

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2018057494001**

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, Respondent Citigroup Global Markets Inc. ("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 in this AWC.

I.

ACCEPTANCE AND CONSENT

- A. Respondent accepts and consents to the following findings by FINRA without admitting or denying them:

BACKGROUND

The firm has been a FINRA member since 1936, and is headquartered in New York, New York. The firm conducts a general securities business and has approximately 8,000 registered representatives operating out of approximately 700 branch offices.

On February 9, 2018, FINRA accepted an AWC in which the firm was censured and fined \$450,000 for failing to include two firm trading accounts in any independent trading unit in violation of Rule 200(f) of Regulation SHO, and for failing to have a reasonably designed supervisory system, including written supervisory procedures, to ensure that all firm accounts conducting firm business were included in an independent trading unit, in violation of NASD Rules 3010 and 2110 and FINRA Rule 2010.¹

OVERVIEW

Since at least January 1, 2014 through the present, the firm violated Rule 200(f) of Regulation SHO and FINRA Rule 2010 by improperly including securities positions of non-broker-dealer affiliates in two of its aggregation units when calculating the net positions of the aggregation units. The firm also failed to establish, maintain, and enforce,

¹ For more information about the firm, including prior regulatory events, visit BrokerCheck® at www.finra.org/brokercheck.

a supervisory system reasonably designed to achieve compliance with Rule 200(f), in violation of FINRA Rules 3110 and 2010.

FACTS AND VIOLATIVE CONDUCT

This matter originated from a Rule 4530 filing made by the firm.

Rule 200(f) of Regulation SHO provides that, “[i]n order to determine its net position, a broker or dealer shall aggregate all of its positions in a security unless it qualifies for independent trading unit aggregation, in which case each independent trading unit shall aggregate all of its positions in a security to determine its net position.” Accordingly, Rule 200(f) allows a broker-dealer to create independent trading units (also known as aggregation units or AGUs) and determine its net position in a security at the AGU level, rather than at the firm level, subject to certain conditions. In adopting Rule 200(f), however, the SEC stated that it “determined not to extend aggregation unit netting to entities that lack self-regulatory oversight and are not subject to Commission examination.”² Therefore, Rule 200(f) does not permit a broker-dealer to include the securities positions of its non-US or non-registered broker-dealer affiliates in calculating the net position of the AGU.

FINRA Rule 2010 requires a member, in the conduct of its business, to observe high standards of commercial honor and just and equitable principles of trade. A violation of Rule 200(f) is also a violation of FINRA Rule 2010.

The Firm Included Securities Positions of Non-Broker Dealer Affiliates in Determining the Net Positions of Two Aggregation Units

Since at least 2014 to present, the firm has included accounts of non-broker-dealer affiliates in two of its AGUs. One of the AGUs included six accounts of two non-broker-dealer affiliates, and the other AGU included approximately 6,700 accounts of 15 non-broker-dealer affiliates.

The firm’s inclusion of the securities positions of non-broker-dealer affiliates in its AGUs affected the calculation of the AGUs’ net position for order marking purposes. Rather than separately calculating the net position of the firm accounts within the AGU and the net position of each affiliate, as required by Regulation SHO, the firm marked all sell orders based upon the net position of all accounts in the AGU. As a result, the firm did not accurately calculate the net positions of, or assess long and short sales by, two of its AGUs.³

Therefore, the firm violated Regulation SHO Rule 200(f) and FINRA Rule 2010.

² *Short Sales*, Exchange Act Release No. 50103, 69 Fed. Reg. 48008, 48011, at n.26 (Aug. 6, 2004).

³ The potential impact was significant. For example, for a nine-month sample period, the firm effected approximately 6.8 million executions on behalf of the firm’s affiliates in both AGUs.

The Firm Failed to Timely Remediate

FINRA Rule 3110 requires a member firm to 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. A violation of FINRA Rule 3110 is also a violation of FINRA Rule 2010.

By late 2015, the firm became aware that the inclusion of non-broker-dealer affiliates was not permissible under Rule 200(f).⁴ Nonetheless, the firm did not begin the process of removing its non-broker dealer affiliates from the AGUs until 2021.⁵ As a result, the firm failed to take reasonable steps to timely act upon known Rule 200(f) deficiencies.

Therefore, the firm violated FINRA Rules 3110 and 2010.

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

- a censure;
- a \$1,500,000 fine; and
- an undertaking that, within 180 days of the date of the notice of acceptance of this AWC, a member of Respondent's senior management who is a registered principal of the firm shall certify in writing that, as of the date of the certification, the firm has remediated the issues identified in this AWC and implemented a supervisory system, including written supervisory procedures, reasonably designed to achieve compliance with Regulation SHO Rule 200(f) regarding the issues identified in this AWC. The certification shall include a narrative description and supporting exhibits sufficient to demonstrate Respondent's remediation and implementation. FINRA staff may request further evidence of Respondent's remediation and implementation, and Respondent agrees to provide such evidence. Respondent shall submit the certification to Chandana Kolavala, Principal Counsel, 300 South Grand Avenue, Suite 1600, Los Angeles, CA 90071, Chandana.Kolavala@finra.org, with a copy to EnforcementNotice@finra.org. Upon written request showing good cause, FINRA staff may extend this deadline.

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 after the execution of this AWC, the monetary sanction imposed in this matter.

⁴ In November 2015, FINRA issued two AWCs regarding such misuse of AGUs.

⁵ As of June 2022, the firm has removed approximately 5,300 accounts of its non-broker-dealer affiliates from its AGUs.

The sanctions imposed in this AWC shall be effective on a date set by FINRA.

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 its acceptance or rejection.

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 Respondent's permanent disciplinary record and may be considered in any future action brought by FINRA or any other regulator against Respondent;
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 its subject matter 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 Respondent's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party. Nothing in this provision affects Respondent's testimonial obligations in any litigation or other legal proceedings.

D. Respondent may attach a corrective action statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondent 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.

The undersigned, on behalf of Respondent, certifies that a person duly authorized to act on Respondent's 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 Respondent 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 in this AWC and the prospect of avoiding the issuance of a complaint, has been made to induce Respondent to submit this AWC.

12/8/22
Date

Mary E. Reiser
Citigroup Global Markets Inc.
Respondent

Print Name: Mary E. Reiser

Title: Managing Director

Reviewed by:



Kevin J. Campion
Counsel for Respondent
Sidley Austin LLP
1501 K Street, N.W.
Washington, DC 20005

Accepted by FINRA:

12/15/2022

Date

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



Chandana Kolavala
Principal Counsel
FINRA
Department of Enforcement
300 South Grand Avenue, Suite 1600
Los Angeles, CA 90071