

NASD
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. CE2050005

RECEIVED

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NATIONAL

TO: Department of Enforcement
NASD

RE: Citigroup Global Markets, Inc., Respondent
Member Firm
(BD No. 7059)

Pursuant to Rule 9216 of NASD's Code of Procedure, 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 in Part II below.¹ This AWC is submitted on the condition that, if accepted, NASD will not bring any future actions against CGMI alleging violations based on the same factual findings.

CGMI understands that:

1. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by NASD's Department of Enforcement and National Adjudicatory Council ("NAC") Review Subcommittee or Office of Disciplinary Affairs ("ODA"), pursuant to NASD Rule 9216;
2. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against it; and
3. If accepted:
 - a. this AWC will become part of CGMI's permanent disciplinary record and may be considered in any future actions brought by NASD or any other regulator against it;
 - b. this AWC will be made available through NASD's public disclosure program in response to public inquiries about CGMI's disciplinary records;
 - c. NASD may make a public announcement concerning this agreement and the subject matter thereof in accordance with NASD Rule 8310 and IM-8310-2; and
 - d. CGMI 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 allegation in this AWC or create the impression that the AWC is without factual basis. Nothing in this provision affects CGMI's testimonial

¹ Respondent has submitted an Offer of Settlement to the Securities and Exchange Commission relating in part to the same matters addressed in this AWC.

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obligations or right to take legal or factual positions in litigation or other legal proceeding in which NASD is not a party.

CGMI also understands that its experience in the securities industry and disciplinary history may be factors that will be considered in deciding whether to accept this AWC. That experience and history are as follows:

CGMI, through its predecessors, has been an NASD member since 1936. CGMI's principal offices are located in New York, New York. CGMI uses the Smith Barney trade name for its retail brokerage services.

I.

WAIVER OF PROCEDURAL RIGHTS

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

- A. To have a Formal Complaint issued specifying the allegations against it;
- B. To be notified of the Formal 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 NAC and then to the US. Securities and Exchange Commission ("SEC") 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 Rule 9143 or the separation of functions prohibitions of 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.

II.

ACCEPTANCE AND CONSENT

A. Findings

CGMI hereby accepts and consents, without admitting or denying the allegations or findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of NASD, or to which NASD 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 NASD:

Summary

This disciplinary matter arises from CGMI's sales of Class B and Class C shares of mutual funds in approximately 18,000 customer households and approximately 90,000 transactions between January 1, 2002 and June 30, 2003 (the "Review Period"). CGMI, through its registered representatives, known as financial consultants ("FCs"), either did not adequately disclose at the point of sale, or did not adequately consider in connection with its recommendations to customers to purchase Class B and Class C shares, the differences in share classes and that an equal investment in Class A shares would generally have been more advantageous for the customers.

In particular, the FCs did not consider that large investments in Class A shares of mutual funds entitle customers to breakpoint discounts on sales charges, generally beginning at the \$50,000 investment level, which are not available for investments in Class B shares. In fact, customers may be entitled to breakpoints based upon a single mutual fund purchase, multiple purchases in the same "family of funds," and/or mutual fund investments held, at the time of the new purchase, by members of the customer's "household," as that term is defined in the prospectus of the fund in which the shares are being purchased. Class B shares are also subject to contingent deferred sales charges ("CDSCs") for a period of time, generally six years, as well as higher ongoing Rule 12b-1 fees for as long as the Class B shares are held. The CDSCs and/or the higher ongoing Rule 12b-1 fees significantly impact the return on customers' mutual fund investments.

In addition, CGMI's supervisory and compliance policies and procedures were not reasonably designed to ensure that FCs consistently provided adequate disclosure of, or consideration to, the benefits of the various share classes as they applied to individual customers. As a result of the foregoing, CGMI violated NASD Conduct Rules 2110, 2310, and 3010.

Share Classes

1. CGMI recommends mutual funds that issue different classes of shares representing interests in the same portfolio of securities, but differing in the structure and amount of sales charges paid directly by shareholders and continuous, asset-based fees assessed on each shareholder's account.
2. For example, Class A shares are subject to a front-end load, or initial sales charge, when originally purchased, and have modest annual fund expenses, including 12b-1 fees that are typically 0.25 percent. The majority of the front-end load is paid to the selling broker-dealer as a commission. The balance of the initial investment is paid for the fund's shares. Typically, the front-end load decreases as the size of the investment increases. This concept applies to both single purchases and to multiple purchases in the same family of funds that may be aggregated with the customer's other investments, as well as investments by that customer's household, as permitted by the funds' prospectuses. For most investments in which the total dollar amount invested in a fund family is \$1 million or more, the front-end load is generally waived. These discounts are commonly referred to as "breakpoints" and the discounts typically increase at each of the \$50,000, \$100,000, \$250,000, \$500,000 and \$1 million levels.
3. For example, for CGMI's affiliated funds, investments that, when aggregated, fall below \$25,000 are subject to an initial sales charge that can range from 4.00 to 5.00 percent. However, for an investment: (i) between \$25,000 and \$49,999 the sales charge can range from 3.50 to 4.25 percent; (ii) between \$50,000 and \$99,999 the sales charge can range from 3.00 to 3.75 percent; (iii) between \$100,000 and \$249,999 the sales charge can range from 2.50 to 3.25 percent; (iv) between \$250,000 and \$499,999 the sales charge can range from 1.50 to 2.75 percent; (v) between \$500,000 and \$999,999 the sales charge can range from zero to 2.00 percent; and (vi) \$1 million or more reduces the sales charge to zero. These breakpoints reduce the commissions paid to the selling broker-dealers by a corresponding amount. Investors can receive the benefits of breakpoint discounts by, among other ways, making a single investment, aggregating purchases, employing rights of accumulation or utilizing letters of intent.²
4. In contrast, Class B shares do not carry any front-end sales charge and do not have breakpoints regardless of the size of the investment. To compensate for the absence of a front-end sales charge, Class B shares have significantly higher annual 12b-1 fees (typically 1.00 percent) than Class A shares (typically 0.25 percent) and are subject to a contingent deferred sales charge ("CDSC") if redeemed prior to the expiration of a holding period specified in the prospectus.

² A right of accumulation permits an investor or an eligible group of related investors (e.g., the customer, the spouse and minor children) to "accumulate" or combine existing holdings of shares of a particular fund complex with additional purchases of shares of the same fund complex for the purpose of achieving breakpoints and associated discounts. Customers may also qualify for breakpoints by executing a letter of intent, which is an agreement to make multiple purchases of Class A shares issued by a fund family over a period of time, usually around 13 months, which, when aggregated, equal an amount that qualifies for a breakpoint discount.

The amount of the CDSC, generally calculated as a percentage of the lesser of the purchase price or the account's value at the time of the sale, declines each year and eventually disappears entirely. Class B shares usually convert to Class A shares, at no cost to the investor, generally after eight years.

5. With Class C shares, investors typically do not pay a front-end load and are subject to a 1.0 percent CDSC if the shares are redeemed within one year. Similar to Class B shares, Class C shares have significantly higher annual 12b-1 fees (typically 1.00 percent) than Class A shares (0.25 percent). Moreover, Class C shares never convert to Class A shares thereby subjecting investors to higher expenses as long as the investors hold the Class C shares. Class C shares are more appropriate for customers with a shorter-term investment horizon.
6. For investors, breakpoints and higher expenses generally have a direct and significant impact on a mutual fund investment's return. The significance of these differences is that, at certain dollar levels and holding periods, an equal investment in Class A shares, as opposed to Class B or Class C shares, may be in the best interest of the investor.
7. With Class B shares, the mutual fund distributor, which is generally an affiliate of the mutual fund, advances a commission to the selling broker-dealer. Because Class B shares do not offer breakpoint discounts, broker-dealers and their representatives receive greater commissions from the sale of Class B shares than from the sale of the same amount of Class A shares if the sale would qualify for breakpoint discounts and the Class A share breakpoint load levels are lower than the Class B share commission levels. Mutual fund complexes, through their distributors, recoup the commissions they advance for Class B shares through the substantially higher Rule 12b-1 fees and/or the CDSC. The different fee structures, expenses and characteristics of Class A, B and C shares, including the availability of breakpoint discounts with regard to purchases of Class A shares, and impact of CDSCs on investments in Class B shares, are described in the mutual fund prospectuses and statements of additional information ("SAIs").
8. During the Review Period, CGMI recommended and sold Class B shares of mutual funds to customers who, depending on the amount of the investment and the holding period, generally would have benefited had they purchased Class A shares instead. Specifically, these customers made purchases of Class B shares in various mutual funds which, had they purchased Class A shares, could have qualified for breakpoints, through single purchases, aggregating multiple purchases, employing rights of accumulation or utilizing letters of intent. As a result of the customers' purchases of Class B shares, CGMI received commissions totaling approximately \$12.5 million more from these transactions than it would have earned had it sold Class A shares of the same mutual funds.

Suitability Violations

9. NASD has long held that a registered representative has an obligation to avoid increasing the costs that his or her customers pay. Moreover, before

recommending a transaction, NASD Conduct Rule 2310 requires that a registered representative have reasonable grounds for believing, on the basis of information furnished by the customer, and after reasonable inquiry concerning the customer's investment objectives, financial situation, and needs, that the recommended transaction is not unsuitable for the customer. Also, a broker's recommendations must be consistent with his customer's best interests.

10. In recommending the purchase of mutual funds, a broker must determine the suitability of the class of shares to be purchased as well as the suitability of the particular mutual fund. Primary considerations include the investment amount, the expected term of the investment, the fees and expenses associated with each class of shares, the investor's personal and financial circumstances and investment objectives at the time of sale. These individual considerations are balanced against the more general observations that, subject to the needs of the individual customers, when recommending mutual fund share classes, Class A shares are more likely to be appropriate for those investors making larger purchases (i.e., those who can reduce the front-end load through breakpoints and who will benefit from the lower annual expenses associated with A shares). Class B shares may be preferable for customers who cannot obtain breakpoints. And Class C shares are generally preferable for customers who do not intend to hold their shares for a long time, and who are not investing enough to eliminate a front-end load.
11. In determining the suitability of a particular share class, registered representatives must weigh the consequences of the class selection by considering the potential impact of the comparative sales loads and annual expenses over the investor's contemplated duration of the investment.
12. During the relevant period, CGMI, through its FCs, recommended and sold Class B shares to its customers, instead of Class A shares, and thereby subjected the customers to higher fees and expenses. For example, in one instance, a CGMI customer invested a total of \$100,000 in Class B shares, as opposed to Class A shares, in an equity fund. CGMI, by recommending Class B shares instead of Class A shares, failed to take advantage of the breakpoint available with Class A shares, and subjected the customer to additional fees and expenses (12b-1 fees and CDSCs). A quantitative analysis at the point of sale would have revealed that if the customer were to sell the Class B shares during the first 3 years following the investment, the customer, under the hypothetical setting,³ would be theoretically disadvantaged by approximately \$1,650.⁴ The analysis also would have revealed that, this amount, would increase if the customer held the initial investment through and following the date upon which the Class B shares would automatically convert to Class A shares.

³ The example assumes an annualized rate of return, before expenses, of 5%. Also, the example utilizes the breakpoints, annual expenses applicable for each class, including 12b-1 fees, and the CDSC schedule applicable to Class B shares, which are set forth in the relevant fund prospectus and, where appropriate, the fund's SAI.

⁴ The results could have been obtained by using either the "NASD Expense Analyzer" or the SEC's "Cost Calculator," which have been available to the public since January 2002 and 2001, respectively.

13. By recommending the purchase of Class B and Class C shares to customers for whom Class A shares would generally have been more financially advantageous, depending on the anticipated holding period, CGMI did not have reasonable grounds for believing that the recommendations were in the best interests of its customers, thereby violating NASD Conduct Rules 2110 and 2310.

**CGMI's Supervisory and Compliance Policies and Procedures
Regarding Class B and Class C Shares Were Deficient**

14. In connection with the aforementioned findings, CGMI failed to establish, maintain and enforce supervisory and compliance procedures that were reasonably designed to achieve compliance with the NASD rules described above. In particular, CGMI's procedures did not set forth a means to adequately identify purchases of Class B and Class C shares by customers for whom Class A shares would have been more economically beneficial.
15. CGMI had certain policies requiring FCs to disclose to customers information regarding Class B shares. For example, the firm's Mutual Fund Sales Practices Compliance Manual required FCs to disclose, among other things: (i) types of sales charges and fees; (ii) multiple classes of securities; (iii) options for reduced or waived sales charges (including breakpoints); (iv) multiple fund purchases; and (v) expense ratios. More specifically, the manual required that FCs assist each customer in deciding which class of shares was likely to be most advantageous given the customer's individual circumstances.
16. Although CGMI had certain written policies requiring disclosures about the various classes of fund shares, CGMI's procedures were not sufficient to ensure that FCs made such disclosures to their customers, other than providing them with prospectuses. Among other things, CGMI's policies and procedures did not set forth a means to ensure that FCs, when recommending mutual fund shares to customers, (i) adequately disclosed that such shares were subject to higher annual fees that could have a negative impact on the customers' investment return, or (ii) once breakpoints become available, an equal investment in Class A shares could yield a higher return, and/or (iii) quantified the potential monetary difference between purchasing Class B shares and Class A shares for the period their customers' anticipated holding the investment.
17. In July 2003, CGMI began to change its procedures with regard to the sale of mutual funds, including through the implementation of blocks on the sale of Class B shares in all funds offered by CGMI where the customer would be in a more advantageous financial position by purchasing Class A Shares.
18. By virtue of the aforementioned conduct, CGMI violated NASD Conduct Rules 2110 and 3010.

B. Sanctions

Respondent also consents to the imposition, at a maximum, of the following sanctions:

1. A censure.
2. A fine of \$6.25 million.⁵
3. Respondent agrees to complete the following undertakings:
 - a. CGMI shall retain, within 60 days from the effective date of the AWC, the services of an Independent Consultant, who is not unacceptable to NASD.
 - b. CGMI shall retain and shall require the Independent Consultant to perform all of the services and tasks as described below. CGMI shall exclusively bear all costs, including compensation and expenses, associated with the retention and performance of the Independent Consultant.
 - c. CGMI shall retain and shall require the Independent Consultant to conduct a comprehensive review of (i) the completeness of its disclosures regarding the differences in mutual fund share classes; and (ii) the policies and procedures relating to CGMI's recommendations to its customers of different class shares of mutual funds. CGMI shall retain the Independent Consultant to recommend policies and procedures that address deficiencies, if any, in these areas.
 - d. CGMI shall, within 90 days from the effective date of the AWC, provide the Independent Consultant a list of customers who purchased Class B shares between January 1, 2002 and the effective date of the AWC (the "relevant time period"), of \$50,000 or greater, including, without limitation, through single and multiple purchases by the customer(s) and through aggregation by household⁶ and fund family of all purchases during the relevant time period. The list must include at least the customers' names and contact information, any firm-based household identification number, the date, fund name, fund symbol and number of shares purchased, and the gross principal amount invested for every purchase. Every purchase transaction on the list is a "Qualifying Purchase." Qualifying Purchases shall also include those purchases of Class C shares during the relevant time which, when aggregated, total \$500,000 or more and involve payment of a front-end load, or \$1 million or more where no front-end load was paid. However, Qualifying Purchases shall not include the following:
 - (i) purchases of Class B or C shares for which customers have previously settled and signed releases of claims against CGMI;

⁵ In assessing this fine, NASD has taken into account that CGMI has separately agreed to pay a civil penalty to the United States Treasury to resolve a related enforcement action brought by the Securities and Exchange Commission.

⁶ "Household" includes all accounts that are related by at least two of the following three factors: (1) tax identification/social security numbers, (2) address, and (3) last or "key" name.

- (ii) purchases of Class B or Class C shares which were later cancelled at no cost to the customer;
 - (iii) purchases of Class B shares, which, when aggregated with other Class B share purchases by the same household in the same fund family, total less than \$100,000, and for which the customer would have been charged a Class A share initial sales charge exceeding 4.00 percent;
 - (iv) purchases of Class B shares, which, when aggregated with other Class B share purchases by the same household in the same fund family, total less than \$100,000, and where the customer (1) entered into a systematic withdrawal plan at the time of the Class B share purchase, and immediately began receiving systematic withdrawals from the Class B share purchase without incurring CDSCs, or (2) chose not to reinvest all capital gains and dividends from the Class B share purchase;
 - (v) purchases of Class B shares, which, assuming a 5 percent annual rate of return and considering all expenses, are projected to have a higher redemption value, determined as of the end of each year following the purchase date, in comparison to Class A shares in any two years during the period beginning with the effective date of the AWC and ending on the date the Class B shares are scheduled to automatically convert to Class A shares under the terms of the fund prospectuses in effect at the time of the purchase;
 - (vi) purchases of Class B shares, which, assuming a 5 percent annual rate of return and considering all expenses during the relevant time period, are projected, as of the date on which the Class B shares are scheduled to automatically convert to Class A shares, to have a value within \$100.00 of the projected value of Class A shares had the customers purchased Class A shares instead of Class B shares;
 - (vii) purchases of Class B shares which would not be eligible for a breakpoint at \$100,000 or more in the mutual funds listed in "Schedule A" (attached); and
 - (viii) purchases of Class B share which would not be eligible for a breakpoint at \$250,000 or more in the mutual funds listed in "Schedule B" (attached).
- e. Additionally, within 150 days from the effective date of the AWC, CGMI shall offer any customer who made a Qualifying Purchase(s) and still holds all such shares, the option of converting such Class B or Class C

shares into Class A shares in such a manner that each customer is placed in the same financial position, based on actual fund performance, in which such customer would have been, as of the date no more than 10 business days prior to the date on which the offered conversion to Class A shares is to be completed, with respect to the Qualifying Purchase(s) had the customer purchased Class A shares instead of Class B or Class C shares (the "Settlement Plan").

- f. The Independent Consultant, following consultation with CGMI, may further remove from the Settlement Plan additional Class B and Class C share purchases as long as the Independent Consultant provides CGMI and NASD with quantitative proof that the customer could not materially benefit⁷ from having the particular transaction converted to Class A shares and the removal of such Qualifying Purchase is not unacceptable to NASD.
- g. The Settlement Plan shall also provide for the payment of cash, subject to each customer's choice not to receive payment, to put those customers who made a Qualifying Purchase(s) and sold, prior to receipt of notice from CGMI, some or all of their Class B or Class C shares comprising the Qualifying Purchase(s) into the same financial position, based on actual fund performance and redemption value when aggregating Qualified Purchases, in which such customers would have been had the Class B or C shares that were sold been invested in Class A shares instead.
- h. Under the Settlement Plan, each customer shall be entitled to breakpoints to the extent permitted by each relevant fund family based on all eligible holdings⁸ and applicable rights of accumulation and assuming letters of intent were utilized in accordance with the applicable prospectuses.
- i. In the event that any customer, who made a Qualifying Purchase(s), elects to convert those purchases to Class A shares from Class B or Class C shares, and CGMI is unable to effectuate such conversion for any reason, CGMI shall be required under the Settlement Plan to provide for the payment of cash, subject to each customer's choice not to receive payment, to such customer in an amount that will place the customer in the same financial position, based on actual performance and redemption value, that such customer would have been in as of the effective date of

⁷ The Settlement Plan shall provide that CGMI will not be required to offer a customer conversion if the customer would not materially benefit from an offer of conversion because either the annual expense differential between Class A shares and Class B shares, the CDSC schedule, and/or the conversion year quantitatively are such that Class B shares may be substantially equal, or more appropriate, compared to Class A shares of the same fund, at particular investment levels.

⁸ Eligible holdings means the balance of all investments permitted by the relevant fund family to be aggregated for applicable breakpoints at the time of the Qualifying Purchase, including investments made before and held at the time of, the Qualifying Purchase.

- the AWC had the customer made his Qualifying Purchase(s) in Class A shares instead of Class B or Class C shares.
- j. The Settlement Plan shall not be unacceptable to the Independent Consultant and NASD.
 - k. Additionally, as part of the Settlement Plan, within 120 days from the effective date of the AWC, CGMI shall submit to the Independent Consultant and NASD for review sample letters in plain English: (i) offering each customer, according to the particular characteristics of their account and purchases, the opportunity to convert in accordance with the Settlement Plan and/or cash payment, subject to each customer's choice not to receive payment, for any portions of Qualifying Purchases that have been sold; (ii) explaining the economic advantages and disadvantages to the customer of the options; and (iii) stating that the customer should consult with a tax advisor to determine whether the conversion carries any federal, state, or local tax consequences. Such letters may include other factors that customers may reasonably rely upon when deciding whether to convert. The letter shall not be unacceptable to the Independent Consultant and NASD.
 - l. CGMI shall fully complete execution of the Settlement Plan within 270 days from the effective date of the AWC.
 - m. CGMI shall further retain and shall require the Independent Consultant to prepare and, within 150 days from the effective date of the AWC, submit to CGMI and NASD an Initial Report. The Initial Report shall address, at a minimum: (i) the adequacy of the disclosures regarding the differences in mutual fund share classes; (ii) the adequacy of the policies and procedures regarding CGMI's recommendations and disclosures to its customers of mutual fund share classes; and (iii) the adequacy of the Settlement Plan, with a goal toward placing customers who made Qualifying Purchases in the same financial positions they would have been had they purchased Class A shares instead of Class B or Class C shares. The Initial Report must include a description of the review performed, the conclusions reached, and the Independent Consultant's recommendations for policies and procedures to address any deficiencies identified, an effective system for implementing the recommended policies and procedures and an effective system for establishing and maintaining written records that evidence compliance with the recommended policies and procedures.
 - n. Within 180 days from the effective date of the AWC, CGMI shall in writing advise the Independent Consultant and NASD of the recommendations from the Initial Report that it is adopting and the recommendations that it considers to be unnecessary or inappropriate. With respect to any recommendation that CGMI considers unnecessary or inappropriate, CGMI shall explain why the objective or purpose of such

recommendation is unnecessary or inappropriate and provide in writing an alternative policy, procedure or system designed to achieve the same objective or purpose.

- o. With respect to any recommendation with which CGMI and the Independent Consultant do not agree, CGMI shall attempt in good faith to reach an agreement with the Independent Consultant within 210 days from the effective date of the AWC. In the event the Independent Consultant and CGMI are unable to agree on an alternative proposal not unacceptable to NASD, CGMI shall abide by the recommendation of the Independent Consultant.
- p. CGMI shall further retain and shall require the Independent Consultant to complete the aforementioned review and submit a written Final Report to CGMI and to NASD within 270 days from the effective date of the AWC. The Final Report must recite the efforts the Independent Consultant undertook to review: (i) CGMI's disclosures regarding the differences in mutual fund share classes; (ii) the policies and procedures regarding CGMI's recommendations and disclosures to customers relating to multi-class mutual funds, and (iii) the procedures to administer the Settlement Plan and the completeness of the implementation of the Settlement Plan. The Final Report shall also set forth in detail the Independent Consultant's recommendations and a reasonable time period(s), not to exceed 300 days from the effective date of the AWC, for CGMI to implement its recommendations. The Final Report must also describe how CGMI proposes to implement those recommendations within the time period set forth in the Final Report.
- q. CGMI shall take all necessary and appropriate steps to adopt and implement all recommendations and proposals contained in the Independent Consultant's Final Report.
- r. CGMI shall further retain and shall require the Independent Consultant to conduct a follow-up review of CGMI's efforts to implement each of the recommendations contained in the Independent Consultant's Final Report. This follow-up review shall be completed no later than 360 days from the effective date of the AWC. As part of the follow-up review process, CGMI shall retain and shall require the Independent Consultant to submit a follow-up report to NASD no later than 375 days from the effective date of the AWC. The follow-up report must set forth the details of CGMI's efforts to implement each of the recommendations contained in the Final Report, and must separately state whether CGMI has fully complied with each of the recommendations in the Final Report.
- s. To ensure the independence of the Independent Consultant, CGMI: (i) shall not have the authority to terminate the Independent Consultant, without the prior written approval of NASD; (ii) shall compensate the Independent Consultant, and persons engaged to assist the Independent

Consultant, for services rendered pursuant to the AWC at their reasonable and customary rates; and (iii) shall not be in and shall not have an attorney-client relationship with the Independent Consultant and shall not seek to invoke the attorney-client or any other doctrine or privilege to prevent the Independent Consultant from transmitting any information, reports or documents to NASD.

- t. To further ensure the independence of the Independent Consultant, for the period of the engagement and for a period of two years from completion of the engagement, CGMI, its present or former affiliates, directors, officers, employees, and agents acting in their capacity shall not enter into any employment, consultant, attorney-client, auditing or other professional relationship with the Independent Consultant. Further, CGMI, its present or former affiliates, directors, officers, employees, and agents acting in their capacity shall not enter into any employment, consultant, attorney-client, auditing or other professional relationship with any firm with which the Independent Consultant is affiliated in performance of his or her duties under the AWC, or agents acting in their capacity, for the period of the engagement and for a period of two years after the engagement without prior written consent of NASD.
- u. CGMI shall cooperate fully with the Independent Consultant and shall provide the Independent Consultant with prompt access to CGMI's files, books, records and personnel as the Independent Consultant reasonably deems necessary or appropriate in fulfilling any function or completing any task described in these undertakings.
- v. For good cause shown, and upon receipt of a timely application from the Independent Consultant or CGMI, NASD may extend any of the procedural dates set forth above.

III.

OTHER MATTERS

- A. Respondent understands that it 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 NASD, nor does it reflect the views of NASD or its staff.
- B. Respondent agrees to pay any monetary sanctions imposed on it within ten days of notice that this AWC has been accepted.

III.

OTHER MATTERS

- A. Respondent understands that it 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 NASD, nor does it reflect the views of NASD or its staff.
- B. Respondent agrees to pay any monetary sanctions imposed on it within ten days of notice that this AWC has been accepted.
- C. Respondent specifically and voluntarily waives any right to claim that it is unable to pay now, or at any time hereafter, any monetary sanction imposed in this matter.

The undersigned certifies on behalf of Respondent that I have read and understand all of the provisions of this AWC and have been given a full opportunity to ask questions about it, and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein, has been made to induce me to submit it.

Date _____

Citigroup Global Markets, Inc.

By:

Name: _____

Title:

Reviewed by:

Counsel for Respondent

Accepted by NASD:

Date _____

Director and Chief Counsel
Department of Enforcement
Signed on behalf of the Director of
ODA, by delegated authority

03/24/2005 15:43 FAX

NASD ENFORCEMENT

SCHEDULE A

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AGGBX
GTHBX
DLTBX
DPIBX
DRCBX
PGMBX
PMC8X
PMDBX
PMMNX
PMUBX
PRCBX
PRNBX
XLSBX
DIMBX
PBCM
PBHMX
PBHYX
PBNJX
PBNYX
PBPAX
PCAIX
PFABX
PMHYX
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SCHEDULE B**100k**

GACBX
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DRCBX
PGMBX
PMMNX
PMUBX
PRCBX
PRNBX
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FPABX
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NAGOX
PBCMX
PBHMX
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PBPAX
PCAIX
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PMHYX
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SYLBX
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