

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2019064316401**

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. (CGMI) 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 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 has been a FINRA member since 1936. It provides investment banking, asset management, brokerage, securities trading, advisory, and other financial services to customers. Its principal place of business is New York, New York, and it currently has approximately 7,000 registered representatives and 725 branch offices.

Respondent does not have any relevant disciplinary history.

OVERVIEW

During the period from at least June 2017 to February 2019, CGMI failed to establish and maintain a supervisory system, including written supervisory procedures, reasonably designed to monitor its employees' outside brokerage accounts. The firm's supervisory deficiencies led to its failure to timely monitor thousands of employee outside brokerage account statements for compliance with the firm's trading restrictions designed to identify conflicts of interest, misuse of material non-public information (MNPI), and insider trading. By virtue of the foregoing, CGMI violated FINRA Rules 3110(a), 3110(b), 3110(d) and 2010.

FACTS AND VIOLATIVE CONDUCT

This matter originated from FINRA's 2019 cycle exam of CGMI.

FINRA Rule 3110(a) requires members 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."

FINRA Rule 3110(b)(1) provides that "each member shall establish, maintain, and enforce written procedures to supervise the types of business in which it engages and the activities of its associated persons that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules."

FINRA Rule 3110(d)(1) requires that a firm's supervisory procedures include "a process for the review of securities transactions" effected for certain types of accounts—including employees' outside brokerage accounts—that is reasonably designed to identify trades that may violate the provisions of the Exchange Act, the rules thereunder, or FINRA rules prohibiting insider trading and manipulative and deceptive devices. FINRA Rule 3110(d)(2) further specifies that a firm "must conduct promptly an internal investigation into any such trade to determine whether a violation . . . has occurred."

FINRA Rule 2010 provides that "[a] member in the conduct of its business, shall observe high standards of commercial honor and just and equitable principles of trade."

FINRA Rule 3210 requires associated persons to obtain the prior written consent of their employer firm before opening or establishing an account at another member. As set forth in FINRA Regulatory Notice 16-22,¹ "[s]ound supervisory practices require that a member firm monitor personal accounts opened or established outside of the firm by its associated persons."

CGMI's written supervisory procedures required employees to disclose their personal brokerage accounts to the firm. For employee accounts held in-house at the firm or with certain preferred outside brokers, employees were not required to obtain pre-approval from the firm's Internal Compliance Risk Management group (ICRM) in order to open or maintain an account. ICRM approval to open or maintain an account was required for all other accounts (non-preferred accounts). Once an employee disclosed an in-house or preferred account, the employee's trade data was directly electronically fed into the firm's Employee Due Diligence system (EmDD), which was the firm's primary system for monitoring employee trading. For those accounts for which the firm did not have access to an electronic feed, the firm required employees to manually upload PDF statements to EmDD on a periodic basis. CGMI also required employees to upload PDF statements (1) electronic accounts for the period after the employee joined CGMI until the electronic feed was set up, and (2) where the firm rejected an employee's request to maintain a non-preferred account, for the period from the employee's coverage date until

¹ See FINRA Regulatory Notice 16-22, *SEC Approves Consolidated FINRA Rule 3210 (Accounts at Other Broker-Dealers and Financial Institutions)* (June 2016).

the account was closed. Thus, a significant percentage of employee outside brokerage accounts required PDF statements for at least some period. PDF statements uploaded by employees were to be reviewed by (1) ICRM and (2) the employee's supervisor.

From at least June 2017 to February 2019, CGMI failed to have in place a supervisory system, including written procedures, reasonably designed to ensure that employees timely uploaded PDF statements and that the firm timely reviewed employees' personal trading. The firm's delay in timely reviewing PDF statements was attributable to three systemic supervisory issues described below.

A. The Firm Failed to Maintain a System Reasonably Designed to Ensure that Employees Uploaded PDF Statements on a Timely Basis

The firm relied on a monthly exception report to identify employees who were delinquent in uploading PDF statements. The firm's procedures required that ICRM reach out to employees included on the exception report to notify them of their delinquency and to request that they upload the missing statements. The procedures further provided for policy reminders to be sent to employees who remained delinquent for over 70 days and required increased discipline, such as letters of education and letters of reprimand, for employees who remained over 100 days late.

The firm's Personal Employee Trading Policy (PTIP) required, among other things, that employees obtain pre-clearance of certain securities transactions prior to executing trades in their personal brokerage accounts; comply with certain holding period requirements; and refrain from trading in securities on the firm's restricted lists. ICRM was responsible for reviewing employee trading to ensure it complied with the PTIP.

The firm failed to promptly request statements appearing on the missing statement exception reports, and the firm failed to formally discipline employees who were significantly and repeatedly delinquent in uploading their PDF statements. Between March 2018 and February 2019, ICRM's missing statement exception reports identified at least 6,317 missing PDF statements pertaining to 208 employees' outside brokerage accounts. Although the firm ultimately collected and reviewed statements identified on the exception reports, the firm failed to collect and review many of these statements on a timely basis.

Of the 208 employees who were included on missing statement exception reports, at least 29 of them were included on the report over ten times and one employee was included 129 times. Despite the firm's written procedures requiring formal discipline for employees who were over 100 days delinquent in uploading PDF statements, the firm did not formally discipline any employees who were delinquent.

As a result of these delays, the firm had incomplete records from which to conduct its review, resulting in the firm's failure to timely identify at least 44 instances where employees did not appropriately pre-clear transactions, in violation of the PTIP.² On

² FINRA staff did not identify any transactions that violated the federal securities laws.

average, for those 44 instances, it took the firm 261 days from when the employee executed the transaction to identify the PTIP violation. For four of those 44 employees, it took the firm over two years to identify the violation and for another eight employees it took the firm over a year.

B. The Firm Failed to Reasonably Ensure that ICRM Reviewed PDF Statements on a Timely Basis

There were significant delays in ICRM's assignment of PDF statements to ICRM analysts for supervisory review and in the analysts' completion of their reviews. This was due in substantial part to a staffing shortage, which existed in ICRM between June 2017 and August 2018, and resulted in a significant backlog of PDF statements that were uploaded and awaiting review.³ For example, as of June 2018, there were 9,800 PDF statements that were pending review, and the backlog resulted in certain PDF statements not being reviewed for over a year.

C. The Firm Also Failed to Reasonably Ensure that the Employees' Supervisors Reviewed PDF Statements on a Timely Basis

Separate from ICRM's review, the firm also required supervisors to review their employees' trading for compliance with the PTIP and to additionally review their employees' trading for potential misuse of MNPI, misuse of confidential customer information, and insider trading. Supervisors were required to complete their review within 30 days of receiving notice that the employee's trading activity was available for review in the EmDD system.

CGMI failed to reasonably enforce the procedure's requirement that supervisors complete their timely review of employee trading, including by reviewing PDF statements within 30 days.⁴ Additionally, certain of the supervisory delays were due to a technological mapping error in EmDD, which caused EmDD in certain circumstances to fail to notify supervisors that they had pending PDF statements requiring review. The mapping error existed from the time of the firm's implementation of EmDD in November 2015 to January 2020, when the firm identified the problem in connection with responding to inquiries from FINRA staff. Because of these issues, at least 219 PDF statements associated with 64 employees were not the subject of supervisory review for over a year.

Therefore, Respondent violated FINRA Rules 3110(a), 3110(b), 3110(d) and 2010.

³ While the staffing shortage began in June 2017 the backlog of 9,800 PDF statements included those uploaded between April 2017 and April 2018.

⁴ In December 2019, in response to an internal audit finding that the firm's procedures for escalating delinquent supervisors with aged employee outside trading activity were "not effective," the firm implemented a new procedure for disciplining supervisors who were overdue in reviewing transactions in their employees' outside brokerage accounts, including transactions reflected in PDF statements. In addition, the firm has taken other remedial measures to address the issues identified herein, including (1) reviewing the 6,317 statements which appeared on the monthly missing statement exception reports between March 2018 and February 2019, and (2) implementing a data patch to correct the mapping error in EmDD.

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

- A censure; and
- A \$350,000 fine.

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.

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:

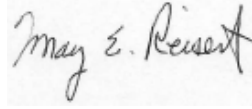
- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs (ODA), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not 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 testimonial obligations or 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. 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.

June 11, 2021

Date



Citigroup Global Markets Inc.
Respondent

Print Name: Mary Reiser

Title: Authorized Person

Accepted by FINRA:

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

June 15, 2021

Date



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