

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2009019551901**

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. ("Citigroup" or the "Respondent") 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 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 has been a FINRA registered firm since 1936 and a registered broker-dealer with the Securities and Exchange Commission since 1960. Citigroup, a New York corporation which maintains its principal place of business in New York, New York, has over 8,900 registered representatives and approximately 1,187 branch offices throughout the United States.

OVERVIEW

During the period January 2007 through June 2009 (the "relevant period"), 123 registered representatives at Citigroup, including 45 individuals who were primarily employed by Citigroup's affiliate, Citibank, N.A., and were not directly engaged in the sale or recommendation of securities, resigned or were terminated following allegations of theft, fraud, violations of investment-related rules, or failure to supervise for investment-related rules. In its required regulatory filings for approximately 98 percent

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of those terminations, Citigroup inaccurately answered "no" to Question 7F on the Form U5 which inquired about such allegations. Specifically, Citigroup failed to accurately complete the Termination Disclosure question in Section 7F, as required by NASD Conduct Rule 2110, FINRA Rule 2010, and Membership and Registration IM-1000-1. This failure hindered the investing public's ability to access pertinent background information for certain registered representatives through FINRA's public disclosure system, BrokerCheck.

Also, during the relevant period, Citigroup failed to establish and maintain a supervisory system and written procedures that were reasonably designed to achieve compliance with its obligation to complete and submit accurate Form U5 filings, as required by NASD Conduct Rules 3010, 2110, and FINRA Rule 2010.

FACTS AND VIOLATIVE CONDUCT

CITIGROUP SUBMITTED INACCURATE FORM U5 FILINGS

Citigroup's Form U5 Disclosure Obligation

Article V, Section 3(a) of FINRA's By-Laws requires all member firms to notify FINRA when a registered representative's association with the firm is terminated by filing a Form U5.¹ Pursuant to NASD Membership and Registration IM-1000-1, member firms are required to submit accurate Form U5 filings.²

Citigroup Completed and Submitted Inaccurate Form U5 Filings

During the relevant period, for 120 of the 123 registered representatives at Citigroup who were terminated or voluntarily resigned following allegations of theft or other violative conduct, Citigroup submitted an inaccurate Form U5 filing. In other words, during the relevant period, 98 percent of the firm's filings were inaccurate with respect to such terminations. In each instance, Citigroup was required to respond "yes" or "no" to the following subparts of Question 7F:

Did the individual voluntarily *resign* from your firm, or was the individual discharged or permitted to *resign* from your firm, after allegations were made that accused the individual of:

¹ The same provision of the NASD By-Laws was applicable prior to July 30, 2007.

² Membership and Registration IM-1000-1 provides:

The filing with the Association of information with respect to membership or registration as a Registered Representative which is incomplete or inaccurate so as to be misleading, or which could in any way tend to mislead, or the failure to correct such filing after notice thereof, may be deemed to be conduct inconsistent with just and equitable principles of trade and when discovered may be sufficient cause for appropriate disciplinary action.

1. violating *investment-related* statutes, regulations, rules or industry standards of conduct?
2. fraud or the wrongful taking of property?
3. failure to supervise in connection with *investment-related* statutes, regulations, rules or industry standards of conduct? (emphasis in original.)

Citigroup inaccurately answered "no" on the Form U5 for each of the 120 terminated registered representatives. If Citigroup had correctly answered "yes" to this question, Citigroup would have been further required to complete a separate Termination Disclosure Reporting Page ("DRP"), providing information regarding the registered representative's termination, as well as an explanation regarding the nature of the allegations of improper or wrongful conduct. Citigroup failed to do this.

FINRA makes the information provided on the DRP, as well as other parts of the Form U5, available to the investing public through its public disclosure system, BrokerCheck. BrokerCheck is an online tool through which the investing public can check the professional and disciplinary backgrounds of current and former FINRA regulated firms and representatives. Citigroup's failure to complete a DRP deprived the investing public of access to information regarding the terminations of certain registered representatives.³

Although Citigroup disclosed in Section 3 of the Form U5 an explanation of the underlying conduct that resulted in these representatives being terminated following allegations of theft or other violative conduct, Citigroup had an independent obligation to accurately answer Question 7F, as noted above. Moreover, FINRA notified firms that certain information from the Form U5, such as responses to Question 7F, is made publicly available but information from Section 3 is not.

CITIGROUP FAILED TO ESTABLISH AND MAINTAIN AN ADEQUATE SUPERVISORY SYSTEM AND WRITTEN PROCEDURES

As early as 2002, regulatory notices indicated that information obtained from a FINRA registered firm's responses to certain questions in Section 7 of the Form U5 would be disclosed to the public, whereas information from Section 3 of the Form U5 would not.⁴ The following year, in regulatory releases issued by the SEC and FINRA in 2003, it was announced that Question 7F and the corresponding DRP were added to the Form U5.⁵

³ Prior to March 19, 2007, information provided on the DRP regarding a terminated registered representative was made available to the public once that representative registered with another FINRA regulated firm. After that date, the information was made available to the public regardless of whether the representative registered with another FINRA regulated firm. See Notice to Members ("NtM") 07-10.

⁴ NtM 02-74 at p. 802 ("NASD also does not release the date and reason for termination as reported on Form U-5."). Information provided in response to disclosure questions on the Uniform Registration Forms (e.g., Section 7 on the Form U5) is disclosed to the public via the "Public Disclosure Program" (now known as BrokerCheck). See *Id.* at p. 801 & n.10.

⁵ See SEC Release No. 34-48161 (July 10, 2003); NtM 03-42 (July 2003).

This addition was made to clarify for both FINRA and terminated registered representatives, the specific basis for and circumstances surrounding the representatives' terminations.⁶ Question 7F and the corresponding DRP were designed to elicit the same information as Question 14J on the Form U4 – information which was made available to the public.⁷ Additional regulatory notices issued in 2007 made clear that certain information from the Form U5, including information obtained in response to Question 7F, would be made available to the public via BrokerCheck, but that information disclosed in Section 3 would not be disclosed.⁸

Notwithstanding this notice, Citigroup submitted inaccurate responses to Question 7F and further failed to implement appropriate procedures to ensure that it provided accurate responses to Question 7F. Citigroup's failure to implement a supervisory system and written procedures that were reasonably designed to achieve compliance with its obligation to complete and submit accurate Form U5 filings to FINRA violated its obligation to establish and maintain an adequate supervisory system.

Based upon the foregoing, Citigroup violated NASD Conduct Rule 2110, FINRA Rule 2010, and NASD Membership and Registration IM-1000-1 for submitting inaccurate Form U5 filings. Citigroup also violated NASD Conduct Rules 3010, 2110, and FINRA Rule 2010 for failing to establish and maintain an adequate supervisory system and written procedures.

OTHER FACTORS

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

1. A censure; and
2. A fine in the amount of \$150,000, which shall be paid within 10 days of notice of acceptance of this AWC.

Citigroup agrees to pay the monetary sanctions upon notice that this AWC has been accepted and that such payments are due and payable. Citigroup has submitted an Election of Payment form showing the method by which the Firm proposes to pay the fine imposed.

⁶ SEC Release No. 34-48161 (July 10, 2003); *see also* SEC Release No. 34-47936 (May 28, 2003).

⁷ SEC Release No. 34-48161 (July 10, 2003); NtM 03-42 (July 2003). *See also* SEC Release 34-42402 (Feb. 7, 2000) (information reported on the Form U5 is disclosed to the public if it is information that should be reported on the Form U4); NASD Public Disclosure Program: An Information Service for Investors (eff. Feb. 2002 – March 2007) (information provided in response to Question 14J on the Form U4 is disclosed to the public).

⁸ SEC Release No. 34-55127 (Jan. 18, 2007) (the release specifically notes that information provided in response to Question 7F would be disclosed via BrokerCheck); NtM 07-10 (March 2007); *see also* NASD IM-8310-2 (March 2007).

Citigroup 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.

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 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

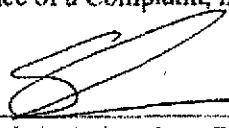
Citigroup understands that:

- 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 the Respondent's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against it;
 - 2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about the 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. The 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. The 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.

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 the 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 Citigroup to submit it.

Date

6/16/10


Citigroup Global Markets Inc., Respondent

By: Sofie Logue, Counsel and Director
[Name and title]

Reviewed by:



Robert A. Buhlman
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Bingham McCutchen LLP
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Accepted by FINRA:

6/24/10
Date

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



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