

NASD
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
CLG050004

TO: Department of Market Regulation
NASD

RE: Citigroup Global Markets Inc., Respondent
Broker-Dealer
CRD No. 7059

Pursuant to Rule 9216 of NASD Code of Procedure, Citigroup Global Markets Inc. ("SBSH") 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. This AWC is submitted on the condition that, if accepted, NASD will not bring any future actions against SBSH alleging violations based on the same factual findings.

SBSH 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 Market Regulation 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 SBSH; and
3. If accepted:
 - a. this AWC will become part of SBSH's permanent disciplinary record and may be considered in any future actions brought by NASD or any other regulator against SBSH;
 - b. this AWC will be made available through NASD's public disclosure program in response to public inquiries about SBSH's disciplinary record;
 - 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. SBSH 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 SBSH's testimonial obligations or right to take legal or factual positions in litigation or other legal proceedings in which NASD is not a party.

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

SBSH has been a member of NASD since October 16, 1936. On September 16, 2003, an AWC became final wherein SBSH was censured and fined \$72,500 for best execution, firm quotation, trade reporting, limit order display, limit order protection, ACT reporting and trading halt violations. On March 5, 2002, an AWC became final wherein SBSH was censured and fined \$62,500 for trade or move, locked and crossed markets, and short sale violations.

I.

WAIVER OF PROCEDURAL RIGHTS

SBSH 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 SBSH;
- 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 U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, SBSH 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.

SBSH 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

This matter arose out of the following reviews conducted by the staff of NASD's Department of Market Regulation:

- MRD200236730, a review of SBSH's compliance with the rules and regulations applicable to short sales in trading Dollar Tree Stores, Inc. ("DLTR") during the period July 29, 2002 through August 2, 2002 and Concord EFS, Inc. ("CEFT") during the period August 6, 2002 through August 9, 2002.
- MRD200236804, a review of SBSH's transactions for compliance with best execution obligations for the period April 1, 2002 through June 30, 2002.
- MRD200238574, a review of SBSH's trading for compliance with the rules and regulations applicable to short sales during the period of July 1, 2002 through October 31, 2002. The staff also reviewed the firm's written supervisory procedures concerning short sales.
- MRD200238777, a review of SBSH's compliance with short interest reporting requirements for October 2002 and November 2002. The staff also reviewed the firm's written supervisory procedures concerning short interest reporting.
- MRD200339140, the 2003 Trading and Market Making Surveillance Examination of SBSH, a review the following items:¹
 - 36 sale transactions for compliance with affirmative determination requirements;
 - 72 sale transactions for compliance with short sale reporting requirements for trade date January 15, 2003;
 - Seven short sale transaction for compliance with SEC Rule 10a-1 for trade date January 15, 2003;
 - 25 sale transactions for compliance with NASD Conduct Rule 3110;
 - 50 limit orders received by SBSH for compliance with the limit order protection requirements for trade date January 15, 2003;
 - 50 limit orders received by SBSH for compliance with SEC Rule 11Ac1-4 for trade date January 15, 2003;

¹ Unless stated otherwise, samples were from trade date January 14, 2003 and January 15, 2003.

- 76 limit and market orders executed in a principal or riskless principal capacity for compliance with capacity reporting requirements;
 - 25 principal trades reported as riskless principal and trades credited with soft dollars, for compliance with the safe harbor on soft dollar compensation for trade date January 15, 2003
 - 77 customer transactions for compliance with best execution obligations;
 - Two open limit orders traded ex-dividend for compliance with NASD Conduct Rule 3220;
 - One trade reported with a .PRP modifier for compliance with NASD Rule 4632 from trade date January 15, 2003;
 - 10 transactions in non-Nasdaq securities for compliance with NASD Conduct Rule 2320(g) and NASD Conduct Rule 3110 on trade date January 15, 2003.
 - Registration status of 10 persons engaged in the firm's trading and market making activities;
 - 55 customer confirmations for compliance with SEC Rule 10b-10 for trade date January 15, 2003;
 - 250 order memoranda for compliance with NASD Conduct Rule 3110 and SEC Rules 17a-3 and 17a-4;
 - Approximately 500 transactions for compliance with the rules applicable to trade reporting and ACT reporting;
 - 25 transactions reported in market making securities for compliance with SEC Rule 11Ac1-5 order classification requirements for trade date January 15, 2003;
 - For the November 2002 report, four sets of data statistics published on the firm's monthly order execution report for compliance with SEC Rule 11Ac1-5 data calculation requirements;
 - Data published on the firm's quarterly order routing report for compliance with SEC Rule 11Ac1-6 for the quarter ended December 2002;
 - The firm's establishment and implementation of regular & rigorous reviews of the execution quality of orders sent to other market centers for execution, for compliance with NASD Rules 2320 and 3010; and
 - SBSH's written supervisory procedures for trade reporting, market making and trading practices.
- MRD200340774, a review of SBSH's transactions for compliance with best execution obligations for the period January 1, 2003 through March 31, 2003.
 - MRD200341966, a review of SBSH's compliance with SEC Rule 11Ac1-4, the limit order display rule, for the period April 1, 2003 through June 30, 2003.

- A. SBSH 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:

MRD200236730

1. During the period July 30, 2002 through August 9, 2002, SBSH failed to report to ACT the correct symbol indicating whether the transaction was a buy, sell, sell short, sell short exempt or cross for 30 transactions in eligible securities.
2. The conduct described in paragraph one constitutes separate and distinct violations of NASD Marketplace Rule 6130(d).

MRD200236804

3. *In 40 transactions for or with a customer, SBSH failed to use reasonable diligence to ascertain the best inter-dealer market and failed to buy or sell in such market so that the resultant price to its customer was as favorable as possible under prevailing market conditions, as reflected on Exhibit A, which is attached hereto and incorporated herein by reference.*
4. The conduct described in paragraph three constitutes separate and distinct violations of NASD Conduct Rules 2110 and 2320.

MRD200238574

5. During the period July 1, 2002 through October 31, 2002, SBSH failed to report to ACT the correct symbol indicating whether the transaction was a buy, sell, sell short, sell short exempt or cross for 44 transactions in eligible securities.
6. The conduct described in paragraph five constitutes separate and distinct violations of NASD Marketplace Rule 6130(d).
7. During the period July 1, 2002 through October 31, 2002, SBSH executed six short sale transactions in certain securities, all of which were Nasdaq National Market securities, at or below the current inside bid when the current inside bid was below the preceding inside bid in the security.
8. The conduct described in paragraph seven constitutes separate and distinct violations of NASD Conduct Rule 3350.

MRD200238777

9. In October 2002 and November 2002, SBSH submitted to NASD inaccurate short interest position reports. The October 2002 report included incorrect short interest positions in two securities for a total of 1,003,412 shares inaccurately reported. The November 2002 report included incorrect short interest positions in five securities for a total of 2,330,528 shares inaccurately reported.
10. The conduct described in paragraph nine constitutes separate and distinct violations of NASD Conduct Rule 3360.

MRD200339140

11. SBSH, on three occasions, failed to provide written notification disclosing to its customer its correct market maker status in each such security.
12. SBSH failed on 25 occasions to provide written notification disclosing to its customer its correct capacity in the transaction.
13. The conduct described in paragraphs 11 and 12 above constitutes separate and distinct violations of SEC Rule 10b-10.
14. SBSH incorrectly designated as ".PRP" through ACT one last sale report of a transaction in a Nasdaq National Market security.
15. The conduct described in paragraph 14 constitutes a violation of NASD Marketplace Rule 5430(a)(9).
16. SBSH incorrectly reported to ACT the second leg of 56 "riskless" principal transactions in Nasdaq National Market securities and incorrectly designated the capacity of such transactions as principal.
17. The conduct described in paragraph 16 constitutes a violation of NASD Marketplace Rule 4632(d).
18. SBSH incorrectly reported to ACT the second leg of six "riskless" principal transactions in Nasdaq SmallCap securities and incorrectly designated the capacity of such transactions as principal.
19. The conduct described in paragraph 18 constitutes separate and distinct violations of NASD Marketplace Rule 4642(d).

MRD200340774

20. In 37 transactions for or with a customer, SBSH failed to use reasonable diligence to ascertain the best inter-dealer market and failed to buy or

sell in such market so that the resultant price to its customer was as favorable as possible under prevailing market conditions, as reflected on Exhibit B, which is attached hereto and incorporated herein by reference.

21. The conduct described in paragraph 20 constitutes separate and distinct violations of NASD Conduct Rules 2110 and 2320.

MRD200341966

22. On 36 occasions during the period of April 1, 2003 through June 30, 2003, SBSH failed to display immediately 36 customer limit orders in Nasdaq securities in its public quotation, when each such order was at a price that would have improved SBSH's bid or offer in each such security; or when the order was priced equal to SBSH's bid or offer and the national best bid or offer for each such security, and the size of the order represented more than a *de minimis* change in relation to the size associated with SBSH's bid or offer in each such security.

23. The conduct described in paragraph 22 constitutes separate and distinct violations of SEC Rule 11Ac1-4.

- B. SBSH also consents to the imposition, at a maximum, of the following sanctions:

A censure, a fine of \$107,500 (composed of a \$30,000 fine for the short sale ACT reporting violations (composed of a \$15,000 fine for the violations in MRD200236730 and a \$15,000 fine for the violations in MRD200238574), a \$5,000 fine for the bid test violations, a \$12,500 fine for the short interest reporting violations, a \$30,000 fine for the best execution violations (composed of a \$15,000 fine for the violations in MRD200236804 and a \$15,000 fine for the violations in MRD200340774), a \$15,000 fine for the trade reporting violations, a \$7,500 for the SEC Rule 10b-10 violations and a \$7,500 fine for the limit order display violations) and restitution by Respondent to the investors listed on Exhibit B hereto in the total amount of \$1,706.01, plus interest at the rate set forth in Section 6621(a) of the Internal Revenue Code, 26 U.S.C. 6621(a)(2), from the date of the violative conduct until the date this Letter of Acceptance, Waiver and Consent is accepted by the National Adjudicatory Council. A registered principal of the firm shall submit satisfactory proof of payment of the restitution, or of reasonable and documented efforts undertaken to effect restitution, to the COMPLIANCE ASSISTANT, LEGAL SECTION, MARKET REGULATION DEPARTMENT, 9509 KEY WEST AVENUE, ROCKVILLE, MD 20850 no later than 120 days after acceptance of this Letter of Acceptance, Waiver and Consent.

If for any reason, Respondent cannot locate any customer after reasonable and documented efforts within such period, or such additional period agreed to by the staff, Respondent shall forward any undistributed restitution and interest to the appropriate escheat, unclaimed-property or abandoned-property fund for the state in which the customer last resided.

The sanctions imposed herein shall be effective on a date set by NASD staff.

III.

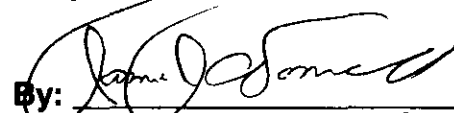
OTHER MATTERS

- A. SBSH understands that it may attach a Corrective Action Statement to this AWC which is a statement of demonstrable corrective steps taken to prevent future misconduct. SBSH 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. SBSH agrees to pay any monetary sanctions imposed on SBSH upon notice that this AWC has been accepted and that such payments are due and payable, and has attached the Election of Payment form showing the method by which SBSH proposes to pay any fine imposed.
- C. SBSH specifically and voluntarily waives any right to claim that SBSH is unable to pay, now or at any time hereafter, any monetary sanction imposed in this matter.

Citigroup Global Markets Inc. certifies that it has read and understands all of the provisions of this AWC and has 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 SBSH to submit it.

Citigroup Global Markets Inc.

12/20/2004
Date

By: 
Name: James J. O'Donnell
Title: Managing Director

Reviewed by:

Counsel for Respondent

Accepted by NASD:

1/30/05
Date



Thomas R. Gira,
Senior Vice President
Department of Market Regulation

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

Number	Original Incident Number	Trade Date	MPID	B/S/X	Volume	SECID	Price	Contra	Execution Time	Report Time	Modifier	Inside Bid or Ask at Execution
1	31	4/16/2002	SBSH	S	100	MCICP	15.5		11:35:53	11:35:56		15.4
2	34	4/19/2002	SBSH	B	300	MCICP	15.4		10:44:00	10:45:08		15.5
3	36	4/19/2002	SBSH	S	1000	WCOM	5.93		10:18:08	10:18:10		5.82
4	39	4/22/2002	SBSH	B	400	MCICP	12.15		12:38:58	12:39:04		12.21
5	41	4/23/2002	SBSH	B	100	MCICP	9.76		12:23:10	12:23:19		9.82
6	42	4/23/2002	SBSH	B	600	MCICP	9.75		12:23:23	12:23:31		9.82
7	43	4/23/2002	SBSH	S	500	MCICP	9.5		15:24:49	15:25:00		9.4
8	48	4/24/2002	SBSH	S	300	NXTL	5.64		9:56:11	9:56:16		5.58
9	49	4/24/2002	SBSH	S	1000	NXTL	5.64		9:56:11	9:56:16		5.58
10	53	4/24/2002	SBSH	S	200	ZRAN	37.4		9:45:11	9:45:14		37.2
11	54	4/25/2002	SBSH	B	200	ELNK	7.46		10:34:54	10:34:58		7.71
12	57	4/25/2002	SBSH	S	1000	MCICP	9.8		12:18:20	12:18:28		9.7
13	59	4/25/2002	SBSH	B	100	PSFT	22.44		10:19:30	10:19:35		22.61
14	65	4/29/2002	SBSH	B	520	MCICP	7.75		11:03:34	11:03:40		7.9
15	66	4/29/2002	SBSH	B	230	MCICP	7.75		11:05:40	11:05:46		7.9
16	67	4/29/2002	SBSH	B	270	MCICP	7.75		11:06:14	11:06:21		7.9
17	68	4/29/2002	SBSH	B	300	MCICP	7.75		11:06:56	11:07:01		7.9
18	71	4/29/2002	SBSH	B	410	QCOM	29.9		14:28:47	14:28:50		30
19	72	4/29/2002	SBSH	B	1000	QCOM	29.9		14:28:48	14:28:50		30
20	74	4/29/2002	SBSH	S	1100	TELM	2.44		14:39:04	14:39:07		2.38
21	76	4/30/2002	SBSH	B	750	MCICP	6.1		10:03:16	10:03:24		6.2
22	86	5/7/2002	SBSH	S	200	MCICP	6.1		13:40:31	13:40:38		6.01
23	98	5/15/2002	SBSH	S	100	EXTR	11.14		9:49:17	9:49:19		11.08
24	102	5/17/2002	SBSH	B	200	MCICP	5.44		15:24:29	15:24:33		5.53
25	108	5/22/2002	SBSH	B	2000	MCIT	2.74		15:20:04	15:20:07		2.8
26	112	5/23/2002	SBSH	S	3000	WCOM	1.84		14:53:13	14:53:19		1.78
27	117	5/29/2002	SBSH	S	1000	WCOM	1.84		13:41:23	13:41:26		1.77
28	135	6/3/2002	SBSH	B	100	MSFT	49.89		13:48:44	13:48:48		49.95
29	136	6/4/2002	SBSH	S	200	COST	39.07		9:45:15	9:45:18		38.93
30	139	6/7/2002	SBSH	S	100	SCFSP	25.87		12:10:38	12:10:44		25.8
31	141	6/11/2002	SBSH	B	500	FFFLP	10.09		14:19:12	14:19:16		10.15
32	148	6/14/2002	SBSH	B	2000	JNPR	7		15:48:50	15:48:53		7.1
33	150	6/17/2002	SBSH	B	100	MSFT	56.11		11:43:30	11:43:35		56.16
34	156	6/20/2002	SBSH	B	400	MCICP	4.61		10:26:02	10:26:08		4.7
35	158	6/20/2002	SBSH	B	400	MCICP	4.62		10:57:26	10:57:33		4.81
36	159	6/20/2002	SBSH	B	500	MCICP	4.75		12:07:33	12:07:36		4.85
37	161	6/21/2002	SBSH	B	800	MCICP	4.78		10:07:18	10:07:24		4.85
38	163	6/24/2002	SBSH	B	100	CSCO	14.14		14:32:58	14:33:01		14.22
39	172	6/27/2002	SBSH	B	100	MSFT	53.98		10:39:24	10:39:26		54.04
40	182	6/28/2002	SBSH	B	100	MSFT	55.15		14:48:00	14:48:05		55.21

Incident Number	Date	MPID	B/S/X	Volume	SECID	Execution Price In ACT	OEID	Execution Time	Report Time	Inside Bid at Execution	Inside Ask at Execution	Correct Price	Number of Shares Requiring Restitution	Restitution
1	1/2/2003	SBSH	S	600	IJD	25.65		11:43:46	11:43:53		25.55	25.55	600	60.00
2	1/2/2003	SBSH	S	200	BAC\$V	26.32		13:58:46	13:58:48		26.24	26.24	200	16.00
3	1/7/2003	SBSH	S	100	GEC	25.49		9:45:53	9:45:58		25.45	25.45	100	4.00
4	1/7/2003	SBSH	S	400	GEC	25.49		9:48:53	9:48:54		25.45	25.45	400	16.00
5	1/7/2003	SBSH	S	200	GEC	25.49		11:00:36	11:00:41		25.44	25.44	200	10.00
6	1/7/2003	SBSH	S	200	GEC	25.49		11:36:38	11:36:43		25.45	25.45	200	8.00
7	1/7/2003	SBSH	S	800	GEC	25.49		15:37:31	15:37:35		25.45	25.45	800	32.00
8	1/8/2003	SBSH	B	400	CGP\$T	16.2		13:04:51	13:04:58	16.6		16.6	400	160.00
9	1/10/2003	SBSH	S	400	FBF\$L	25.87		10:10:12	10:10:16		25.83	25.83	400	16.00
10	1/21/2003	SBSH	S	400	KVP	24.94		12:01:42	12:01:46		24.8	24.8	400	56.00
11	1/21/2003	SBSH	S	500	KVP	24.94		12:26:04	12:26:09		24.8	24.8	500	70.00
12	1/21/2003	SBSH	S	300	KVP	24.94		12:26:25	12:26:29		24.8	24.8	300	42.00
13	1/21/2003	SBSH	S	300	KVP	24.94		12:28:44	12:28:45		24.8	24.8	300	42.00
14	1/21/2003	SBSH	S	200	KVP	24.94		12:29:07	12:29:10		24.8	24.8	200	28.00
15	1/21/2003	SBSH	S	195	KVP	24.94		12:41:17	12:41:18		24.8	24.8	195	27.30
16	1/21/2003	SBSH	S	400	KVP	24.94		13:24:51	13:24:54		24.9	24.9	400	16.00
17	1/21/2003	SBSH	S	240	KVP	24.94		13:28:00	13:28:05		24.9	24.9	240	9.60
18	1/21/2003	SBSH	S	275	KVP	24.94		15:24:34	15:24:38		24.9	24.9	275	11.00
19	1/21/2003	SBSH	S	400	KVP	24.94		15:26:53	15:26:55		24.9	24.9	400	16.00
20	1/28/2003	SBSH	S	300	GFC	25.86		11:51:56	11:52:01		25.82	25.82	300	12.00
21	1/28/2003	SBSH	S	1000	GEC	25.86		12:03:57	12:04:01		25.8	25.8	1000	80.00
22	1/28/2003	SBSH	S	1000	GEC	25.86		14:39:25	14:39:29		25.81	25.81	1000	50.00
23	1/28/2003	SBSH	B	200	AXP\$A	25.5		14:45:38	14:45:45	25.58		25.58	200	16.00
24	1/28/2003	SBSH	S	1810	GEC	25.86		15:38:52	15:38:53		25.79	25.79	1810	126.70
25	1/29/2003	SBSH	S	400	GEC	25.86		14:00:32	14:00:35		25.74	25.74	400	48.00
26	1/31/2003	SBSH	S	700	F\$S	41.81		12:10:16	12:10:18		41.65	41.65	700	112.00
27	1/31/2003	SBSH	S	500	F\$S	41.7		12:10:56	12:10:58		41.65	41.65	500	25.00
28	2/7/2003	SBSH	B	134	SO\$B	25.25		11:47:45	11:47:52	25.35		25.35	134	13.40
29	2/11/2003	SBSH	S	125	F\$S	40.86			11:32:36		40.81	40.81	125	6.25
30	2/12/2003	SBSH	S	315	F\$S	40.89		12:04:11	12:04:15		40.85	40.85	315	12.60
31	2/12/2003	SBSH	B	800	HI\$H	25.05		15:24:01	15:24:09	25.09		25.06**	800	8.00
32	2/21/2003	SBSH	S	2000	IKJ	26		10:02:06	10:02:11		25.95	25.95	2000	100.00
33	3/3/2003	SBSH	B	1000	C\$Z	26.36		14:39:19	14:39:24	26.52		26.52	1000	160.00
34	3/3/2003	SBSH	S	1000	F\$S	40.0499		15:26:44	15:26:50		39.8	39.8	1000	249.90
35	3/4/2003	SBSH	S	108	GKM	25.1		9:48:57	9:47:03		24.88	24.88	108	23.76
36	3/4/2003	SBSH	S	250	F\$S	38.87			11:03:36		38.8	38.8	250	17.50
37	3/18/2003	SBSH	B	500	CGP\$T	15.15		10:23:39	10:23:41	15.2		15.2	500	25.00

Total = 1706.01