

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2015046601401**

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

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

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Citigroup Global Markets 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

The firm has been a FINRA member since October 1936. It provides investment banking, asset management, brokerage, securities trading, advisory and other financial services to customers, and also engages in proprietary trading for customer flow and hedging. The firm currently employs approximately 7,328 registered representatives among its headquarters in New York, NY and its 729 branch offices.

RELEVANT DISCIPLINARY HISTORY

The firm does not have relevant disciplinary history with the Securities and Exchange Commission, any state regulators, FINRA, or any other self-regulatory organization.

OVERVIEW

In the period from October 1, 2014 through August 4, 2017, the firm failed to transmit at least 1,714,788 Reportable Order Events ("ROEs")¹ to the Order Audit Trail System

¹ Reportable Order Events are records such as New Order, Route, Execution, or Cancel Reports. Each ROE represents an event in the life cycle of an order (e.g., order receipt, order cancellation, or order execution) that firms are required to report to OATS.

(“OATS”) and improperly submitted 496,554 Route Reports² to OATS that the firm was not required to report. Additionally, in the period from June 11, 2012 through April 15, 2016, the firm submitted 818,949 New Order Reports³ to OATS that did not require submission. This conduct violated FINRA Rules 7450 and 2010.

From April 7, 2014 through October 31, 2016, the firm transmitted at least 241,201,167 ROEs that contained inaccurate, incomplete or improperly formatted data to OATS. This conduct violated FINRA Rules 7450 and 2010.

In the period from November 2014 through October 31, 2016, the firm submitted at least several thousand corresponding trade reports to FINRA’s Transaction Reporting Facility (“TRF”) and Over-the-Counter (“OTC”) Reporting Facility (“ORF”) that failed to include execution timestamps in milliseconds when the firm’s system captured time in milliseconds. This conduct violated FINRA Rules 6282 and 2010.

In the period from November 7, 2016 through January 9, 2017, the firm transmitted at least 5,172,194 ROEs in Tick Size Pilot (“TSP”) securities⁴ to OATS that contained inaccurate, incomplete, or improperly formatted data. This conduct violated FINRA Rules 6191 and 2010.

In the period from June 11, 2012 through August 4, 2017, the firm failed to establish and maintain a supervisory system reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules relating to OATS and trade reporting. This conduct violated NASD Rule 3010 (for conduct on or before November 30, 2014), FINRA Rule 3110 (for conduct on and after December 1, 2014) and FINRA Rule 2010.

FACTS AND VIOLATIVE CONDUCT

Inaccurate OATS Reporting

1. FINRA Rule 7450 requires, in relevant part, that each Reporting Member⁵ transmit to OATS a report containing each applicable item of order information identified in FINRA Rule 7440 whenever an order is originated, received, transmitted to another department within the member or to another member, modified, canceled, or executed. Reporting Members must record and report each event in the life cycle of an order to OATS.
2. FINRA Rule 7440(a)(2), in relevant part, requires that “[e]ach required record of the time of an event shall be ... expressed in hours, minutes, seconds, and milliseconds if the member’s system captures time in milliseconds”.

² A Route Report is an ROE submitted to OATS when an order is sent from a member firm to another member firm, Exchange, or non-member for handling or execution.

³ A New Order Report is an ROE submitted to OATS when an order is originated or received by a member firm.

⁴ The TSP securities are a specified subset of small-capitalization, exchange-listed stocks of companies.

⁵ A Reporting Member is a member that receives or originates an order and has an obligation to record and report the order to OATS.

3. FINRA Rule 2010 states that “[a] member, in the conduct of its business, shall observe high standards of commercial honor and just and equitable principles of trade”. A violation of a FINRA rule constitutes a violation of FINRA Rule 2010.
4. Because FINRA uses OATS data as an integral part of its automated market surveillance program to detect manipulative activity and other potential violations of FINRA rules and the federal securities laws, a failure to transmit ROEs to OATS, or the transmission of inaccurate, incomplete, or untimely ROEs to OATS, can impede FINRA’s ability to detect potentially violative conduct or create false positive alerts of potentially violative conduct.
5. During the period from October 1, 2014 through August 4, 2017, the firm failed to transmit at least 1,714,788 ROEs to OATS. Specifically, the firm failed to submit Execution Reports to OATS despite being identified as the Reporting Executing Market Participant Identifier (“MPID”) that corresponded with trade reports that the firm had previously submitted to the TRF or ORF. Its failure to submit the Execution Reports resulted from a system issue that initially caused the legs of two distinct orders, each of which should have been separate ROEs reported for the individual origination, routing and execution of the order, to be combined into a single order event. Consequently, the firm failed to submit all of its required ROEs to OATS. The system issue was limited to a specific type of client order on one trading desk. The firm corrected this system issue on August 4, 2017.
6. During the period from October 1, 2014 through August 4, 2017, the firm also improperly submitted at least 496,554 Route Reports to OATS that were not required to be reported. The system issue that resulted in the firm’s suppression of the Execution Reports, referenced in Paragraph I.A.5 above, also caused the firm to submit Route Reports to OATS for riskless principal trades that were not required to be submitted. Because these Route Reports were linked to customer New Order Reports that the firm had also submitted, the OATS audit trail reflected that the customer orders were routed away, even though those orders were actually filled from the firm’s proprietary account. The firm corrected the issue on August 4, 2017.
7. During the period from June 11, 2012 through April 15, 2016, the firm submitted at least 818,949 New Order Reports to OATS that did not require submission. A system issue mistakenly identified the allocation, settlement or clearance of previously executed trades as ROEs, rather than proprietary orders to facilitate customer orders. These are not ROEs, and therefore the firm’s submission of a New Order Report created an inaccurate reflection of the life cycle of those orders in the OATS audit trail. The firm corrected this system issue on April 15, 2016.
8. During the period from April 7, 2014 through October 31, 2016, the firm transmitted at least 241,201,167 ROEs to OATS that contained inaccurate, incomplete or improperly formatted data. Specifically, as of April 7, 2014, FINRA Rule 7450 required firm to submit ROEs to OATS with timestamps in milliseconds if its system captured such times in milliseconds. While the firm’s trade management systems captured order event timestamps in milliseconds, it did not report all of its ROEs to OATS with timestamps in milliseconds. These violations,

which the firm self-reported, resulted from system issues that either erroneously populated or failed to populate the proper data field timestamps in milliseconds. The firm corrected these system issues on October 31, 2016.

9. By virtue of the foregoing, the firm violated FINRA Rules 7450 and 2010.

Inaccurate Trade Reporting

10. FINRA Rule 6282 requires, in relevant part, a Member to transmit trade reports in all Alternate Display Facility (“ADF”) eligible securities to the ADF with timestamps in hours, minutes, seconds and milliseconds, if the Member’s system captures time in milliseconds. The ADF is a display facility operated by FINRA that provides members with a facility for the display of quotations, the reporting of trades, and the comparison of trades. FINRA Rule 6282 required such trade reports to be submitted to the TRF in milliseconds as of November 10, 2014, and those submitted to the ORF in milliseconds as of November 17, 2014.
11. During the period from November 10, 2014 through October 31, 2016, the firm submitted at least several thousand corresponding trade reports to the TRF that failed to include execution timestamps in milliseconds when the firm’s system captured time in milliseconds. Additionally, during the period from November 17, 2014 through October 31, 2016, the firm submitted at least several thousand corresponding trade reports to the ORF that failed to include execution timestamps in milliseconds when the firm’s system captured time in milliseconds. The system issue that resulted in the Firm’s failure to report ROEs with timestamps in milliseconds to OATS referenced in Paragraph I.A.8 also caused its failure to submit trade reports to the TRF and ORF with timestamps in milliseconds. The firm corrected this issue on October 31, 2016.
12. By virtue of the foregoing, the firm violated FINRA Rule 6282 and 2010.

Inaccurate Reporting in TSP Securities

13. FINRA Rule 6191(b)(2) requires, in relevant part, that a Member that operates a Trading Center⁶ subject to the Regulation National Market Surveillance TSP Program⁷ and for which FINRA is the Designated Examining Authority (“DEA”) shall collect and transmit to FINRA information specified within the Program for TSP securities.
14. During the period from November 7, 2016 through January 9, 2017, the firm transmitted at least 5,172,194 ROEs to OATS that contained inaccurate, incomplete, or improperly formatted data. Specifically, the firm failed to include

⁶ Trading Center is defined as “a national securities exchange or national securities association that operates an SRO trading facility, an alternative trading system, an exchange market maker, an OTC market maker, or any other broker or dealer that executes orders internally by trading as principal or crossing orders as agent.” See 17 CFR 242.600(b)(78).

⁷ The TSP Program evaluated whether widening the minimum quoting and trading increment—the “tick size”—for securities of smaller capitalization companies would impact trading, liquidity and market quality of those securities.

TSP data fields in its OATS reports for TSP securities, pursuant to the reporting requirements of the TSP Program. Here, a flawed system code update prevented the required TSP data, such as market quality statistics, market and marketable limit order data and market maker profitability data, from being populated in the firm's OATS reports. The firm corrected this issue on January 9, 2017.

15. By virtue of the foregoing, the firm violated FINRA Rule 6191 and 2010.

Violations of FINRA Rules 3110 and 2010 (Supervision Violations)

16. FINRA Rule 3110(a) states, in relevant part, that “[e]ach member shall establish and maintain a system to supervise the activities of each associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules.”⁸
17. During the period from June 11, 2012 through August 4, 2017, the firm's supervisory system was not reasonably designed to achieve compliance with its reporting obligations as required by FINRA Rule 7450. To determine whether its OATS reporting was accurate, the firm relied solely on daily and monthly reviews of exception data published by FINRA on its OATS Web interface and the OATS Compliance Report Cards.⁹ However, because certain order handling events may not result in an obligation to submit a Route or Execution Report, data provided on FINRA's OATS Web interface and OATS Compliance Report Cards would not have alerted the firm that it had failed to fully comply with its OATS reporting requirements. For example, the firm's erroneous submission of New Order Reports and Route Reports would not be flagged within the statistics provided by FINRA within the Compliance Report Card or the OATS Web interface, nor would the firm be able to identify whether it had submitted an Execution Report for every transaction that required one. The firm, on three occasions (June 2016, February 2017 and June 2017), took ineffective corrective action and it did not test these changes. As a result, the firm's OATS reporting violations continued until August 4, 2017, when it implemented an effective system fix.
18. Additionally, during the period from April 7, 2014 through August 25, 2015, the firm also failed to conduct supervisory reviews designed to detect whether it was submitting trade reports to OATS, the TRF and the ORF with timestamps in milliseconds, as required by FINRA Rules 6282 and 7450. Although FINRA Rules 7440 and 6282 required reporting of millisecond data under certain circumstances as of April 7, 2014 (OATS), November 10, 2014 (TRF) and November 17, 2014 (ORF), the firm did not test its trade management systems to determine whether it was in compliance until August 2015.
19. By virtue of the foregoing, the firm violated NASD Rule 3010(a) (for conduct on or before November 30, 2014), FINRA Rule 3110(a) (for conduct on and after December 1, 2014) and FINRA Rule 2010.

⁸ FINRA Rule 3110 replaced NASD Rule 3010, which was substantively identical, on December 1, 2014.

⁹ FINRA provides member firms access to report cards that cover a variety of topics and rule sets that help firms track their compliance with key equity trading rules, including those relating to OATS reporting.

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

1. A censure;
2. A fine of \$160,000 (consisting of a fine of \$90,000 for the violations of FINRA Rule 7450, 6282 and 2010; a fine of \$10,000 for violations of FINRA Rule 6191; and a fine of \$60,000 for the violations of NASD Rule 3010(a) (for conduct on or before November 30, 2014), FINRA Rule 3110(a) (on and after December 1, 2014) and FINRA Rule 2010).

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 an inability 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

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 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 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. Respondent 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.

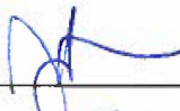
The undersigned, on behalf of the firm, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that it has agreed to the AWC's provisions voluntarily; and that no offer, threat,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

3/9/2020

Date

Respondent

Citigroup Global Markets Inc.

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

Reviewed by:

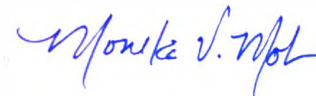
Attorney Name
Counsel for Respondent
Firm Name
Address
City/State/Zip
Phone Number

Accepted by FINRA:

March 19, 2020

Date

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



Monika V. Mohan
Counsel
FINRA Department of Enforcement