

**FINANCIAL INDUSTRY REGULATORY AUTHORITY  
LETTER OF ACCEPTANCE, WAIVER AND CONSENT  
NO. 2008013231502**

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

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

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Citigroup Global Markets, Inc. ("Respondent," "CGMI" 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 Respondent alleging violations based on the same factual findings described herein.

**I.**

**ACCEPTANCE AND CONSENT**

- A. Respondent 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**

CGMI is a wholly-owned subsidiary of Citigroup Financial Products, Inc. and indirectly is a wholly-owned subsidiary of Citigroup, Inc. The Firm's principal place of business is New York, New York. The Firm is a member of FINRA and provides a full range of financial services including investment banking, underwriting debt and equity securities and providing financial advice to corporate and institutional clients. It is also a full-service broker-dealer and trades securities for institutional and retail customers and proprietary accounts.

**RELEVANT DISCIPLINARY HISTORY**

Respondent has the following relevant disciplinary history: In *Citigroup Global Markets, Inc.*, NYSE Hearing Panel Decision 06-15 (May 10, 2006), CGMI consented to a \$250,000 fine based on findings that it failed to establish adequate supervisory controls, including a separate system of follow-up and review relating to internal audits, at its Palo Alto Smith Barney branch office, the same branch office at issue in this matter.

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## **OVERVIEW**

From approximately January 2001 to March 2008 (the "relevant period"), CGMI failed to supervise Tamara Moon, a former registered sales assistant working at the Firm's Palo Alto, California branch office. On March 31, 2008, CGMI terminated Moon after she admitted to misappropriating customer funds. Upon investigation, CGMI determined that Moon misappropriated \$749,978 from 22 customers, falsified numerous account records and engaged in unauthorized trades in customer accounts.<sup>1</sup> CGMI, based on its review, reimbursed with interest those customers whose funds were misappropriated by Moon.

Moon took advantage of CGMI's supervisory lapses at the branch to facilitate her wrongful taking of customer funds by targeting elderly, ill or otherwise vulnerable customers whom she believed were unable to monitor their accounts. Moon's victims included a member of her family, elderly widows and a senior with Parkinson's disease.

In her role as a registered sales assistant, Moon provided operational support to registered representatives including processing new account applications and addressing irregularities identified by certain exception reports, among other duties. In performing these tasks, Moon gained access to confidential client account information and used her knowledge of customer accounts, and lapses in the Firm's supervisory practices at the branch, to take advantage of some of the Firm's most vulnerable customers.

During the relevant period, CGMI failed to detect or respond adequately to a series of red flags that upon further inquiry would have alerted the Firm to Moon's misappropriation of customer funds and related misconduct. CGMI also failed to implement reasonable systems and controls regarding the supervisory review of customer accounts. The Firm's failure to reasonably supervise Moon also enabled Moon to falsify new account applications and other records, thus facilitating Moon's misconduct and causing the Firm to violate the books and records provisions of NASD rules and the federal securities laws.

The Firm's conduct constitutes separate and distinct violations of NASD Rules 3010(a) and (b) (supervision), 3012(2)(a) (controls), 3110 and Section 17(a) of the Securities Exchange Act of 1934 and Rule 17a-3 of the Exchange Act (books and records). Each of the Firm's violations constitutes a separate and distinct violation of NASD Rule 2110.

## **VIOLATIVE CONDUCT**

1. CGMI Failed to Supervise Tamara Moon and Failed to Detect and Investigate Red Flags Concerning Moon's Improper Use of Customer Funds

CGMI violated NASD Rules 3010 and 2110 by failing to detect or respond adequately to a series of red flags that upon further inquiry would have alerted the Firm to Moon's improper use of

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<sup>1</sup> Letter of Acceptance, Waiver and Consent, No. 2008013231501 (April 3, 2009). Tamara Moon consented to a bar in all capacities from associating with a member firm.

customer funds, including indications of irregularities in certain exception reports (Experian Reports), letters of authorization (LOAs), "Potential Bounced Check" notices, employee and employee-related accounts (employee accounts) and new account applications.

*a. Red Flags in Experian Reports*

Experian Reports are one of the supervisory tools used by the Firm to detect red flags in new account applications, including information that may be inaccurate or fraudulent. Experian Reports are designed to highlight for the Firm the existence of mismatches between new account information and information kept in a third-party database.

During the period Moon was engaged in misappropriating funds from customer accounts, Experian Reports at the branch identified primary address mismatches in account opening documents. In these cases, the Firm relied on the unverified responses provided by Moon to resolve the Experian mismatches, even when some responses did not address the discrepancy noted in the Experian reports.

For example, an Experian Report for the branch dated October 28, 2005 identified two mismatches that Moon was instructed to resolve: (i) "the road name in the address does not correspond to the city and zip in the address; and (ii) the prefix of the phone number does not match the zip code for the address." On the hard-copy of the Experian Report, Moon wrote "client moved to Arizona," an observation which did not address either of the two mismatches in the report. Nonetheless, the Firm, without further inquiry, accepted Moon's explanation, which contributed to the continued success of Moon's scheme to misappropriate customer funds.

In a separate incident, Experian Reports at the branch identified several social security numbers ("SSN") that belonged to deceased customers. Branch managers printed and forwarded hard-copies of these reports to Moon (the person who entered the false new account information) to address the discrepancy. However, they failed to follow up to determine whether Moon had appropriately resolved the problem, which contributed to Moon being able to open false accounts to facilitate her misappropriation of customer funds.

*b. Red Flags in Letters of Authorization*

LOAs authorize the Firm to effect transfers of funds, disbursements and changes to account information, including address changes. In practice, review of LOAs at the branch was typically limited to reviewing the four corners of a particular LOA for completeness without reference to prior LOAs or account statements involving the same account. Accordingly, the Firm failed to detect patterns of irregular and suspicious activity involving transfers, disbursements and address changes in accounts used by Moon to misappropriate customer funds.

In one case, for example, the Firm failed to identify or investigate multiple transfers between unrelated accounts as reflected in LOAs for those accounts. Between October 4, 2007 and March 12, 2008, the Firm, through its branch managers, approved LOAs authorizing nine transfers between certain Trust accounts and an unrelated and fraudulent account created by Moon in the name of her father, JL.

CGMI also failed to detect or investigate red flags concerning irregular “money in, money out” patterns as reflected in LOAs. For example, on August 28, 2006, Moon caused the transfer of \$150,000 from an account held by customer DS to the JL account. Only two days later, on August 30, 2006, Moon caused the transfer of \$90,000 from the JL account to an account controlled by Moon. In reviewing the LOAs for this transaction, the Firm failed to recognize patterns of suspicious account activity.

*c. Red Flags in “Potential Bounced Check” Notices*

A Potential Bounced Check notice alerts the Firm that a customer account has insufficient funds to honor a check written on that account. In the case of employees like Moon, the Firm requires approval by regional management before the Firm allows payment of the presented check. The Firm considers Potential Bounced Check notices an indication of an employee’s possible financial difficulties and increased likelihood of fraud.

Between January 1, 2006 and October 30, 2006, the branch was notified on 20 separate occasions (some of those occasions involving multiple checks) that Moon’s account potentially had insufficient funds to pay the checks presented against the account. On May 11, 2006, check number 1402 in the amount of \$15,395.00 was presented against Moon’s account. Moon requested that CGMI honor the check even though Moon had insufficient funds in her account. The check was presented a second time on May 19, 2006. Despite these multiple red flags, the Firm failed to take reasonable steps to follow up or investigate the compliance issues raised by Moon’s possible financial difficulties.

*d. Red Flags in Employee Accounts*

The Firm recognized that employee accounts present unique compliance risks and thus require heightened supervisory review. Accordingly, the Firm adopted a policy to code employee accounts with a separate number range so that managers could more carefully monitor these accounts. In one case, however, the Firm failed to assign the appropriate code to an account created by Moon in the name of JL, her father.

As early as August 2006, managers at the Palo Alto branch were aware that JL was Moon’s father, yet the account was not properly coded until March 20, 2007, at which time duplicate account statements were sent to the Branch Manager for review. During this interval (August 2006 to March 2007), activity in the JL account was suspicious, including the transfer of funds between unrelated accounts and the issuance of a checkbook for the JL account to Moon’s residential address. CGMI’s failure to code and reasonably monitor the JL account prevented the Firm from detecting multiple red flags concerning Moon’s misconduct.

*e. Red Flags in New Account Applications*

CGMI’s review of new account applications at the branch was equally deficient. For example, for the period 2007 to March 2008, one of the managers typically limited her review of new account applications to the four corners of the application to determine whether required fields

had been filled out. This limited approach at the branch did not ensure that the Firm would detect fraudulent information in new account applications.

For example, Moon created the fraudulent JL account using a different address from that which already appeared on JL's existing bona fide account. Had anyone at the branch reviewed the new JL account information by comparing it to existing JL account records, the discrepancy would have been discovered and could have alerted the Firm to Moon's misconduct.

In another example, Moon created an account in the name of customer JS even after the Firm had been notified that JS was deceased. Moon subsequently created a false account in the name of customer GS, the widow of JS. On June 1, 2007, Moon caused the transfer of \$10,440.46 from the false JS account to the false GS account. Later that month, Moon caused checks in the amounts of \$5,000 and \$2,500 to be issued from the GS account to Moon's personal bank account. CGMI's review of new account applications was deficient and prevented the Firm from detecting red flags concerning Moon's misconduct.

## 2. CGMI Failed to Implement Reasonable Systems and Controls Concerning the Supervision of Customer Accounts

### a. Inadequate Supervisory Systems

CGMI violated NASD Rules 3010 and 2110 by, among other things, failing to implement a reasonable system concerning the supervision of employee accounts and accounts deemed abandoned property. For example, the Firm acknowledged that it was not uncommon for employee accounts to escape reasonable supervisory review because they had not been properly coded. The Firm also acknowledged that certain employee accounts were improperly coded due to an internal systems glitch.

The Firm's supervision of accounts at the branch deemed abandoned property was also deficient. CGMI deemed accounts abandoned property when account statements have been returned to the Firm or where there has been no activity in the account for a certain period of time. In one case, the Firm failed to monitor such accounts held by customer RF, an American Diplomat working out of the U.S. Embassy in Rabat, Morocco. RF held custodial accounts at CGMI for each of his two daughters. CGMI deemed these accounts abandoned in September 2002. From January to June 2003, Moon gained access to these accounts, engaged in unauthorized trades and misappropriated at least \$48,000 in customer funds. The Firm's failure to monitor accounts deemed abandoned property in a reasonable manner prevented the Firm from detecting and preventing Moon's misconduct.

### b. Inadequate Controls

CGMI violated NASD Rules 3012(2)(a) and 2110 by failing to implement reasonable controls regarding the supervisory review of activity in customer accounts, including the review of Experian Reports and employee accounts. Although the Firm used its Risk and Control Self-Assessment ("RCSA") and branch examinations to test supervisory systems at the branch level, it failed to adequately address identified deficiencies.

For example, the Firm, through its RCSA of the branch for the first quarter 2006, rated the review of employee accounts as "unsatisfactory." Despite this low rating, the Firm did not produce evidence that the branch had implemented a reasonable corrective action plan to address the deficiency. Similarly, in the Firm's branch examination report issued during the fourth quarter 2006, the Firm again identified the review of employee accounts as an exception. Although the branch corrected the coding on the employee accounts identified in the report, it failed to implement a corrective action plan to address the broader deficiency.

Additionally, the Firm's sole means of identifying employee accounts was through notification by the employee. Despite a routine annual certification by employees identifying all employee-related accounts, the Firm failed to establish a process to ensure that the accounts identified by the employees were properly coded on the Firm's system.

In another case, the Firm, through its RCSA of the branch for the third quarter 2006, rated the review of Experian Reports at the branch as "unsatisfactory." The Firm had sampled accounts at the branch and noted that in some cases mismatches had not been rectified and no follow-up had occurred. In other cases, where some follow-up did occur, the mismatches and suspect customer information had not been rectified.

### *3. CGMI Failed to Keep Accurate Books and Records*

The Firm's failure to supervise Moon enabled Moon to falsify information in new account applications, LOAs and other records. Accordingly, the Firm failed to make and keep accurate records for each customer account in violation of NASD Rules 3110 and 2110 and Section 17(a) of the Securities Exchange Act of 1934 and Rule 17a-3.

B. Respondent also consents to the imposition of the following sanctions:

1. A censure; and
2. A fine in the amount of \$500,000.

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

Respondent agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. Respondent has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed. Respondent specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanction imposed in this matter.

## **II.**

### **WAIVER OF PROCEDURAL RIGHTS**

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

- A. To have a Complaint issued specifying the allegations against Respondent;
- 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 National Adjudicatory Council ("NAC") and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, Respondent 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.

Respondent 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

Respondent 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 Respondent's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against Respondent;
  - 2. This AWC will be made available through FINRA's public disclosure program in response to public inquiries about Respondent'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. Respondent 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. Respondent 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 Respondent's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.
- D. Respondent may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondent understands that Respondent 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 Respondent 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 the Firm to submit it.

7-13-2011  
Date

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

By: Elaine H. Mandelbaum  
Elaine H. Mandelbaum

Reviewed by:

Peter R. Boutin  
Counsel for Respondent  
Keesal, Young & Logan  
450 Pacific Avenue  
San Francisco, CA 94133  
415-398-6000

Accepted by FINRA:

8-8-11  
Date

Signed on behalf of the  
Director of ODA by delegated authority

James E. Day  
Associate Vice President and Chief Counsel  
FINRA Department of Enforcement  
1801 K Street, NW  
Washington, DC 20006  
202-974-2917

views of FINRA or its staff.

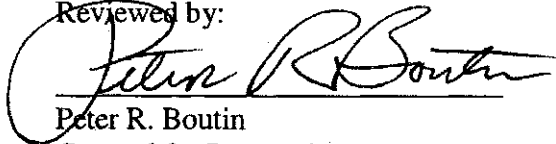
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\_\_\_\_\_  
Date

\_\_\_\_\_  
Citigroup Global Markets, Inc., Respondent

By: \_\_\_\_\_

Reviewed by:

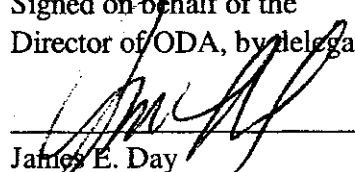


Peter R. Boutin  
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San Francisco, CA 94133  
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Accepted by FINRA:

8-9-11  
Date

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

  
\_\_\_\_\_  
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