

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
No. 2011030683801**

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

FROM: Citigroup Global Markets Inc., Respondent
CRD No. 7059

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondent Citigroup Global Markets Inc. ("CGMI" or the "Firm") submits this Letter of Acceptance, Waiver and Consent ("AWC") for the purpose of proposing a settlement of the alleged rule violations described below. This AWC is submitted on the condition that, if accepted, FINRA will not bring any future actions against Respondent alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. CGMI 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 is a wholly-owned subsidiary of Citigroup Financial Products, Inc. and an indirect wholly-owned subsidiary of Citigroup, Inc. Formerly known as Salomon Smith Barney, Inc., the Firm has been a registered broker-dealer and member of FINRA since 1936. Its principal place of business is in New York, New York. The Firm provides a full range of financial services, including investment banking, underwriting debt and equity securities, issuing research and advising corporations, governments and institutions, as well as acting as a full-service global broker-dealer. It trades securities for institutional and individual customers as well as for proprietary accounts. CGMI's Equity Research Department includes approximately 66 FINRA-licensed equity research analysts, who write research reports published by CGMI, as well as research associates, support staff and research management.

RELEVANT DISCIPLINARY HISTORY

On September 23, 2002, pursuant to Letter of Acceptance, Waiver and Consent No. CAF020043, NASD made findings (which CGMI neither admitted nor denied) that CGMI issued research reports from January 2001 to April 2001 on Winstar Communications, Inc. that, among other things, contained misleading statements and omissions of material facts. NASD found that, as a

result, CGMI violated NASD Rules 2210 and 2110. CGMI consented to a censure and a fine of \$5,000,000.

In 2003, NASD censured CGMI and other firms as part of the Global Research Settlement for violating NASD Rules 2110, 2210(d)(1), 2210(d)(2), and 3010, by (1) engaging in acts and practices that created and/or maintained inappropriate influence by investment banking over research analysts, and therefore imposed conflicts of interest on its research analysts, which it failed to manage appropriately; (2) issuing research reports on issuers that were not based on principles of fair dealing and good faith and did not provide a sound basis for evaluating facts, contained exaggerated or unwarranted claims about these issuers, and/or contained opinions for which there was no reasonable basis; and (3) failing to establish and maintain adequate procedures reasonably designed to protect research analysts from conflicts of interest. On April 24, 2003, pursuant to Letter of Acceptance, Waiver and Consent No. CAF030018, CGMI consented to a censure and a total payment of \$400,000,000, including \$150,000,000 as a fine, \$150,000,000 as disgorgement, \$75,000,000 for the procurement of independent research and \$25,000,000 for investor education.¹

On June 16, 2006, pursuant to Letter of Acceptance, Waiver and Consent No. 2005000792101, NASD made findings (which CGMI neither admitted nor denied) that, from July 2002 to May 2005, CGMI, among other things, failed to make various disclosures required under NASD Rule 2711(h) in over 2500 published research reports. NASD also found that CGMI failed to establish and maintain a supervisory system reasonably designed to detect and prevent violations of NASD Rule 2711(h). CGMI consented to a censure, a fine of \$350,000 and an undertaking to perform a comprehensive review of its research disclosures.

On April 25, 2012, pursuant to Letter of Acceptance, Waiver and Consent No. 20080123101, FINRA made findings (which CGMI neither admitted nor denied) that, from 2007 to 2010, CGMI failed to make various disclosures required under NASD Rule 2711(h) in thousands of published research reports. NASD also found that CGMI failed to maintain policies and procedures reasonably designed to detect and prevent violations of NASD Rule 2711(h). CGMI consented to a censure and a fine of \$725,000.

On October 26, 2012, CGMI entered into a Consent Order with the Commonwealth of Massachusetts Securities Division (without admitting or denying the conclusions of law set forth in sections VII and VIII of the Consent Order) concerning CGMI's equity research analyst program. The Massachusetts Securities Division found that CGMI failed to prevent or detect the written disclosure of material, non-public research information. Pursuant to the Consent Order, CGMI agreed to, among other things, pay a civil penalty of \$2,000,000 and to review and implement certain internal policies and procedures relating to outgoing communications of its equity research analysts with parties external to CGMI.

¹ In conjunction with entering into Letter of Acceptance, Waiver and Consent No. CAF030018, CGMI entered into a Final Judgment with the U.S. Securities and Exchange Commission that included, among other things, undertakings with regard to research independence and publication.

On October 2, 2013, CGMI entered into a Consent Order with the Commonwealth of Massachusetts Securities Division (without admitting or denying the conclusions of law set forth in sections VII and VIII of the Consent Order) concerning the disclosure of non-public research information by an equity research analyst located in Taiwan. The Massachusetts Securities Division found that CGMI failed to adequately enforce its supervisory policies and procedures governing the disclosure of confidential, non-public research information. Pursuant to the Consent Order, CGMI agreed to, among other things, pay a civil penalty of \$30,000,000 and conduct a review of its written supervisory policies and procedures with respect to equity research analysts.

OVERVIEW

In April 2010, Toys R Us (“TRU”) and its private equity owners (“Sponsors”) invited CGMI and other broker-dealers to compete for a role in TRU’s planned initial public offering (the “TRU IPO”). To win this investment banking business from TRU, CGMI’s equity research analyst participated in the Firm’s solicitation efforts, and the Firm offered favorable research coverage to TRU. Moreover, CGMI failed to adopt and implement adequate written supervisory procedures governing analyst involvement in investment banking solicitations and offers of favorable research coverage. Therefore, in the context of the TRU IPO, CGMI violated three separate provisions of NASD Rule 2711, the research analyst conflict of interest rule: 2711(c)(4), which prohibits research analysts from participating in efforts to solicit investment banking business; 2711(e), which prohibits firms from directly or indirectly offering favorable research to obtain investment banking business; and 2711(i), which requires firms to adopt and implement written supervisory procedures reasonably designed to ensure that the member and its employees comply with the provisions of NASD Rule 2711.

CGMI allowed its research analyst to participate in the Firm’s solicitation efforts by allowing the analyst to present her views on TRU to TRU’s management and Sponsors during the “solicitation period” – *i.e.*, the period after a company has made known that it intends to proceed with a prospective investment banking services transaction, such as an IPO, and before the company has made a bona fide award of a mandate for the transaction. Before TRU awarded the TRU IPO business, it asked the equity research analysts from the firms competing for the business to make presentations to TRU’s management and Sponsors. TRU provided specific topics for the analysts to address and put the firms on notice that, as part of the underwriter-selection process, it would consider each analyst’s views of the company and whether the analyst’s valuation was consistent with the firm’s investment bankers’ valuation. As described below, CGMI’s research analyst presented to TRU and its Sponsors on May 5, 2010, during the solicitation period, thereby participating in the Firm’s efforts to solicit investment banking business from TRU.

CGMI also offered favorable research to induce TRU to award the Firm its investment banking business. The Firm’s analyst’s presentation to TRU and the Sponsors supported the Firm’s investment banking pitch and offered a positive evaluation of TRU. Moreover, following the analyst’s presentation, TRU asked CGMI to complete a template showing an “Equity Commitment Committee approv[ed]” valuation of TRU, which would include the analyst’s views on TRU’s valuation. TRU and its Sponsors asked the firms to complete the template and

provide a Firm-wide valuation that the Firm, including its analyst would be expected to support after TRU awarded the TRU IPO business, absent unexpected developments. Indeed, TRU told some firms that the purpose of the template was to prevent TRU from being “burned” by an analyst’s decision to adopt a negative view of TRU after the company had awarded its investment banking business to the analyst’s firm. CGMI complied with TRU’s request.

Supervisory personnel at CGMI were aware that TRU had asked the Firm’s research analyst to make a presentation to TRU that was not part of the analyst’s due diligence, that TRU would take the presentation into account when awarding the underwriting mandate in the TRU IPO, that the presentation would include the analyst’s favorable views of the company, and that TRU wanted a final valuation that the entire Firm, including its analyst, would support if selected as an underwriter. Nevertheless, the Firm’s supervisory personnel allowed the analyst to make the presentation. Accordingly, CGMI failed to adopt and implement written supervisory procedures reasonably designed to ensure compliance with NASD Rule 2711.

TRU and the Sponsors selected CGMI as an underwriter for the TRU IPO. TRU, however, eventually decided not to proceed with the offering.

FACTS AND VIOLATIVE CONDUCT

I. CGMI Violated NASD Rule 2711(c)(4) by Allowing Its Research Analyst to Participate In the Solicitation of Investment Banking Business.

NASD Rule 2711, the research analyst conflict of interest rule, is designed to insulate research analysts from a myriad of conflicts that could impair their impartiality. Taken together, the various provisions of the rule play a critical role in protecting analysts from improper influences and promoting their independent role in providing research and analysis to investors. NASD Rule 2711(c)(4) is a key component of the rule that is designed to preclude analysts from participating in efforts to obtain investment banking business from issuers given that analysts typically initiate coverage of issuers when their firms play a role in bringing the issuer public.

NASD Rule 2711(c)(4) states, at the outset, that “[n]o research analyst may participate in efforts to solicit investment banking business.” The rule clarifies this broad prohibition by stating further that “no research analyst may, among other things, participate in any ‘pitches’ for investment banking business to prospective investment banking clients or have other communications with companies for the purpose of soliciting investment banking business.” Thus, the rule prohibits a research analyst from being part of the deal team seeking to win investment banking business.

Under NASD Rule 2711(c)(4), an analyst may communicate with an issuer during the solicitation period as part of the analyst’s due diligence efforts to gather information about the company, but may not communicate with the issuer in furtherance of soliciting a role for his investment bank in the underwriting. In the context of a meeting requested by an issuer during the solicitation period for the purpose of obtaining an analyst’s views as part of the underwriter selection process, as occurred in the TRU IPO, an analyst from a soliciting investment bank may not communicate to the issuer his views about the issuer or the issuer’s industry, such as his views about valuation or comparable companies.

In April 2010, TRU and the Sponsors notified several investment banking firms of their interest in bringing the company public through an initial public offering. On April 23, 2010, TRU telephoned several firms and invited them to bid for a role in the TRU IPO and scheduled a “bakeoff” with each firm’s investment bankers for April 30, 2010. TRU also notified the firms that, as part of the process of selecting underwriters, it wanted to hear the views of each firm’s analyst who would cover the company following the TRU IPO. Each firm understood that TRU would consider the firm’s analyst’s views in determining whether the firm would receive an underwriting role in the TRU IPO. TRU gave the firms a list of topics it wished the analysts to cover, including the retail industry outlook, valuation, and comparables. TRU scheduled meetings with the analysts for May 4 and May 5, 2010.

On May 4, 2010, TRU and the Sponsors met with the equity research analysts from the firms competing for the TRU IPO business and provided background and financial information on the company for purposes of the analysts’ due diligence.

On May 5, 2010, each firm’s analyst made a separate presentation to TRU and the Sponsors. Under the circumstances, the analysts’ presentations on May 5 constituted part of each firm’s pitch for the TRU IPO and therefore violated NASD Rule 2711(c)(4). The presentations occurred during the solicitation period for the TRU IPO. TRU made clear to each firm that its analyst’s presentation would be a factor in TRU’s determination of whether the firm would be awarded a role in the IPO. Each analyst presentation was structured so that the analyst spoke and TRU management and Sponsors asked questions. These meetings were not designed to provide information to the analyst that the analyst could use to “vet” the proposed transaction.

CGMI understood that its analyst’s views could influence what role, if any, it received in the IPO. Shortly after being invited to pitch to TRU and the Sponsors, a CGMI investment banker sent an email to his colleagues stating that one of the “key issues” for the Firm’s pitch would be “valuation – and analyst support of that valuation.” One day prior to the Firm’s pitch, the Firm’s investment bankers conducted a chaperoned call with the Firm’s equity research analyst in which the analyst discussed valuation and comparable companies. Immediately after the call, the analyst sent an email to a supervisor in CGMI’s Equity Research Department stating, “I so want the bank to get this deal!”

CGMI’s investment bankers made their pitch to TRU on April 30, 2010. Shortly afterward, one of the Firm’s investment bankers sent an email to his colleagues stating that one of the Sponsors had informed him that CGMI was “in prime contention, all subject to meeting with analyst next week.” In a subsequent email, another of the Firm’s investment bankers summarized a conversation with a TRU executive and wrote, “my sense is research meetings will be important/critical.”

On May 5, 2010, the CGMI equity research analyst presented to TRU and the Sponsors on the topics selected by TRU. During the presentation, the analyst discussed, among other things, her views on the retail sector, her valuation methodology, comparable companies for use in determining a valuation for TRU and positive considerations as well as risks associated with investing in TRU. The analyst’s “positive investment considerations” for TRU included “significant growth opportunities,” “strong cash flow generation” and a “strong competitive

position,” and she stated that there was “no other public toy retailer which could result in strong investor interest.” The analyst also distributed a “marketing handout,” which included analysis of the retail industry, CGMI’s ratings of other retail companies and valuations of comparable companies. A representative of one of the Sponsors took notes on his copy of the handout and wrote that the analyst’s presentation “remind[ed]” him of a “banker presentation” made by one of the firms.

Additionally, CGMI complied with TRU’s request for a valuation that included the analyst’s views.

As a result of the foregoing, CGMI violated NASD Rule 2711(c)(4) and FINRA Rule 2010.

II. CGMI Violated NASD Rule 2711(e) by Offering Favorable Research Coverage to Induce Receipt of TRU’s Investment Banking Business.

NASD Rule 2711 recognizes that a firm can create a conflict for an analyst and compromise the analyst’s independence if it promises favorable research coverage in an effort to win investment banking business. Therefore, NASD Rule 2711 contains a broad prohibition against directly or indirectly offering favorable research: “No member may directly or indirectly offer favorable research, a specific rating, or a specific price target . . . to a company as consideration or inducement for the receipt of business or compensation.” Accordingly, in the context of a solicitation period where the issuer has stated that it will consider an analyst’s views as part of the underwriter selection process, a firm cannot indicate to a prospective investment banking client its analyst’s positive views of the company or the company’s prospects, even if honestly held, or the positive prospective valuation the analyst may give the company.

Under the circumstances of the TRU IPO, CGMI offered favorable research coverage to induce receipt of investment banking business. The CGMI research analyst expressed favorable views about TRU during her presentation on May 5, 2010, as noted above. Additionally, CGMI offered favorable coverage by completing and submitting to TRU, during the solicitation period, a valuation template requested by TRU and the Sponsors.

On May 6, 2010, TRU notified the firms that it would be sending a template to each firm to complete as part of the underwriter-selection process. TRU explained that, in order to be selected as an underwriter, each firm had to provide the requested valuation. TRU and the Sponsors wanted to ensure that, if a firm was selected as an underwriter, its analyst’s views would be consistent with the valuation provided by its investment bankers.

Later that day, TRU sent the template to each of the firms along with a cover email. The template asked each firm to provide projected EBITDA and net income for 2010 and 2011, the corresponding valuation multiple for 2010 and 2011, and identify up to five comparable companies used for valuation. In the cover email accompanying the template, TRU wrote that, before selecting underwriters, it wanted each firm to provide (1) “Equity Commitment Committee approval of a definitive equity valuation range,” and (2) “what company or companies you would choose for the purpose of determining comparative values, and why.” TRU stated that if a firm was selected as an underwriter, the firm, including its analyst, would be expected to stand behind the valuation provided in the template. If the valuation changed, the

III. CGMI Violated NASD Rule 2711(i) Because It Failed to Adopt and Implement Policies and Procedures Reasonably Designed to Prevent Violations of NASD Rule 2711.

NASD Rule 2711(i) provides supervision requirements that specify a firm's obligations to develop effective policies and procedures to oversee research analyst conflicts of interest. Specifically, the rule states, "Each member subject to this rule must adopt and implement written supervisory procedures reasonably designed to ensure that the member and its employees comply with the provisions of this rule"

Communications between an analyst and an issuer during the solicitation period present a risk that the analyst will become part of the firm's effort to solicit investment banking business from the issuer and/or offer favorable research to induce receipt of the issuer's investment banking business. CGMI failed to adopt and implement written supervisory procedures reasonably designed to ensure compliance with NASD Rule 2711 so as to avoid conduct that, under the circumstances constituted (a) participation by its research analyst in the solicitation of a role in the TRU IPO, and (b) an offer of favorable research.

As a result of the foregoing, CGMI violated NASD Rule 2711(i) and FINRA Rule 2010.

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

- a censure; and
- a fine in the amount of \$5,000,000.

CGMI agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. CGMI has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

CGMI specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanction imposed in this matter.

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

II.

WAIVER OF PROCEDURAL RIGHTS

CGMI 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;

firm would be expected to show that the change was “directly traceable to unexpected findings during due diligence or unexpected changes in exogenous factors.” The templates were due on May 10, 2010.

CGMI understood that TRU and the Sponsors wanted a final valuation that the entire Firm, including its analyst, would support if selected as an underwriter.

After speaking with one of the Sponsors about the template, a CGMI investment banker emailed his banking colleagues summarizing the conversation. He wrote that TRU wanted “to get more clarity on . . . banker vs. analyst valuations.”

On May 7, 2010, the day after receiving TRU’s request, CGMI’s investment bankers conducted a chaperoned call with CGMI’s equity research analyst and discussed potential valuation multiples for TRU as well as comparable companies to use in determining a valuation for TRU. CGMI’s investment bankers then completed the template and prepared a presentation to provide to TRU. As they were preparing these materials, a CGMI investment banker instructed his colleagues that the materials were to “have the ‘firm’ view on key questions” and “should include our analysts [sic] point of view.”

On May 10, 2010 CGMI’s investment bankers transmitted the completed template and the written presentation to TRU and the Sponsors. The template contained all of the information requested by TRU. The presentation stated that there was “firm-wide alignment” with respect to TRU’s unique investment opportunity” and included a specific valuation range for TRU that, according to the presentation, was “supported by the firm.” The following day, on May 11, 2010, CGMI’s investment bankers made an oral pitch to TRU consistent with the written materials.

In the days following the May 11 pitch, CGMI’s investment bankers communicated through emails and telephone calls with TRU and the Sponsors to solicit for a role in the IPO. In these communications, CGMI’s investment bankers suggested that the Firm as a whole, including its Equity Research Department, supported a favorable view and valuation of TRU. For example, CGMI investment bankers wrote emails to the Sponsors stating that CGMI could “commit without reservation” that TRU and the Sponsors could “count on Citi’s firmwide support and advocacy for the Toys story and valuation.”

By including favorable views of TRU in the analyst’s presentation and providing TRU the unified valuation it sought, CGMI indicated to TRU that post-IPO research coverage would be positive and aligned with investment banking.

Shortly thereafter, TRU and the Sponsors selected CGMI as an underwriter for the TRU IPO.

As a result of the foregoing, CGMI violated NASD Rule 2711(e) and FINRA Rule 2010.

- 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, CGMI specifically and voluntarily waives any right to claim bias or prejudice 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 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 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

CGMI 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 it; and
- C. If accepted:
 - 1. this AWC will become part of CGMI's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against the Firm;
 - 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. CGMI may not take any action or make or permit to be made any public

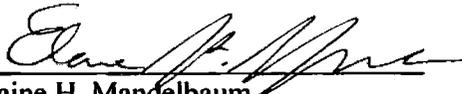
statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. CGMI may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects the Firm's: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

- D. CGMI 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.

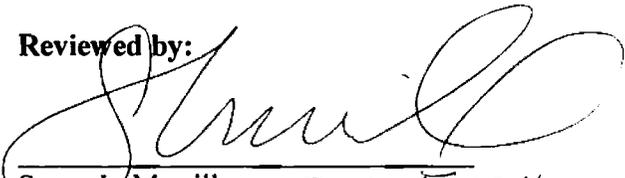
The undersigned, on behalf of the Firm, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; has agreed to its provisions voluntarily; and that no offer, threat, inducement, 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.

Date: 12-5-14

Citigroup Global Markets Inc.

By: 
Elaine H. Mandelbaum
Managing Director

Reviewed by:

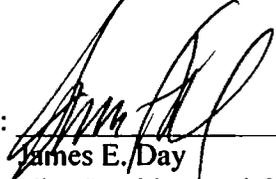

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(212) 839-8558
Counsel for Respondent

Dec 5 2014

Accepted by FINRA:

Date: 12/10/14

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

By:  _____

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