

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2014039653701**

TO: Department of Enforcement
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., Inc. ("Respondent" 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

Respondent became a member of FINRA on October 16, 1936, and its registration remains in effect.

RELEVANT DISCIPLINARY HISTORY

On August 7, 2013, the Firm entered into an AWC with FINRA (Matter No. 20080126066) that addressed three Trading and Financial Compliance Examinations ("TFCE") examinations from 2009, 2010 and 2011, that each included violations of Securities and Exchange Act of 1934 ("SEA") Rule 10b-10 among a number of other violations. The total fine was \$155,000, of which \$13,000 was attributed to the SEA Rule 10b-10 violations. These violations included the Firm's inaccurate written disclosure of transaction capacity, average price, and compensation information to customers.

SUMMARY

This matter is based upon a review conducted by the Cause Trading Examinations Team of FINRA's Department of Market Regulation ("Staff"). Based upon the Staff's investigation, and also based upon information provided by the Firm, it was determined that from June 2006 through at least September 2017 (the "Review Period"), the Firm failed to have adequate supervisory procedures reasonably designed to ensure compliance with federal securities laws and NASD and FINRA rules regarding the issuance of accurate customer trade confirmations. As a result, the Firm issued approximately 12.5 million customer trade confirmations that contained inaccurate information in violation of NASD Rule 3010 (for conduct prior to 12/1/14), FINRA Rule 3110 (for conduct on or after 12/1/14), NASD Rule 2110 (for conduct prior to 12/15/08) and FINRA Rule 2010 (for conduct on and after 12/15/08); SEA Rules 10b-10(a)(1) and 10b-10(a)(2); and NASD Rule 2230 (for conduct prior to 6/17/11) and FINRA Rule 2232(a) (for conduct on and after 6/17/11).

OVERVIEW

Applicable Rules

During the Review Period, SEA Rule 10b-10 required broker-dealers to disclose specified information in writing to customers at or before completion of a security transaction. SEA Rule 10b-10(a)(1) and related guidance required, among other things, written notification disclosing whether the price of a transaction was the average price of multiple transactions, or the result of a single execution. SEA Rule 10b-10(a)(2) required written notification disclosing whether the broker or dealer was acting as agent for such customer, as agent for some other person, as agent for both such customer and some other person, or as principal for its own account (*i.e.*, the capacity for the transaction).¹

Similarly, NASD Rule 2230 (effective until June 17, 2011) and FINRA Rule 2232(a) (effective as of June 17, 2011) required members at or before the completion of any transaction in any security effected for or with an account of a customer, to give or send to such customer written notification ("confirmation") in conformity with the requirements of SEA Rule 10b-10.

During the Review Period, NASD Rule 3010 (effective until December 1, 2014) and FINRA Rule 3110 (effective as of December 1, 2014) required member firms to establish, maintain, and enforce adequate supervisory procedures, including written supervisory procedures ("WSPs") and a system of follow-up and review, reasonably designed to ensure compliance with SEA and FINRA rules concerning the issuance of

¹ Since its adoption, the customer confirmation requirement under SEA Rule 10b-10 has served basic investor protection functions by conveying information allowing investors to verify the terms of their transactions; alerting investors to potential conflicts of interest with their broker-dealers; acting as a safeguard against fraud; and providing investors the means to evaluate the costs of their transactions and the quality of their broker-dealer's execution.

accurate customer trade confirmations.

NASD Rule 2110 (effective until December 15, 2008), and FINRA Rule 2010 (effective as of December 15, 2008), requires members in the conduct of their business to observe high standards of commercial honor and just and equitable principles of trade.

Respondent's Supervisory System was not Reasonably Designed to Achieve Compliance with Customer Trade Confirmation Accuracy Requirements

During the Review Period, Respondent failed to establish and maintain a reasonable system to review for the accuracy of the content in the Firm's customer trade confirmations. Moreover, the Firm's WSPs were not reasonably designed to achieve compliance with applicable federal securities laws and regulations, and with applicable NASD and FINRA rules, concerning the issuance of accurate trade confirmations.

Respondent's supervisory deficiencies, and failure to implement an adequate supervisory framework around its customer trade confirmation accuracy obligations, caused the Firm to fail to detect a number of systemic deficiencies that occurred during the Review Period, which resulted in the Firm issuing millions of inaccurate trade confirmations to its institutional customers.

Given the length of time over which the Firm provided inaccurate information to its institutional customers, the Firm's supervisory misconduct potentially prevented these customers from being able to accurately verify the capacity in which the Firm acted, or whether the Firm executed a single transaction or an average-priced transaction, for millions of transactions.

FACTS AND VIOLATIVE CONDUCT

Inaccurate Confirmations

1. Due to supervisory deficiencies that occurred during the more than 11-year Review Period, the Firm issued approximately 12.5 million customer trade confirmations to its institutional customers with inaccurate information, approximately 9.3 million of which contained errors regarding the Firm's capacity in executing trades, and approximately 3.2 million of which incorrectly identified single execution trades as average price trades. Specifically, during the Relevant Period, the Firm's customer trade confirmations were inaccurate as follows:
 - a. During the period of June 2006 through November 2014, the Firm's mainframe system, for certain foreign equity trades, on approximately 5,355,000 occasions, generated customer trade confirmations that inaccurately disclosed that the Firm acted in principal capacity instead of as agent for a customer. This issue was corrected in August of 2015. The conduct described in this paragraph constitutes separate and distinct violations of SEA Rules 10b-10(a)(2), and NASD Rule 2230 (prior to 6/17/11) and FINRA Rule 2232(a) (on and after 6/17/11), and NASD

Rule 2110 (for conduct prior to 12/15/08) and FINRA Rule 2010 (for conduct on and after 12/15/08).

- b. During the period of June 2006 through September 2015, on approximately 1,375,920 occasions, due to a coding issue, the Firm's Trade Confirmation system generated customer trade confirmations that inaccurately disclosed that the Firm acted as agent, agent for another and principal in instances in which the Firm acted in more than one but less than all three capacities. This issue was corrected in October of 2015. The conduct described in this paragraph constitutes separate and distinct violations of SEA Rules 10b-10(a)(2), and NASD Rule 2230 (prior to 6/17/11) and FINRA Rule 2232(a) (on and after 6/17/11), and NASD Rule 2110 (for conduct prior to 12/15/08) and FINRA Rule 2010 (for conduct on and after 12/15/08).
- c. During the period of June 2006 through December 2015, the Firm's post execution processing systems that routed orders to external destinations for execution, incorrectly interpreted the execution capacity information for the counterparty of trades. As a result, on approximately 125,580 occasions, the Firm's Trade Confirmation system generated customer trade confirmations that inaccurately disclosed that the Firm acted in a principal capacity instead of as agent for a customer. This issue was corrected in September of 2016. The conduct described in this paragraph constitutes separate and distinct violations of SEA Rules 10b-10(a)(2), and NASD Rule 2230 (prior to 6/17/11) and FINRA Rule 2232(a) (on and after 6/17/11), and NASD Rule 2110 (for conduct prior to 12/15/08) and FINRA Rule 2010 (for conduct on and after 12/15/08).
- d. During the period of January 2009 through November 2015, the Firm's order management system used by its Program Trading Sales desk sent aggregated executions to the Firm's booking and confirmation systems with incorrect capacity code information, and as a result, on approximately 48,804 occasions, the Firm generated customer confirmations that inaccurately disclosed that the Firm acted in a principal capacity instead of as agent for a customer. This issue was corrected in September of 2017. The conduct described in this paragraph constitutes separate and distinct violations of SEA Rules 10b-10(a)(2), and NASD Rule 2230 (prior to 6/17/11) and FINRA Rule 2232(a) (on and after 6/17/11), and NASD Rule 2110 (for conduct prior to 12/15/08) and FINRA Rule 2010 (for conduct on and after 12/15/08).
- e. During the period May 2013 through March 2016, the Firm's PTE trading system incorrectly identified transactions executed by an affiliate as principal transactions of the Firm, and as a result, on approximately 2,425,500 occasions, the Firm

generated customer confirmations that inaccurately disclosed that the Firm acted in a principal capacity instead of as agent for a customer. This issue was corrected in April of 2016. The conduct described in this paragraph constitutes separate and distinct violations of SEA Rule 10b-10(a)(2) and FINRA Rule 2232(a), and NASD Rule 2110 (for conduct prior to 12/15/08) and FINRA Rule 2010 (for conduct on and after 12/15/08).

- f. During the period of September 2013 through September 2016, a Firm middle office system which passed information from the Firm's trading systems to a Firm confirmation system contained incorrect logic, and as a result, on approximately 3,180,170 occasions, the Firm generated customer trade confirmations that incorrectly disclosed the existence of an average price for orders executed at a single price. This issue was corrected in September of 2017. The conduct described in this paragraph constitutes separate and distinct violations of SEA Rule 10b-10(a)(1) and FINRA Rule 2232(a), and NASD Rule 2110 (for conduct prior to 12/15/08) and FINRA Rule 2010 (for conduct on and after 12/15/08).

Failure to Supervise

2. During the Review Period, the Firm failed to establish, maintain, and enforce adequate supervisory procedures, including WSPs, and a system of follow-up and review, reasonably designed to ensure compliance with SEA and FINRA rules concerning the issuance of accurate customer trade confirmations. These deficiencies resulted in approximately 12.5 million inaccurate trade confirmations being issued by the Firm to its customers.
3. Specifically, during the Review Period, while the Firm had various WSPs in place pertaining to confirmations and referencing SEA Rule 10b-10, these procedures failed to describe an adequate and reasonable review to ensure the accuracy of the content in the Firm's customer trade confirmations. Instead, the procedures discussed only whether the Firm physically or electronically delivered trade confirmations to customers.
4. In addition, while the Firm implemented additional relevant reviews during the Review Period, these reviews continued to evidence a failure to conduct adequate and reasonable supervisory reviews of the contents of its institutional customers' trade confirmations. For example, the Firm implemented a monthly sampling review for the accuracy of trade confirmations in September 2015. However, that review was deficient in that the Firm failed to establish and maintain WSPs that set forth a method of supervisory oversight to ensure that the review was properly conducted. Specifically, the Firm's WSPs regarding the review failed to include the following: (1) the identification of the individual(s) responsible for supervising the review; (2) the supervisory steps and reviews to be taken by the designated supervisor(s); (3) the frequency of such reviews; and (4) how the supervisory reviews should be documented. Moreover, the systemic supervisory deficiencies that resulted in the violations of SEA Rule 10b-10(a)(2) were corrected

between August 2015 through September 2017, and one of the systemic supervisory deficiencies that resulted in the violations of SEA Rule 10b-10(a)(1) was corrected in September of 2017.

5. Additionally, in May 2016, the Firm completed a portion of an "end-to-end" project to track capacity "values" on customer trade confirmations. The Firm completed the "end-to-end" project in August of 2017.
 6. The conduct set forth above in paragraphs 2 through 5 constitutes a violation of NASD Rule 3010 (for conduct prior to 12/1/14), FINRA Rule 3110 (for conduct on or after 12/1/14), NASD Rule 2110 (for conduct prior to 12/15/08) and FINRA Rule 2010 (for conduct on and after 12/15/08).
- B. Respondent also consents to the imposition of the following sanctions:
1. A censure,
 2. A fine of \$550,000 (consisting of a fine of \$350,000 for the violations of NASD Rules 2110 and 3010 and FINRA Rules 2010 and 3110, and a fine of \$200,000 for the violations of SEA Rules 10b-10(a)(1) and (a)(2), NASD Rule 2230 and FINRA Rule 2232(a), and NASD Rule 2110 and FINRA Rule 2010, and
 3. An undertaking requiring the Firm to address the deficient supervisory system and WSPs relating to the accuracy of customer trade confirmations described in this AWC and to ensure that it has implemented controls and procedures that are reasonably designed to achieve compliance with the rules and regulations cited herein.
 - a. Within 90 days of the date of the issuance of the Notice of Acceptance of this AWC, the Firm shall submit to the COMPLIANCE ASSISTANT, DEPARTMENT OF ENFORCEMENT, 9509 KEY WEST AVENUE, ROCKVILLE, MD 20850, a written representation from a senior management Firm executive, to MarketRegulationComp@finra.org that provides the following information:
 - i. A reference to this matter;
 - ii. A representation that the Firm (a) has revised its supervisory system and written supervisory procedures as indicated above, and (b) for those deficiencies requiring technology and/or system changes, has implemented such changes; and
 - iii. The date(s) this was completed.

- b. The Department of Enforcement may, upon a showing of good cause and in its sole discretion, extend the time for compliance with these provisions.

Respondent 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.

Respondent 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

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 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, Respondent 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.

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 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 accordance with FINRA Rule 8313;
 - 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 Respondent, 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 Respondent to submit it.

Date: May 18, 2018

Respondent Citigroup Global Markets, Inc.

By: 

Name: Joshua E. Lene

Title: Managing Director

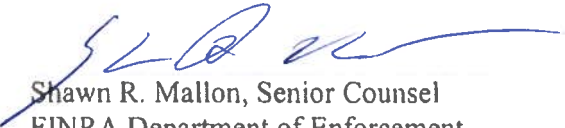
Reviewed by:

W. Hardy Calcott
Sidley Austin LLP
555 California Street, Suite 2000
San Francisco, CA 94104

Accepted by FINRA:

5.21.18
Date

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


Shawn R. Mallon, Senior Counsel
FINRA Department of Enforcement

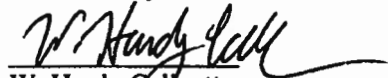
Respondent Citigroup Global Markets, Inc.

By: _____

Name: _____

Title: _____

Reviewed by:



W. Hardy Calcott
Sidley Austin LLP
555 California Street, Suite 2000
San Francisco, CA 94104

Accepted by FINRA:

5.21.18

Date

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



Shawn R. Mallon, Senior Counsel
FINRA Department of Enforcement