

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20080123101**

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

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

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondent 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 the Respondent alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. The 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

Citigroup Global Markets Inc. ("CGMI" or the "Firm"), member NYSE and FINRA, is a registered broker-dealer with its principal office in New York, New York and offices throughout the United States. CGMI is a wholly-owned subsidiary of Citigroup Financial Products, Inc. and indirectly is a wholly-owned subsidiary of Citigroup, Inc. CGMI provides a full range of financial services including issuing research.

RELEVANT DISCIPLINARY HISTORY

On April 23, 2003, pursuant to Letter of Acceptance, Waiver and Consent No. CAF 030018, NASD made findings (which CGMI neither admitted nor denied) that CGMI, among other things, published fraudulent research on two covered companies; published research reports containing exaggerated, unbalanced or unwarranted statements and made recommendations without a reasonable basis; published a misleading recommendation on

one covered company; had business practices which created conflicts of interest; did not maintain policies reasonably designed to prevent the misuse of material, non-public information, and failed to establish and maintain adequate written supervisory procedures and failed to adequately supervise. In connection with this settlement, CGMI consented to pay a total of \$400 million, which included a fine of \$150 million, disgorgement of \$150 million, \$75 million for the procurement of independent research¹, and \$25 million for investor education.

On July 17, 2006, pursuant to Letter of Acceptance, Waiver and Consent No. 2005000792101, NASD made findings (which CGMI neither admitted nor denied) that that during the period July 2002 to May 2005, CGMI, among other things, failed to disclose in at least 2,521 technical or quantitative research reports various disclosures required by NASD Rule 2711. CGMI failed to disclose, among other things, whether it or the analyst: (1) had an ownership interest in the company, had a conflict of interest, and/or received income from investment banking transactions in the company; and (2) whether CGMI acted as a market maker for the stock. In addition, the technical and quantitative research did not include, among other things, a price chart. Further, CGMI was found to have failed to supervise in that, among other things, it failed to establish and maintain a supervisory system reasonably designed to detect and prevent its violations of NASD Rule 2711(h). In connection with this settlement, CGMI consented to a censure, a fine in the amount of \$350,000 and an undertaking to perform a comprehensive review of its disclosure in its technical and quantitative reports and to certify in writing to the NASD's Department of Enforcement that it had complied with the disclosure requirements of NASD Rule 2711(h).

OVERVIEW

As set forth below, at various times, during the period of at least January 2007 through at least March 2010 (the "relevant period"), largely as the result of programming and technical errors and deficiencies, CGMI failed to comply with various disclosure requirements of Rule 2711, causing research reports to fail to contain one or more required disclosures. During the relevant period, CGMI published approximately 80,000 research reports each year, issuing fundamental research regarding approximately 3,000 covered companies and quantitative and/or technical research regarding an additional 14,000 covered companies.

¹ In conjunction with entering into Letter of Acceptance, Waiver and Consent No. CAF 030018, CGMI entered into a Final Judgment with the U.S. Securities and Exchange Commission. Securities and Exchange Commission v. Citigroup Global Markets Inc., f/k/a Salomon Smith Barney Inc., 03 CV 2945 (WHP) (S.D.N.Y.) (the "Final Judgment"). The Final Judgment included undertakings, including undertakings with regard to research publications and independent research as set forth in an addendum, Addendum A, thereto.

CGMI failed to have adequate policies and procedures to populate its research reports with required disclosures and to make appropriate disclosures in connection with research analysts' public appearances. In particular, the Firm had inadequate systems to determine that its disclosure management system contained all accurate and current information, including information from third-party and internal sources, necessary to formulate required disclosures. CGMI's supervisory system also was not reasonably designed to detect that the Firm was not populating its research reports with required disclosures, and that it was not complying with certain undertakings pursuant to the Research Analyst Settlement.

FACTS AND VIOLATIVE CONDUCT

I. CGMI Violated NASD Rule 2711 – Research Reports

NASD Rule 2711 requires that a firm provide disclosure in its research reports and analysts' public appearances regarding, among other things: (i) its own and research analysts' ownership in and material conflicts of interest with respect to the subject company; (ii) whether it acted in the capacity of a manager or co-manager of the public offering of the subject company; (iii) investment banking and non-investment banking compensation received or expected to be received or sought from the subject company; and (iv) its status as a market maker in the subject company's securities. In addition, NASD Rule 2711 requires research reports to include price charts and certain other disclosures.

1. CGMI Failed to Disclose its Capacity as Manager or Co-manager

NASD Rule 2711(h)(2)(A)(ii)a. requires a member to disclose in research reports if the member or affiliate managed or co-managed a public offering of securities for the subject company in the past 12 months.

During the relevant period, CGMI relied upon data received from a third-party vendor to make these disclosures. However, the security identification information in the vendor's data did not match security identification data maintained in CGMI's disclosure management system.

As a result, during the period of at least January 2007 through November 2007, CGMI did not incorporate the vendor's data into its disclosures and, therefore, failed to disclose in its research reports that it had acted as a manager or co-manager in connection with the public offering of securities of covered companies. This disclosure was missing from approximately 8% of the approximately 80,000 research reports issued annually by the Firm.

2. CGMI Failed to Disclose Investment Banking Revenue

NASD Rule 2711(h)(2)(A) requires a member to disclose in research reports if the member or affiliate has received compensation for investment banking services from the subject company in the past 12 months, or expects to receive or intends to seek compensation for investment banking services from the subject company in the next three months.

During the period of at least January 2007 through May 2007, and again during the period September 2009 through March 2010, CGMI failed to disclose in its research reports investment banking revenue it received from covered companies. These disclosure failures resulted from the Firm's failure to take into account investment banking revenue it received in connection with transactions conducted outside the Firm's investment banking department. During the period September 2009 through March 2010, the Firm failed to make this disclosure in approximately 330 research reports.

3. CGMI Failed to Disclose Market Maker Status

NASD Rule 2711(h)(8) requires a member to disclose in research reports if it was making a market in the subject company's securities at the time that the research report was published.

During the relevant period, CGMI relied upon data received from an affiliated entity to make this disclosure. However, the security identification information in the source's data did not match the security identification data maintained in CGMI's disclosure management system.

As a result, during the period between December 2009 and June 2010, CGMI did not incorporate the affiliate's data into its disclosures and, therefore, failed to disclose in its research reports that it was a market maker in the covered stock. As a result of this data mismatch, the market maker disclosure was missing from approximately 800 research reports.

4. CGMI Failed to Disclose Financial Interests and Ownership

a. Financial Interests

NASD Rule 2711(h)(1)(A) requires a member to disclose in research reports if the research analyst, or a member of his or her household, has a financial interest in the securities of the subject company, and the nature of the financial interest.

During the period 2007 through 2009, five research analysts inadvertently failed to inform CGMI of certain relevant financial interests. As a result, CGMI failed to disclose in research publications authored by these five analysts that the analyst, or a member of the analyst's household, owned securities of a company covered by the analyst or his or her coverage team.

b. Ownership

NASD Rule 2711(h)(1)(B) requires a member to disclose in research reports if the member or its affiliates beneficially owns 1% or more of any class of common equity securities of the subject company of a research report.

CGMI failed to properly match data regarding ownership concentrations it received from an internal source with its disclosure management system. As a result, during the period of at least January 2007 through at least May 2007, CGMI failed to disclose its 1% beneficial ownership with respect to approximately 1800 of its 17,000 covered companies. This disclosure was omitted from approximately 1% of the approximately 29,000 research reports the Firm issued during this period.

5. CGMI Failed to Include Various Disclosures in Certain Research Reports

NASD Rule 2711(h)(6) requires members to include a price chart in an equity research report if the research report contains either a rating or a price target, and the member has assigned a rating or price target to the subject company's securities for at least one year.

a. Failure to Provide all Conflict Disclosures and Price Charts – Repeat Violation

As noted above, in July 2006, CGMI was sanctioned for failing to include disclosures required pursuant to NASD Rule 2711(h) on its technical and quantitative research reports.

During the period of at least November 2008 through at least July 2009, CGMI offered seven different types of quantitative research products. CGMI failed to include any required conflict disclosures and price charts on four of these types of quantitative research. These omissions occurred due to human error and/or technical error.

b. Failure to Provide Any Conflict Disclosures

During the period of at least January 2007 through August 2009, CGMI published 240 research reports regarding exchange traded funds (“ETF research reports”). The Firm failed to provide any required conflict disclosures on all its ETF research reports.

c. Failure to Provide Price Charts

Prior to May 2010, CGMI failed to provide three-year price charts for 185 different covered stocks due to an inaccurate link on its website, which connected users to a non-functioning webpage.

Based upon the foregoing, the Firm violated NASD Rules 2711(h) and 2110 and FINRA Rule 2010² in that it failed to make required disclosures in its research reports.

II. CGMI Violated NASD Rule 2711 – Research Analyst Public Appearances

NASD Rule 2711(h)(10) requires disclosure of certain information in connection with research analyst public appearances.

During the relevant period, disclosures for research analyst public appearances were generated from the Firm’s disclosure management system. However, due to multiple causes, including programming and/or human errors, the disclosure management system did not contain current and accurate information necessary to create complete and accurate disclosures in connection with research analysts’ public appearances. Therefore, during the Relevant Period, CGMI failed to make required disclosures in connection with research analysts’ public appearances due to deficiencies in the data contained in its disclosure management system.

Based upon the foregoing, the Firm violated NASD Rules 2711(h) and 2110 and FINRA Rule 2010 in that it failed to make required disclosures in connection with research analysts’ public appearances.

III. CGMI Failed to Comply with Certain Undertaking Requirements of the Research Analyst Settlement

Pursuant to Section II. Disclosure/Transparency and Other Issues, of Addendum A to the Final Judgment (“Addendum A”), CGMI was required to make three specific disclosures on the front page of its research reports. These disclosures

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See FINRA Regulatory Notice 08-57, which describes certain changes to FINRA’s rules including the change of NASD Rule 2110 to FINRA Rule 2010, effective December 15, 2008.

concerned potential conflicts of interest between CGMI and a covered company, the availability of independent research as mandated by the Final Judgment, and the significance to be given a research report in making an investment decision.

1. CGMI Failed to Provide Notice of the Availability of Independent Research

During the period May 2007 through May 2009, CGMI failed to provide notice that independent research was available with regard to 139 issuers for which the Firm initiated research coverage in or after May 2007. This failure occurred as the unanticipated consequence of programming changes to the Firm's disclosure management system in May 2007 and April 2008, and resulted in CGMI omitting notice of the availability of independent research from approximately 815 research reports.

2. CGMI Failed to Make First Page Disclosures Required by Addendum A

During the period of at least November 2009 through January 2010, as the unanticipated consequence of a format change to research reports, CGMI failed to make the first page disclosures required by Addendum A on 42 research reports published on 42 business days.

Based on the foregoing, CGMI violated NASD Rule 2110 and FINRA Rule 2010 in that it failed to comply with certain undertaking requirements of the Research Analyst Settlement.

IV. CGMI Failed to Adequately Supervise the Implementation of Research Disclosures and Independent Research Disclosures

During the relevant period, CGMI failed to maintain a supervisory system reasonably designed to detect and prevent the multiple research disclosure violations described above. Further, CGMI's supervisory procedures were not reasonably designed to ensure compliance with the disclosure requirements of NASD Rules 2711(h) and 2110.

CGMI failed to adequately monitor the functioning of its disclosure management system, particularly the timeliness and efficacy of data communications from third-party and internal sources upon which the data management system relied for data necessary to formulate required disclosures.

Based upon the foregoing, the Firm violated NASD Rule 3010 in that it failed to establish and maintain a supervisory system reasonably designed to achieve compliance with the applicable securities laws, regulations and SRO rules. This misconduct also constituted a violation of NASD Rule 2110 and FINRA Rule 2010.

OTHER FACTORS

In determining the sanction in this matter, FINRA took into consideration several factors. FINRA considered, among other things, that: (1) CGMI self-reported several of the disclosure deficiencies set forth herein; (2) CGMI took remedial action with respect to these disclosure deficiencies, including conducting comprehensive internal reviews of its disclosure management system in 2006 – 2007 and 2009-2010 that revealed certain of the disclosures deficiencies described above; and (3) in early 2010, the Firm engaged an independent consultant to review and make recommendations for improvement of the disclosure management system.

B. The Firm also consents to the imposition of the following sanctions:

Censure; and

Fine in the amount of \$725,000.

The Firm 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, the Firm specifically and voluntarily waives any right to claim bias or prejudice 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.

The Firm 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 it;
 - 2. This AWC will be made available through FINRA's public disclosure program in response to public inquiries about the Firm's disciplinary record;
 - 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
 - 4. The Firm 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. The Firm 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 right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.
- D. The Firm 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 the Firm has agreed to its 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.

1/3/12

Date (mm/dd/yyyy)



Citigroup Global Markets Inc.
Respondent

By:



MANAGING DIRECTOR

Reviewed by:



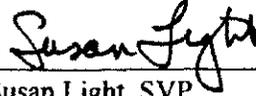
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Accepted by FINRA:

1/18/12

Date

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



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