

**FINANCIAL INDUSTRY REGULATORY AUTHORITY  
LETTER OF ACCEPTANCE, WAIVER AND CONSENT  
No. 2017054329501**

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

**FROM:** Citigroup Global Markets Inc.  
Member Firm  
CRD No. 7059

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Citigroup Global Markets Inc. ("CGMI," "Respondent," 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 CGMI 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 has been a FINRA member since October 16, 1936. It is headquartered in New York, New York. It is part of a larger financial enterprise, Citigroup, Inc. ("Citi"), and conducts a full-service brokerage business including, among other things, sales and trading, research and underwriting services. CGMI employs approximately 13,900 registered and non-registered individuals.

**RELEVANT DISCIPLINARY HISTORY**

CGMI has no relevant disciplinary history with the Securities and Exchange Commission, FINRA, any other self-regulatory organization or any state securities regulator.

**OVERVIEW**

Federal securities laws require that FINRA member firms fingerprint most associated persons prior to or upon association with the firm. The firms review

the fingerprint results as part of their background check to determine, among other things, whether a prospective associated person has previously engaged in misconduct that subjects him or her to a “statutory disqualification.” As set forth in Section 3(a)(39) of the Securities Exchange Act of 1934 (the “Exchange Act”), certain criminal and regulatory events will subject a person to a statutory disqualification. The fingerprint results provide information about a prospective associated person’s criminal background. FINRA members must also obtain other background information to determine if a prospective associated person is subject to certain serious, but non-criminal, findings or sanctions imposed by financial regulators that could also subject him or her to a statutory disqualification.

From January 2010 through May 2017 (the “Relevant Period”), CGMI failed to conduct timely or adequate background checks on approximately 10,400 of its non-registered associated persons. The Firm failed to fingerprint at least 520 non-registered associated persons until after they began to work for CGMI. The Firm was unable to determine whether it timely fingerprinted at least an additional 520 non-registered associated persons because it failed to locate any documentation reflecting that the Firm fingerprinted these individuals. For the remaining associated persons CGMI timely fingerprinted, CGMI conducted screening under Section 19 of the Federal Deposit Insurance Act (“Section 19”). However, it failed to screen any of the 10,400 associated persons for certain types of felony convictions, as required under the Exchange Act.

In addition, at least three individuals who were subject to a statutory disqualification were allowed to associate with CGMI during the Relevant Period, and the Firm was unable to determine whether another approximately 140 associated persons were subject to a statutory disqualification because when CGMI conducted its review of these individuals their associations had ended or they were on leave.

The Firm’s failure to fingerprint and/or properly screen approximately 10,400 of its associated persons during the Relevant Period to meet the Exchange Act and FINRA requirements arose from its failure to maintain a reasonable supervisory system or procedures to identify and properly screen all individuals who became associated with the Firm in a non-registered capacity. The Firm self-reported this matter to FINRA and commenced a remedial review and screening process of non-registered associated persons across Citi.

As a result of the foregoing, CGMI violated Section 17(f) of the Exchange Act and Rule 17f-2 thereunder, the FINRA By-Laws, Article III, Section 3(b), NASD Rule 3010 (for conduct occurring before December 1, 2014), and FINRA Rule 3110 (for conduct occurring on or after December 1, 2014) and Rule 2010.

CGMI also failed to create and maintain certain required records in violation of Section 17(a) of the Exchange Act and Rule 17a-3 thereunder, NASD Rule 3110

(for conduct occurring before December 5, 2011), FINRA Rule 4511 (for conduct occurring on or after December 5, 2011), and FINRA Rule 2010.

### **FACTS AND VIOLATIVE CONDUCT**

#### **A. CGMI Failed to Fingerprint or Timely Fingerprint Associated Persons**

CGMI and other FINRA members are required by the federal securities laws to fingerprint most associated persons and are required by FINRA rules to screen all associated persons to ensure they are not subject to statutory disqualification, or disallowed from associating with a broker dealer. In addition, CGMI and FINRA members are required to retain records of fingerprinting. FINRA members use fingerprint results as part of the necessary screening process.

As stated in Notice to Members 05-39, “[M]embers are responsible for obtaining a prospective employee’s fingerprints and certain required identifying information.” Written policies and procedures called for all Citi employees, including CGMI non-registered personnel, to be fingerprinted prior to employment. However, at least 520 associated persons were not fingerprinted prior to employment and were only screened for Exchange Act purposes as part of this remediation. In addition, CGMI cannot determine whether at least an additional 520 non-registered associated personnel were fingerprinted because the Firm did not retain records reflecting that they were fingerprinted.

By virtue of the foregoing, CGMI violated Section 17(f) of the Exchange Act and Rule 17f-2 thereunder, and FINRA Rule 2010.

#### **B. CGMI Failed to Adequately Screen for Statutory Disqualification**

Section 19 requires banks to obtain approval to hire or retain anyone who has been convicted of, or entered into a pretrial diversion or similar program related to, any criminal offense involving dishonesty or a breach of trust or money laundering. Requirements under the Exchange Act and FINRA By-Laws are broader. They call for broker-dealers to obtain approval prior to associating with anyone convicted, within the past ten years, of criminal offenses (including misdemeanors) similar to those specified in Section 19, as well as anyone convicted of any domestic felony or subject to specified findings or actions by certain financial regulators. During the Relevant Period, CGMI failed to adequately screen approximately 10,400 non-registered associated persons to ensure they were not subject to statutory disqualification before they associated with the Firm. Citi screened most of these associated persons under the provisions of Section 19, but not under the more expansive provisions contained in the Exchange Act and FINRA By-Laws.

Three CGMI associated persons who were subject to disqualification were allowed to become and remain associated with the Firm for extended times during

the Relevant Period. One individual became associated with the Firm on October 31, 2016. The Firm did not screen him for statutory disqualification until February 2018. The Firm terminated this individual's association with the Firm on March 6, 2018. Another individual became associated with the Firm on July 31, 2017, but the Firm did not screen him for statutory disqualification until December 2017. The Firm placed the individual on leave on January 6, 2018 and the individual is no longer associated with the Firm. The third individual became associated with the Firm on February 22, 2017; however, the Firm did not screen her for statutory disqualification until December 2018. CGMI placed this individual on leave on January 9, 2019 and she is no longer associated with the Firm. CGMI was not able to re-screen, and thus could not determine the disqualification status of, approximately 140 additional non-registered associated persons because when CGMI conducted its review of these individuals their associations had ended or they were on leave.

By virtue of the foregoing, CGMI violated Article III, Section 3(b) of the FINRA By-Laws and FINRA Rule 2010.

**C. CGMI Failed to Create and Maintain Required Records**

CGMI failed to create and maintain, for the three associated persons who were subject to disqualification a "questionnaire or application ... approved in writing by an authorized representative of the member that contained," among other things, a record of the respective arrests and convictions, as required by Section 17(a) of the Exchange Act and Rule 17a-3(a)(12)(i)(G) thereunder. In addition, CGMI did not create and maintain fingerprint records for all of its eligible associated persons, as required by Section 17(a) of the Exchange Act and Rule 17a-3(a)(13) thereunder. By virtue of the foregoing, CGMI violated Section 17(a) of the Exchange Act and Rules 17a-3(a)(12)(i)(G) and 17a-3(a)(13) thereunder, NASD Rule 3110 (for conduct occurring before December 5, 2011), and FINRA Rules 4511 (for conduct occurring on or after December 5, 2011) and 2010.

**D. CGMI Failed to Establish and Maintain a Reasonable Supervisory System and Failed to Establish, Maintain and Enforce Written Supervisory Procedures**

CGMI's written supervisory policies and procedures for fingerprinting focused on individuals who were, or intended to become, registered. For the most part, onboarding of CGMI's non-registered associated persons was handled by Citi, which fingerprinted and screened them for compliance with Section 19. The written policies and procedures, with some limited exceptions, unreasonably failed to address methods for identifying CGMI non-registered associated persons or the need to screen them under the Exchange Act standards. CGMI also failed to enforce its written procedures requiring that all employees be fingerprinted prior to employment.

By virtue of the foregoing, CGMI failed to establish and maintain a reasonable supervisory system to identify all of its associated persons, to screen them for statutory disqualification as required by FINRA By-Laws, and to fingerprint eligible associated persons as required by Section 17(f) of the Exchange Act and Rule 17f-2 thereunder. CGMI also failed to establish, maintain and enforce written procedures that were reasonably designed to achieve compliance with applicable securities laws and regulations, specifically: (i) the recordkeeping provisions (Section 17(a) of the Exchange Act and Rule 17a-3 thereunder, NASD Rule 3110 and FINRA Rule 4511); (ii) the fingerprinting provisions (Section 17(f) of the Exchange Act and Rule 17f-2 thereunder); and (iii) FINRA eligibility rules (FINRA By-Laws, Article III, Section 3(b)). Therefore, CGMI violated NASD Rules 3010(a) and (b) (for conduct occurring before December 1, 2014), and FINRA Rules 3110(a) and (b) (for conduct occurring on or after December 1, 2014) and 2010.

In determining the appropriate sanction, Enforcement considered, among other factors, that the Firm: (i) initiated, prior to intervention by a regulator, an extensive review of the Firm's systems, practices, and procedures with respect to fingerprinting and screening associated persons; (ii) shared the results of that review with FINRA; (iii) promptly commenced correcting supervisory deficiencies identified by the Firm's internal review; and (iv) provided substantial assistance to FINRA in its investigation.

### **SANCTIONS**

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

- a censure;
- a fine in the amount of \$1,250,000;
- an undertaking to review its systems and procedures regarding the identification, fingerprinting, and screening of non-registered associated persons to ensure that current systems and procedures are reasonably designed to achieve compliance with governing securities laws and regulations, specifically Section 17(a) of the Exchange Act and Rule 17a-3 thereunder, Section 17(f) of the Exchange Act and Rule 17f-2 thereunder, FINRA By-Laws Article III, Section 3(b), and FINRA Rule 4511. Within 60 days of Notice of Acceptance of this AWC, an officer or director of the Firm shall describe in a written statement the methodology used by the Firm to conduct the referenced review and certify in writing to FINRA's Department of Enforcement that the Firm has adopted and implemented policies and procedures, including written procedures, reasonably designed to ensure compliance with the provisions of Section 17(a) of the Exchange Act and Rule 17a-3 thereunder, Section 17(f) of the Exchange Act and Rule 17f-2 thereunder, FINRA By-Laws Article III, Section 3(b), and FINRA Rule 4511. For good cause shown and upon receipt of a timely application, FINRA staff may extend the review and certification deadline set forth above; and,



- an undertaking to certify to FINRA within one hundred and eighty days (180) from the date this AWC is accepted, in a writing certified by a registered principal, that CGMI has completed a retrospective review to identify non-registered associated persons who were not previously fingerprinted and/or screened under the Exchange Act, and to fingerprint and screen those individuals under the Exchange Act. The certification shall also identify (i) the total number of associated persons screened in connection with the retrospective review, (ii) the names and CRD numbers, where available, of any associated persons who were subject to statutory disqualification while associated with the Firm; and (iii) the names and CRD numbers, where available, of any associated persons for whom the Firm could not determine disqualification status.

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;
- 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 CGMI; 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 accordance with FINRA Rule 8313;
  - 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 CGMI'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. CGMI

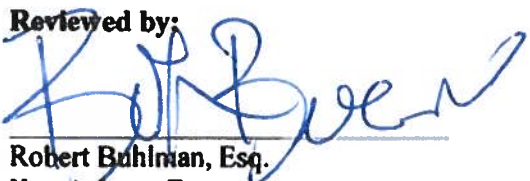
understands that it may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA or its staff.

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 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: 7/11/19

Citigroup Global Markets Inc.


By:   
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Title: Managing Director

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Accepted by FINRA:

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

Date: 7/29/19

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