

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20090187389-01**

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

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

Pursuant to FINRA Rule 9216 of FINRA's 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 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 October 16, 1936, and its registration remains in effect. The firm has the following relevant disciplinary history:

On October 25, 2010, FINRA accepted an AWC in which the firm was censured and fined for, among other things, violations of NASD Rules 2110 and 2320 for its failure to comply with its best execution obligations in equity and fixed income transactions. The firm paid a fine of \$28,500 for those violations.

SUMMARY

This matter involves an investigation by the Customer Issues staff of FINRA's Department of Market Regulation (the "staff") of the firm's compliance with its best execution obligations in connection with retail transactions in exchange listed non-convertible preferred securities executed electronically on the firm's proprietary BondsDirect order execution system ("BondsDirect") and manually through the firm's Fixed Income Retail Preferred Trading Desk (the "FIRPT Desk"), during the period from January 1, 2008 through May 31, 2011 (the "review period").

FACTS AND VIOLATIVE CONDUCT

1. During the review period, BondsDirect had a flawed pricing logic that only incorporated the quotations from the primary listing exchange for each particular non-convertible preferred security. As a result, in 7,204 instances when there was a better price on a market other than the primary listing exchange, BondsDirect systematically executed transactions with its customers in non-convertible preferred securities at prices that were inferior to the National Best Bid and Offer ("NBBO").
2. During the review period, the firm's FIRPT Desk traders employed a manual pricing methodology that did not appropriately incorporate the NBBO for the non-convertible preferred securities. As a result, in 14,851 instances the firm's FIRPT Desk traders manually priced and executed transactions in non-convertible preferred securities at prices that were inferior to the NBBO.
3. Accordingly, in 22,055 transactions described in paragraphs 1 and 2, the firm 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. This conduct constitutes separate and distinct violations of NASD Rules 2320 and 2110 or FINRA Rule 2010.¹
4. During the review period, the firm failed to establish and maintain a supervisory system, including written supervisory procedures ("WSPs"), that was reasonably designed to ensure compliance with the firm's best execution obligations for transactions in non-convertible preferred securities executed on BondsDirect or manually by FIRPT Desk traders. Specifically, the firm failed to perform any review of non-convertible preferred transactions executed on BondsDirect or manually by the FIRPT Desk traders to ensure compliance with the firm's best execution obligations.
5. During the review period, the firm's supervisory system did not include WSPs for a best execution review of non-convertible preferred transactions executed on BondsDirect or the FIRPT Desk providing for: (1) the 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 WSPs should be documented.
6. Between January 2007 and December 2010 the firm received five inquiry letters related to best execution violations. In response to those inquiries, the firm acknowledged that certain BondsDirect and manual executions in non-convertible preferred securities were occurring at prices that did not satisfy the existing NBBO. Despite these red flags the firm failed to perform any meaningful supervisory reviews for best execution of non-convertible preferred transactions executed on BondsDirect or manually by the FIRPT Desk traders. Moreover, FINRA's best execution report cards were available to the firm throughout the review period, which contained many of the best execution violations

¹ NASD Rule 2110 became FINRA Rule 2010 on December 15, 2008.

contained in paragraphs 1 and 2. The firm, however, only attempted to access its best execution report cards one time during the review period. Accordingly, the firm did not make sufficient use of FINRA's best execution report cards.

7. The conduct in paragraphs 4, 5, and 6 constitutes separate and distinct violations of NASD Conduct Rules 2110 and 3010 for the period prior to December 15, 2008, and violations of FINRA Rule 2010 and NASD Rule 3010 for the period on and after December 15, 2008.

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

- A censure;
- A fine of \$1,850,000 (\$1,400,000 for the best execution violations and \$450,000 for supervision violations);
- An undertaking to revise the firm's WSPs with respect to the areas described above. 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; and (3) the date the revised procedures were implemented;
- Restitution is ordered in connection with the 22,055 transactions described in paragraphs 1, 2 and 3 in the total amount of \$638,638.34 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. 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 email from a work-related account of the registered principal to MarketRegulationComp@finra.org, no later than 180 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. Respondent shall provide satisfactory proof of such action to FINRA in the manner described above, within 14 days of forwarding the undistributed restitution and interest to the appropriate state authority.

The imposition of a restitution order or any other monetary sanction herein, and the timing of such ordered payments, does not preclude customers from pursuing their own actions to obtain restitution or other remedies.

The firm agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is 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 imposed in this matter.

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 Chief Legal Officer, 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. 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 the firm's: (i) testimonial obligations; or (ii) 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.

8/7/14
Date

Respondent
Citigroup Global Markets Inc.

By: 
Name: Joshua E. Levine
Title: Managing Director

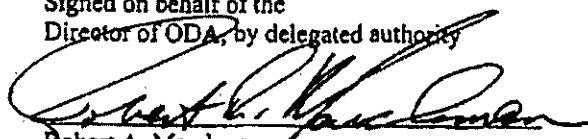
Reviewed by:


Attorney Name Michael D. Wolk
Counsel for Respondent
Firm Name Address 1501 K Street
City/State/Zip Washington DC 20005
Phone Number 202-736-8807

Accepted by FINRA:

8/26/14
Date

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


Robert A. Marchman
Executive Vice President
Department of Market Regulation