. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rules 2440, IM-2440-1, and IM-2440-2, and FINRA Rule 2010.

20100218957

4. During the review period October 1, 2009 through December 31, 2009, in 44 pairs of transactions, the firm bought or sold corporate bonds from or to its customers and failed to buy or sell such bonds at a price that was fair, taking into consideration all relevant circumstances, including market conditions with respect to each at the time of the transaction, the expense involved and that the firm was entitled to a profit. The markups for these paired transactions ranged from 3.0 percent to 5.88 percent. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rules 2440, IM-2440-1, and IM-2440-2, and FINRA Rule 2010.

20100252853

5. During the review period July 1, 2010 through September 30, 2010, in 71 pairs of transactions, the firm bought or sold corporate bonds from or to its customers and failed to buy or sell such bonds at a price that was fair, taking into consideration all relevant circumstances, including market conditions with respect to each at the time of the transaction, the expense involved and that the firm was entitled to a profit. The markups/markdowns for these paired transactions ranged from 3.51 percent to 5.13 percent. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rules 2440, IM-2440-1, and IM-2440-2, and FINRA Rule 2010.

20100233784

6. During the review period January 1, 2010 through March 31, 2010, in 29 pairs of transactions, the firm bought or sold corporate bonds from or to its customers and failed to buy or sell such bonds at a price that was fair, taking into consideration all relevant circumstances, including market conditions with respect to each at the time of the transaction, the expense involved and that the firm was entitled to a profit. The markups for these paired transactions ranged from 3.45 percent to 5.0 percent. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rules 2440, IM-2440-1, IM-2440-2, and FINRA Rule 2010.

20110260831

7. During the review period April 1, 2010 through June 30, 2010, in five pairs of transactions, the firm bought or sold U.S. government agency bonds from or to its customers and failed to buy or sell such bonds at a price that was fair, taking into consideration all relevant circumstances, including market conditions with respect to each at the time of the transaction, the expense involved and that the firm was entitled to a profit. The markups for these paired transactions ranged from 2.73 percent to 3.0 percent. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rules 2440, IM-2440-1, IM-2440-2, and FINRA Rule 2010.

20100212506

8. During the review period April 1, 2009 through June 30, 2009, in seven pairs of transactions, the firm bought corporate bonds from or to its customers and failed to buy or sell such bonds at a price that was fair, taking into consideration all relevant circumstances, including market conditions with respect to each at the time of the transaction, the expense involved and that the firm was entitled to a profit. The markups for these paired transactions ranged from 3.12 percent to 4.31 percent. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rules 2440, IM-2440-1, IM-2440-2, and FINRA Rule 2010.
9. In addition, during the same review period, in seven pairs of transactions, the firm failed to use reasonable diligence to ascertain the best inter-dealer market for the subject transactions and buy or sell in such market so that the resultant price to its customers was as favorable as possible under prevailing market conditions. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 2320 and FINRA Rule 2010.

Supervision

20090198029; 20100218957; 20110260831; and 20100212506

10. During the time period from July 1, 2007 through September 30, 2010, the firm failed to establish and implement a supervisory system that was reasonably designed to achieve compliance with the applicable securities laws and regulations, and the Rules of FINRA, concerning fair pricing and best execution of fixed income transactions. Specifically, the firm's supervisory system was inadequate for the following reasons:
 - a. the firm's supervisory system was not designed to review markups/markdowns that were below five percent, but that nonetheless may have been excessive;
 - b. the firm utilized a pricing grid that provided for the calculation of and supervisory review of markups/markdowns that was based upon a percentage of the par value of the bonds, instead of as a percentage of the actual principal value of the bonds. In addition to other things, when the bond market became more volatile and the value of many bonds substantially decreased during late 2008 and 2009, the firm's supervisory system contributed to the firm's failure to detect that it was charging its customers excessive markups/markdowns for fixed income transactions; and
 - c. the firm's supervisory procedures did not address the applicable requirements of the applicable securities laws and regulations, and the Rules of FINRA, concerning best execution of fixed income transactions that the firm executed through its third-party clearing agent.

The conduct described in this paragraph constitutes a violation of NASD Rule 3010, NASD Rule 2110 (for conduct prior to December 15, 2008), and FINRA Rule 2010 (for conduct on and after December 15, 2008).

Other Factors

Subsequent to the receipt of the staff's inquiry letters for this matter, the firm, on its own accord, conducted an internal investigation regarding the bond prices charged to its customers during the time period from July 1, 2007 through December 31, 2010, formulated a restitution plan which it submitted to the staff for approval, and agreed to make restitution in the total amount of \$648,080 for more than 3,600 fixed income transactions. These actions by the firm were taken into consideration when determining the sanctions imposed in this matter.

B. The firm also consents to the imposition of the following sanctions:

- A censure;
- A fine of \$600,000 (consisting of a \$350,000 fine for the combined fixed income fair pricing and best execution violations, and a \$250,000 fine for the supervision violations);
- An undertaking to revise the firm's written supervisory procedures with respect to the areas described above in paragraph I.A.10. Within 30 business days of acceptance of this AWC by the National Adjudicatory Council ("NAC"), a registered principal of the firm shall submit to the **COMPLIANCE ASSISTANT, LEGAL SECTION, MARKET REGULATION DEPARTMENT, 9509 KEY WEST AVENUE, ROCKVILLE, MD 20850**, a signed, dated letter, or an e-mail from a work-related account of the registered principal to MarketRegulationComp@finra.org, 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 above in paragraph I.A.10.; and (3) the date the revised procedures were implemented; and
- An order to pay restitution to the firm's customers, which includes the transactions described in paragraphs I.A.1. through I.A.9. above, in the total amount of \$648,080, plus interest at the rate set forth in Section 6621(a) of the Internal Revenue Code, 26 U.S.C. 6621(a)(2), from the date of the violative conduct until the date this AWC is accepted by the NAC.¹ A registered principal of the firm shall submit satisfactory proof of payment of the restitution, or of reasonable and documented efforts undertaken to effect restitution, to the **COMPLIANCE ASSISTANT, LEGAL SECTION, MARKET REGULATION DEPARTMENT, 9509 KEY WEST AVENUE, ROCKVILLE, MD 20850** or in an e-mail from a work-related account of the registered principal to MarketRegulationComp@finra.org, no later than 120 days after acceptance of this AWC. If for any reason Respondent cannot locate any customer after reasonable and documented efforts within such period, or such additional period agreed to by the staff, Respondent shall forward any undistributed restitution and interest to the appropriate escheat, unclaimed-property or abandoned-property fund for the state in which the customer is known to have last resided.

¹ As a result of its fixed income fair pricing and best execution sweeps, FINRA identified the transactions described above in paragraphs I.A.1. through I.A.9., and proposed that the firm pay approximately \$145,000 in restitution for those transactions. Subsequently, the firm, on its accord, conducted its own investigation regarding the bond prices charged to its customers during the time period from July 1, 2007 through December 31, 2010, and formulated a restitution plan which included more than 3,600 transactions and a total restitution amount of \$648,080. The fine amount being imposed as part of this AWC is based, in part, upon the restitution amount calculated by FINRA for the transactions identified from its fair pricing and best execution sweeps.

The firm agrees to pay the monetary sanction(s) upon notice that this AWC has been accepted and that such payment(s) are due and payable. It has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

The firm specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanction(s) imposed in this matter. The sanctions imposed herein shall be effective on a date set by FINRA staff.

II.

WAIVER OF PROCEDURAL RIGHTS

The firm specifically and voluntarily waives the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against the firm;
- B. To be notified of the 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, the firm 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.

The firm further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of FINRA Rule 9143 or the separation of functions prohibitions of FINRA 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

The firm 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 the firm;
- C. If accepted:
 - 1. this AWC will become part of the firm’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 8313; and
 - 4. 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. The firm 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. The firm may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. The firm 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.

The undersigned, on behalf of the Firm, certifies that a person duly authorized to act on its behalf 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 the AWC's 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 the firm to submit it.

February 8, 2012
Date

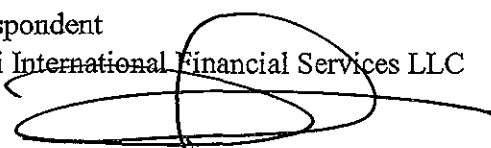


Counsel for Respondent
Bryan Wells, Esq.
Shutts & Bowen LLP
201 South Biscayne Blvd.
Miami, FL 33131

Accepted by FINRA:

2/27/12
Date

Respondent
Citi International Financial Services LLC

By: 

Name: ARMANDO D. SILVA

Title: PRESIDENT & CEO

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


Thomas R. Gira
Executive Vice President
Department of Market Regulation