

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2010023574901**

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

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

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondent Citigroup Global Markets Inc. ("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 CGMI 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, headquartered in New York City, has been a FINRA member since 1936. CGMI provides investment banking, research, sales and trading services to corporate, institutional, government, and retail clients. It has approximately 917 branch offices and employs approximately 9,136 registered individuals.

RELEVANT DISCIPLINARY HISTORY

In 2006, an NYSE Hearing Board found that CGMI violated NYSE Rule 342 by failing to reasonably supervise its precious metals trading desk. Specifically, CGMI failed to reasonably supervise a broker on its precious metals trading desk by failing to establish a separate system of follow-up and review over the desk's calculation of closing prices used to mark-to-market positions in precious metals. In addition, the Firm's books and records did not accurately reflect its assets and

liabilities and unrealized profits and losses with regard to its precious metal positions. As a result of these findings, Respondent consented to a censure and a \$500,000 fine.

OVERVIEW

Between April 1, 2009, and March 30, 2010 (the "Relevant Period"), CGMI incurred trading losses of \$464 million when it purchased distressed assets during certain "blind auctions" held in connection with the liquidation of collateralized debt obligations ("CDOs"). The purchases benefited CGMI's banking affiliate, Citibank, N.A. ("CBNA"), which was the holder of the Super Senior notes of the CDOs. The losses primarily occurred because, pursuant to a strategy to minimize losses to the parent entity Citigroup Inc. ("Citigroup"), a trading desk placed par bids on behalf of CGMI on assets where the fair market value could not be estimated. Certain of the bids were later determined to be above fair market value, which was contrary to company policy governing intercompany transactions and also contrary to specific conditions placed on the trading desk. CGMI lacked an adequate system to monitor, review and follow up on the auctions, thereby preventing it from discovering and addressing the par bids or the associated losses for nine months.

CGMI also incorrectly recorded \$464 million in trading losses from bidding on the underlying assets of CDOs in which CBNA held the Super Senior notes, inaccurately recorded a tax write-off of \$184 million, and filed inaccurate FOCUS reports. CGMI corrected the accounting treatment, including by reversing the tax write-off, and self-reported the foregoing issues to FINRA by May 2010.

By reason of the foregoing, CGMI violated NASD Rules 3010 and 3110, FINRA Rule 2010 and Exchange Act Rules 17a-3 and 17a-5.

FACTS AND VIOLATIVE CONDUCT

A. CBNA's Liquidation of Collateralized Debt Obligations

As part of the business strategy of Citigroup to reduce exposure to subprime assets, Citigroup decided to liquidate certain CDOs by selling the assets held within the CDOs at auction. The task of reducing subprime exposure while maximizing value fell to a trading desk known as the Long Term Asset Group ("LTAG") within Citigroup. The principal on the LTAG desk was a CGMI representative.

Citigroup's Capital Markets Approval Committee ("CMAC"), composed of representatives from various control functions such as compliance, accounting and market risk, evaluated and approved the liquidation of each CDO. Liquidations took place through a blind auction process, conducted by an independent third-party liquidation agent pursuant to the CDO's governing documents. Competing bids were not disclosed to the participating parties, and all participants were sophisticated parties deemed to be qualified participants by the liquidation agent.

LTAG placed reserve bids on all assets available in the blind auctions in which CBNA was the Super Senior noteholder. The reserve bids had a twofold purpose: (1) the bids set a minimum price for the assets at the lower end of the fair market value range; and (2) they ensured a successful auction because the CDO could not be dissolved until all assets were distributed. Bids were submitted without pre-approval by CMAC.

Mark-to-market accounting dictates that all assets won by a reserve bidder must be marked to market from the day of the purchase. Citigroup marked any asset won to the value of the next highest bid in an auction (known as the "cover" price) for that asset. Thus, on the day of the purchase, a mark-to-market loss was incurred on every asset won in the auction by marking the purchased asset down from the purchase price to the cover price. The loss associated with this practice is referred to as the "day-one" loss.

LTAG could have bid on behalf of either CBNA or CGMI for the CDO assets. Before the Relevant Period, bids were made on behalf of CBNA and, if the bid was successful, CBNA ended up retaining the asset and booking a day-one loss in connection with the successful bid. During the Relevant Period, bids were made on behalf of CGMI. The decision to place bids on behalf of CGMI was based on the understanding that CGMI had a more technologically sophisticated trading platform, which could handle a higher volume of trades and facilitate a post-liquidation sale of the asset, thereby maximizing the value that Citigroup could obtain for the assets. When CGMI placed the highest bid, CGMI purchased the asset and incurred the associated day-one loss. Because CBNA, as the Super Senior noteholder, was the beneficiary of CGMI's reserve bids, the transaction and associated mark-to-market accounting had the effect of shifting the day-one loss from CBNA to CGMI.

As part of this liquidation process, LTAG placed nearly 2,000 reserve bids and retained approximately 25% of the assets during the Relevant Period.

B. CGMI's Supervision of Asset Purchases

CMAC conditioned approval of each liquidation on the understanding that all bids be placed at fair market value. The fair market value requirement was codified in the written supervisory procedures of Citigroup, applicable to CGMI, which required all Citigroup affiliates to conduct inter-affiliate transactions on market terms. Where such terms were not readily available, transactions were to be conducted on terms that in good faith would be offered to, or would apply to, non-affiliates. Exemption from the market terms requirement required written approval from the legal department.

A bid placed at fair market value, even at the low end of the range, would allow CGMI to resell the asset at a profit (or a small loss, if fair market value were overestimated), leaving its balance sheet largely unaffected, notwithstanding the day-one loss incurred from purchasing the asset. Notwithstanding Citigroup's written policies and procedures, CGMI did not adequately supervise LTAG to ensure it bid fair market value on all assets.

In fact, LTAG on occasion did not bid fair market value. This occurred whenever LTAG decided that fair market value could not be assessed in time for the auction, in which case it would bid par. This strategy prevented an asset from being sold at auction for a price below

its market value and permitted LTAG to take ownership of an underlying asset through CGMI and then market and resell the asset at a later date. During the Relevant Period, it submitted par bids in 9 out of 13 auctions for 24 assets over a nine month period, beginning in June 2009 and ending in March 2010. The 24 par bids had the effect of shifting significant losses from CBNA to CGMI when the purchased assets were marked to the cover price, which was often significantly lower than par.

LTAG did not seek permission from CMAC, or notify any of the groups represented on CMAC of the decision to bid par, and the CMAC representatives remained unaware of the losses caused by such par bids until March 2010. CGMI failed to address certain red flags that should have alerted it to the day-one losses caused by bidding par on the CDO assets. Shortly after each auction, LTAG circulated an Excel spreadsheet summarizing auction results for certain CMAC members. The spreadsheet listed both par value (in an Excel column called "Current Face") and the reserve bid expressed as a percentage of face value (usually under "LTAG Bid" or "SPG bid"). In certain cases, the bid was listed as "100%" of par value. No one at CGMI or Citigroup was specifically tasked with reviewing whether bids were placed at fair market value.

The par bids and associated day-one losses should have been evident from a review of LTAG's liquidation summaries and other available information, such as profit and loss statements: losses increased whenever par bids were placed. In June 2009, LTAG posted a \$62 million loss from the first auction that included par bids. In August 2009, LTAG posted a \$156 million loss from another of the auctions—a loss nearly three times larger than the next highest loss experienced to that date. As early as August of 2009, cumulative losses from the auctions had reached \$269 million.

In March 2010, CGMI investigated and identified the par bids. After further investigation, CGMI recorded a one-time capital contribution of \$464 million to Citigroup and reversed a \$184 million tax loss benefit resulting from its prior accounting treatment. CGMI subsequently self-reported the foregoing issues to FINRA.

VIOLATIONS

Inadequate Supervisory Systems and Procedures: NASD Rule 3010 and FINRA Rule 2010

NASD Rule 3010 requires each member to "establish and maintain a system to supervise the activities of each registered representative . . . that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable NASD Rules." A violation of NASD Rule 3010 constitutes a violation of FINRA Rule 2010.

As a component of a reasonably designed supervisory system, the member firm must implement policies and procedures to monitor and manage the risk of proprietary trades. Although the precise nature of the procedures depends on the facts and circumstances of each case, reasonable procedures include: (i) monitoring the pricing of trades where the trader has price discretion, and (ii) implementing a system of follow-up and review to confirm the accuracy and validity of those marks.

CGMI's supervision of LTAG was inadequate for three reasons. First, CGMI did not have an adequate system in place to address the potential conflict between the competing economic interests that arose when LTAG bid for CGMI on assets in which CBNA had a beneficial interest. Second, there was no system, procedure, person or entity assigned the responsibility of reviewing whether CGMI's bids were submitted at fair market value, as required. Third, CGMI failed to adequately respond to red flags suggesting that LTAG was not bidding fair market value on certain assets in the auction, such as the large immediate losses at certain auctions, the large aggregate losses over a nine month period, and the fact that bids at par value were being placed on distressed assets.

**Inaccurate Books and Records: Violations of
NASD Rule 3110, FINRA Rule 2010 and Exchange Act Rules 17a-3 and 17a-5**

NASD Rule 3110 requires each member to make and preserve books, accounts, records, memoranda, and correspondence in conformity with, among other things, SEC Exchange Act Rules 17a-3 and 17a-5. Rule 17a-3 of the Securities Exchange Act of 1934 requires every broker or dealer registered under Section 15 of the Act to make and keep current books and records related to its business, including, but not limited to, ledgers or other records reflecting all assets and liabilities, income and expense and capital accounts. Rule 17a-5 requires every broker to submit monthly or quarterly reports known as the Financial and Operational Combined Uniform Single, or FOCUS reports.

CGMI's records, including FOCUS reports, inaccurately reflected \$464 million in trading losses and \$184 million in tax benefits during the Relevant Period, in violation of NASD Rule 3110, FINRA Rule 2010 and Exchange Act Rules 17a-3 and 17a-5. As noted above, the day-one trading losses should have been accounted for as capital contributions from CGMI to CBNA.

OTHER FACTORS

In determining the appropriate sanctions in this matter, FINRA has taken into account the fact that CGMI self-reported the issues herein and took corrective action.

B. CGMI consents to the imposition of the following sanctions:

1. A censure; and
2. A fine of \$575,000.

CGMI 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

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

- A. To have a Complaint issued specifying the allegations against it;
- 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, CGMI 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.

CGMI 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

CGMI 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 CGMI; and

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 it;
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.

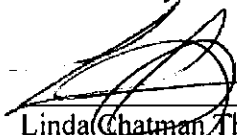
The undersigned, on behalf of the Firm, certifies that a person duly authorized to act on its behalf has read and understand all of the provisions of this AWC and has been given a full opportunity to ask questions about it, has agreed to its provisions voluntarily; and that no offer, threat, inducement, 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 the Firm to submit it.

Citigroup Global Markets Inc., Respondent

12/19/2012
Date

Citigroup Global Markets Inc.
By: Elaine H. Mandelbaum
Title: Managing Director

Reviewed by:

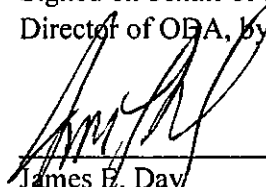


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Counsel for Respondent

Accepted by FINRA:

12/21/12
Date

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



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