

FINANCIAL INDUSTRY REGULATORY AUTHORITY

In the Matter of the
Continued Membership

of

Citigroup Global Markets, Inc.
(BD #7059)

Notice Pursuant to Rule 19h-1
Securities Exchange Act
of 1934

SD-2082

May 2, 2017

I. Introduction

On October 12, 2015, Citigroup Global Markets Inc. (“CGMI” or the “Firm”) submitted a Membership Continuance Application (“MC-400A” or the “Application”) to FINRA’s Department of Registration and Disclosure. The Application seeks to permit the Firm, a FINRA member subject to a statutory disqualification, to continue its membership with FINRA. A hearing was not held in this matter. Rather, pursuant to FINRA Rule 9523(b), FINRA’s Department of Member Regulation (“Member Regulation” or the “Department”) approves the Firm’s Application and files this Notice pursuant to Rule 19h-1 of the Securities Exchange Act of 1934 (“Exchange Act”).

II. The Statutorily Disqualifying Event

CGMI is subject to a statutory disqualification, as that term is defined in Section 3(a)(39)(F) of the Exchange Act,¹ as a result of the Securities and Exchange Commission’s (“SEC” or the “Commission”) August 19, 2015 Order Instituting Administrative and Cease-and-Desist Proceedings, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order (the “2015 SEC Order”) finding that the Firm willfully violated Section 15(g) of the Exchange Act and Section 206(4) of the Investment Advisers Act of 1940 (“Advisers Act”) and Rule 206(4)-7 thereunder.²

¹ Section 3(a)(39)(F) of the Exchange Act incorporates Section 15(b)(4)(D), which provides that a member firm is subject to statutory disqualification if it has willfully violated any provision of the Securities Act of 1933 or other securities laws or rules.

² See *In the Matter of Citigroup Global Markets, Inc.*, Exchange Act Release No. 75729 (Aug. 19, 2015), attached as Exhibit 1.

The SEC's proceedings arose from compliance and surveillance failures at CGMI involving technological errors that resulted in violations of legal requirements associated with the Firm's trade surveillance program that, in some cases, went undetected for years. First, from 2002 through 2012, CGMI failed to monitor thousands of trades, including proprietary trades, executed by several of its trading desks. This deficiency occurred because electronic reports that CGMI personnel used to conduct daily trade surveillance lacked information related to thousands of relevant trades due to the omission of several trading platforms or electronic systems. As a result of these deficiencies in its daily trade surveillance, the Firm compromised its ability to prevent and detect possible misuse of material, nonpublic information.³ In addition, from approximately October 2007 through February 2010, CGMI inadvertently routed more than 467,000 transactions on behalf of its investment advisory clients to an affiliated market maker that executed the transactions as principal at or near prevailing market prices. This occurred as a result of CGMI's deficient policies and procedures, which were not reasonably designed and implemented to divert certain orders away from the affiliated market maker. Furthermore, these principal transactions went undetected by CGMI's trade surveillance because the Firm relied on exception reports that were not reasonably designed to capture the transactions at issue.⁴

As a result of these violations, the Commission censured CGMI; ordered it to cease and desist from committing or causing any violations and any future violations of Section 15(g) of the Exchange Act and Section 206(4) of the Advisers Act and Rule 206(4) promulgated thereunder; and fined the Firm \$15 million.⁵ The Commission ordered the Firm to comply with undertakings initiated prior to the resolution of the case and to retain or continue to retain an independent consultant ("IC") to review the Firm's implementation and enforcement of its policies and procedures pertaining to trade surveillance to prevent violations of law as required by Section 15(g) of the Exchange Act, and the handling and routing of advisory orders to detect and prevent violations of Section 206(3) of the Advisers Act.⁶

³ *Id.* at p. 2.

⁴ *Id.* at pp. 2-3.

⁵ *Id.* at pp. 3-4, and 17. The Commission considered previous actions it had taken against the Firm in determining the amount of the fine. The Firm provided documentation showing that it paid the fine on August 25, 2015.

⁶ *Id.* at pp. 12-16. During the course of the Commission's investigation, CGMI hired an IC to conduct a comprehensive review and recommend improvements to the Firm's policies and procedures relating to trade surveillance. In addition, although not required by the 2015 SEC Order, the Firm paid \$2.5 million to

III. Background Information about CGMI

CGMI has been a member of FINRA f/k/a NASD since 1936.⁷ The Firm is based in New York City. According to the Central Registration Depository (“CRD”), it has 684 branch offices, 121 of which are Offices of Supervisory Jurisdiction (“OSJs”). The Firm employs more than 7,000 registered individuals and approximately 5,000 non-registered individuals.⁸

CGMI engages in the following lines of business: exchange member engaged in exchange commission business other than floor activities; exchange member engaged in floor activities; broker or dealer making inter-dealer markets in corporate securities over-the-counter; broker or dealer retailing corporate equity securities over-the-counter; broker or dealer selling corporate debt securities; underwriter or selling group participant (corporate securities other than mutual funds); mutual fund retailer; U.S. government securities dealer; U.S. government securities broker; municipal securities dealer; municipal securities broker; broker or dealer selling variable life insurance or annuities; solicitor of time deposits in a financial institution; broker or dealer selling oil and gas interests; put and call broker or dealer or option writer; broker or dealer selling securities of non-profit organizations (e.g., churches, hospitals); investment advisory services; broker or dealer selling tax shelters or limited partnerships in primary distributions and in the secondary market; trading securities for own account; private placements of securities; broker or dealer selling interests in mortgages or other receivables; broker or dealer involved in a networking, kiosk, or similar arrangement with an insurance company or agency; and commodities, commodity futures, or commodity options.⁹

In addition to FINRA, CGMI is a member of the following self-regulatory organizations:

- BATS Y-Exchange, Inc. (Approved 12/15/2010);
- BATS Z-Exchange, Inc. (Approved 9/24/2008);
- EDGA Exchange, Inc. (Approved 5/25/2010);

its affected investment advisory clients, which represented CGMI’s total profits from the principal transactions. *Id.* at p.11.

⁷MC-400 Application of CGMI attached as Exhibit 2 at FINRA 00061.

⁸ This information was gathered from CRD as of April 25, 2017.

⁹ Exhibit 2 at FINRA00061-62.

- EDGX Exchange, Inc. (Approved 5/27/2010);
- Chicago Board Options Exchange (Approved 12/26/1972);
- Chicago Stock Exchange (Approved 2/2/1986);
- International Securities Exchange (Approved 5/25/2000);
- Investors' Exchange LLC (Approved 8/10/2016);
- NASDAQ OMX BX, Inc. (Approved 10/6/2009);
- NASDAQ OMX PHLX, Inc. (Approved 11/2/2011);
- NASDAQ Stock Market (Approved 7/12/2006);
- NYSE Arca, Inc. (approved 1/27/2010);
- NYSE MKT LLC (Approved 2/25/1988); and
- New York Stock Exchange (approved 11/17/1982).¹⁰

A. FINRA's Routine Examinations

FINRA conducted cycle examinations of the Firm on an annual basis in 2015 and 2016; both examinations involved Financial/Operational, Alternative Net Capital and Sales Practice components.

The 2016 cycle examination resulted in a referral to FINRA's Department of Enforcement ("Enforcement") for exceptions related to non-compliance with Regulation SHO; systemic deficiencies in the Firm's FINRA Rule 4530 reporting process; and non-compliance with net capital requirements involving its failure to conduct a capital computation prior to making contractual commitments.¹¹ This referral is currently pending with Enforcement. FINRA also issued a Cautionary Action for several exceptions, including those related to insufficient supervisory controls for coding transactions that resulted in an understatement of market risk charges; systemic issues that led to inaccurate transaction confirmations; inaccurate filing information for extension requests under Regulation T and SEA Rule 15c3-3; untimely disclosure filings under FINRA Rule 4530; non-compliance with record preservation and storage requirements of SEA Rule 17a-4; and inaccurate and untimely submissions of primary offering disclosures to the Municipal Securities Rulemaking Board ("MSRB").¹²

¹⁰ See CRD printout entitled "Organization Registration Status" attached as Exhibit 3.

¹¹ See FINRA Examination Disposition Letter, Examination Report and CGMI Response Letter to Examination Report for 2016 Cycle Examination number 20160476859, collectively attached as Exhibit 4.

¹² *Id.* In the course of, and subsequent to, the 2016 cycle examination, the Firm acknowledged the issues identified in FINRA's examination and initiated remedial action including amendments to its written

FINRA's 2015 cycle examination resulted in Cautionary Action.¹³ Notable exceptions related to an insufficient supervisory system governing possession and control of customer securities pursuant to SEA Rule 15c3-3; deficiencies in risk management controls and the Firm's WSPs related to market access activities; insufficient processes to properly classify counterparty accounts under FINRA Rules 3110(b) and 4210; inaccurate net capital and securities haircuts calculations; and inaccurate and untimely submissions to the MSRB filing system related to disclosures for primary offerings.¹⁴

B. Recent Regulatory Actions

In the past two years, CGMI has been subject to regulatory actions by FINRA, federal regulators, state securities authorities and other self-regulatory organizations ("SROs").

FINRA Disciplinary Actions

CGMI has executed 9 Letters of Acceptance, Waiver and Consent ("AWC") to resolve disciplinary actions with FINRA. These AWCs addressed a variety of rule violations concerning research, supervision, trade reporting, registration and best execution, among other things. CGMI was censured, ordered to pay fines ranging from \$20,000 to \$850,000, and, in certain cases, ordered to pay restitution to customers and comply with undertakings to revise its WSPs.¹⁵

Other SEC Actions

In addition to the 2015 SEC Order, CGMI was subject to five other SEC orders in administrative proceedings in the last two years.

supervisory procedures ("WSPs") and implementation of additional compliance training. *See id.* (CGMI Response letter to FINRA's 2016 cycle examination, dated December 9, 2016).

¹³ *See* FINRA Examination Disposition Letter, Examination Report and CGMI Response Letter to Examination Report for 2015 Cycle Examination number 20150432631, collectively attached as Exhibit 5.

¹⁴ *Id.* The Firm took corrective action to address the identified deficiencies. *See id.* (CGMI Response Letter to FINRA's 2015 cycle examination, dated May 5, 2015 (sic). The Response Letter should be dated May 5, 2016).

¹⁵ *See* Two-Year Summary of CGMI's AWCs, arranged from newest to oldest: Case nos. 20140411445-01, 2012032923301, 20130358235-01, 20130359819-01, 20120316429-01, 20130380612-01, 2011030674103, 2013037783401, and 20120339787-01, collectively attached as Exhibit 6.

Most recently, the Commission issued an order against CGMI on January 26, 2017 in which it censured the Firm, ordered it to pay approximately \$3.2 million in disgorgement and a \$14.3 million fine, and imposed undertakings relating to the Firm's failure to maintain copies of client advisory fee contracts and making unauthorized overcharges to advisory client accounts caused by flaws in the procedures by which the Firm applied negotiated fee rates, fee reductions and certain rebates.¹⁶

In another recent order, issued January 24, 2017, the SEC ordered the Firm to pay disgorgement of \$624,458.27, prejudgment interest of \$89,277.34 and a fine of \$2,250,000 related to customer losses resulting from the Firm's failure to adequately disclose the extent of leverage and mark-up charges used in a foreign exchange trading program.¹⁷

The Firm was also censured and fined \$7 million as a result of an SEC Order issued on July 12, 2016, for its failure to provide complete and accurate trade data to the SEC in response to electronic blue sheet requests.¹⁸

On August 17, 2015, the Firm was censured, ordered to pay approximately \$139 million in disgorgement and prejudgment interest and comply with undertakings related to misrepresentations of the risks and performance of alternative investment products.¹⁹

Finally, the Firm was subject to an order as a result of the Municipalities Continuing Disclosure Cooperation Initiative ("MCDC Initiative") to address material misstatements in connection with municipal bond offerings, as well as lack of due diligence regarding

¹⁶ See SEC administrative proceedings, collectively attached as Exhibit 7, at pp. 1-11. The January 26, 2017 SEC Order subjects the Firm to statutory disqualification under Exchange Act Section 3(a)(39)(F), incorporating by reference Section 15(b)(4)(D), due to its finding that the CGMI willfully violated Sections 204(a) and 206(2) of the Advisers Act and Rules 204-2(a)(10), 204-2(e)(1), and 206(4)-7 thereunder. The Firm filed a MC-400A Application with FINRA on February 28, 2017, which is currently pending with FINRA's Department of Member Regulation.

¹⁷ *Id.* at pp. 13-17. The Firm is not subject to statutory disqualification based on the January 24, 2017 SEC Order because it did not involve willful violations of Federal Securities laws.

¹⁸ *Id.* at pp. 19-26. Although this finding renders the firm statutorily disqualified, no application was required because the sanctions from this Order are no longer in effect.

¹⁹ *Id.* at pp. 28-35. Although this finding rendered the firm statutorily disqualified, no application was required, because the fine was paid and no further sanctions were ordered. See Email dated April 7, 2016 from Smith Greig, SEC Office of the General Counsel, at Ex. 7, p. 36.

issuers' continuing disclosure obligations in connection with the offerings.²⁰ For these violations, the Firm was censured, fined \$500,000 and ordered to comply with various undertakings by order issued on June 18, 2015.²¹

State Regulatory Actions

The same conduct that resulted in the January 26, 2017 SEC Order, discussed above, also led to the Firm entering into an Assurance of Discontinuance with the Investor Protection Bureau of the State of New York on January 12, 2017, which imposed a \$1 million civil penalty and undertakings.²²

Additionally, between May 2015 and the present, CGMI was subject to a global settlement with a multistate task force composed of members of the North American Securities Administrators Association ("NASAA"), regarding CGMI's failure to monitor the registration status of sales assistants, resulting in sales activities being conducted by these sales assistants in states in which they were not properly registered. Pursuant to the settlement, the Firm agreed to pay each state that instituted a disciplinary action \$35,000 in fines and investigatory costs. To date, the Firm has settled with 39 State securities commissions, as well as with the District of Columbia.²³

Other Regulatory Actions

CGMI has also settled 25 disciplinary actions by other SROs or exchanges involving violations of their registration and reporting rules, among others. The Firm was fined between \$1,000 and \$25 million in connection with these actions.²⁴

²⁰ *Id.* at pp. 38-44. FINRA filed a Rule 19h-1 Notice on August 10, 2015 approving CGMI's continued membership notwithstanding the statutory disqualification that resulted from the June 18, 2015 SEC order. The Commission acknowledged FINRA's notice on August 20, 2015.

²¹ *Id.* at pp. 42-44.

²² *See* Assurance of Discontinuance No. 16-178, attached as Exhibit 8, along with CRD records about other actions by state securities authorities.

²³ *See id.*, excerpts from CGMI's Uniform Application for Broker-Dealer Registration ("Form BD") providing abstracts of each settlement with a state securities commission.

²⁴ *See* Excerpts from CGMI's Form BD providing abstracts of each settlement with other SROs or exchanges, attached as Exhibit 9.

Most recently, CGMI was subject to a January 19, 2017 Order of the Commodity Futures Trading Commission (“CFTC”), finding that the Firm “by and through five of its traders” engaged in “spoofing,” by making bid or offer orders in U.S. Treasury futures markets with the intent to cancel the orders before execution. The CFTC also found that the Firm failed to diligently supervise the activities of its traders involved in the spoofing. This conduct constituted violations of Section 4c(a)(5)(C) of the Commodity Exchange Act and Commission Regulations. As a result, the CFTC ordered that the Firm pay a civil penalty of \$25 million and comply with various undertakings.²⁵

C. Prior SEC Rule 19h-1 Notices

FINRA has filed three SEC Rule 19h-1 notices, on January 9, 2013, August 10, 2015, and September 8, 2016, approving CGMI’s continued membership notwithstanding the existence of three statutory disqualifications. The Commission acknowledged FINRA’s first two notices listed above on July 2, 2013 and August 20, 2015.²⁶ FINRA has not yet received acknowledgement from the Commission for the September 8, 2016 notice.

IV. The Firm’s Proposed Continued Membership with FINRA and Proposed Supervisory Plan

CGMI seeks to continue its membership with FINRA notwithstanding the 2015 SEC Order that triggered its statutory disqualification. As noted above, during the course of the Commission’s investigation, CGMI hired an IC to conduct an assessment of CGMI’s surveillance program and recommend improvements to the Firm’s technological policies and procedures.²⁷ The Commission also ordered CGMI to retain another IC to review the Firm’s implementation and enforcement of its policies and procedures pertaining to trade surveillance and the handling and routing of advisory orders.

In compliance with the 2015 SEC Order, CGMI retained an IC, which issued a report of its findings and recommendations as contemplated by paragraph 45.C of the Order, on

²⁵ See CFTC Order Instituting Proceedings, dated January 19, 2017, attached as Exhibit 10. The CFTC Order also subjects the Firm to statutory disqualification under Exchange Act Section 3(a)(39)(F), incorporating by reference Section 15(b)(4)(D), because the CFTC Order involves violations of Section 4c(a)(5)(C) of the Commodity Exchange Act and Commission Regulations.

²⁶ See Prior SEC Rule 19h-1 Notices and SEC letters, collectively attached as Exhibit 11.

²⁷ See Ex. 1 at p. 11.

October 7, 2015. As required by paragraph 45.H, CGMI states that it expects to implement the IC's recommendations by December 31, 2017, at which time the Firm is to notify the IC and Commission staff that it has implemented these recommendations. The IC must then certify that fact and, within 180 days of the IC's certification, it is required to issue a final report describing its review of CGMI's implementation of the recommendations, how the implementation is being conducted and whether it is reasonably designed to prevent violations of law in compliance with Section 15(g) of the Exchange Act and Section 206(3) of the Advisers Act.²⁸

To supplement these actions, and pursuant to Exchange Act Rule 19h-1 and FINRA Rule 9523(b), CGMI has agreed to the following plan of supervision (the "Supervision Plan") as a condition of its continued membership with FINRA:

1. Comply with the undertakings specified in the 2015 SEC Order;
2. Establish protocols to ensure that the undertakings outlined in the 2015 SEC Order are completed in the time period established in the Order or by the time period granted by Commission staff in any extension;
3. Provide FINRA with copies of correspondence between the Firm and Commission staff regarding requests to extend the procedural dates relating to the undertakings; and
4. Provide FINRA with a copy of the certification and all supporting documentation that will be provided to the Commission upon completion of the undertakings as specified in the 2015 SEC Order. These documents must be sent directly to:

Lorraine Lee-Stepney
Manager, Statutory Disqualification Program
FINRA
1735 K Street NW
Washington, DC 20006
Lorraine.Lee@finra.org²⁹

²⁸ See Exhibit 1 at paragraph 45.K(i-iii).

²⁹ See Supervisory Plan executed by the Firm dated April 19, 2017, attached as Exhibit 12.

Following the approval of the Firm's continued membership in FINRA, FINRA intends to utilize its examination and surveillance processes to monitor the Firm's continued compliance with the standards prescribed by FINRA Rule 9523. FINRA will examine the Firm during either the first year following the filing of the Rule 19h-1 Notice or, alternatively, during the Firm's regularly scheduled cycle examination, to ensure that CGMI is complying with the agreed upon plan of supervision. After the initial examination, the determination of whether to subject the plan to further review will be driven by FINRA's overall risk-based assessment of the Firm.

V. Discussion

After carefully reviewing the record in this matter, FINRA approves the Firm's request to continue its membership in FINRA, subject to the terms and conditions set forth in the aforementioned plan of supervision.

In evaluating the Application, FINRA assessed whether the Firm has demonstrated that its continued membership is consistent with the public interest and does not create an unreasonable risk of harm to investors or the market.³⁰ Factors that bear on Member Regulation's assessment include the nature and gravity of the statutorily disqualifying misconduct, time elapsed since its occurrence, restrictions imposed, and the Firm's regulatory history.

Although the 2015 SEC Order involved serious violations of the federal securities laws, we noted that the violations resulted chiefly from technological errors and that CGMI took action during and after the Commission's proceeding to address these errors. As noted above, the Firm retained an IC during the Commission's investigation that conducted a comprehensive review and recommended improvements to the Firm's policies and procedures relating to trade surveillance and the handling and routing of advisory orders. The Firm represented that it has implemented a number of changes to enhance its Information Barrier Surveillance Group ("IBSG") surveillance program,

³⁰ See FINRA By-Laws, Art. III, Sec. (3)(d); *In the Matter of the Continued Membership of J.P. Morgan Securities, Inc.*, SD-1904, SD-1905, and SD-1984 (FINRA NAC 2014), quoting *Frank Kufrovich*, 55 S.E.C. 616, 624 (2002) (FINRA "may deny an application by a firm for association with a statutorily-disqualified individual if it determines that employment under the proposed plan would not be consistent with the public interest and the protection of investors"). Available at: http://www.finra.org/sites/default/files/NAC%20Statutory%20Disqualification%20Decision%20SD1904_0_0_0_0_0.pdf

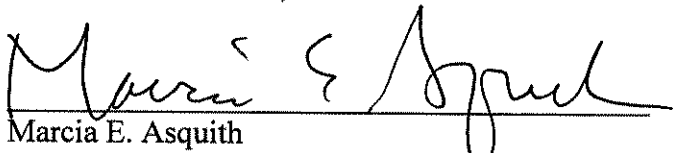
including investments in its technology and operational systems and retaining personnel with the requisite qualifications and experience.³¹

Following the approval of the Firm's continued membership in FINRA, FINRA intends to utilize its examination and surveillance processes to monitor the Firm's continued compliance with the standards prescribed by Exchange Act Rule 19h-1 and FINRA Rule 9523.³²

FINRA has also conducted a review of the Firm's regulatory history and recent regulatory actions and finds that, at this time, none of these matters would prevent the continuance of the Firm as a FINRA member. Thus, based on the information known to FINRA as of the date of this Notice and the Firm's representations made pursuant to the plan of supervision, we do not believe that the Firm's continued membership in FINRA will create an unreasonable risk of harm to the market or investors. Accordingly, we approve CGMI's Application to continue its membership with FINRA as set forth herein.

FINRA certifies that the Firm meets all qualification requirements and represents that it is registered with NYSE MKT, NASDAQ OMX BX, CBOE, CHX, ISE, IEX, NYSE, NYSE Arca, NASDAQ OMX BX, NASDAQ OMX PHLX, NQX, BATS Y-Exchange and BATS-Z Exchange, and EDGA and EDGX.³³ In conformity with the provisions of SEA Rule 19h-1, the continued membership of the Firm will become effective within 30 days of the receipt of this Notice by the Commission, unless otherwise notified by the Commission.

On Behalf of FINRA,



Marcia E. Asquith
Executive Vice President and Corporate Secretary

³¹ See Appendix C to CGMI's MC-400 Application, attached as Exhibit 13 at FINRA00088.

³² Also considered was that the Firm reimbursed advisory customers affected by the Firm's failures in the underlying event and that the Firm's efforts were considered by the Commission when it accepted the Firm's offer of settlement and chose not to expel, suspend or otherwise restrict the Firm's business. *See* Ex. 1 at p. 11. The Commission also elected to grant the Firm waivers from the disqualification provisions of the issuer and exemption provisions of Rules 405 and 506(d) of the Securities Act of 1933. *See* SEC Waiver Orders in Proceeding No. 3-16764, August 19, 2015, attached as Exhibit 14.

³³ *See* Exhibit 3, CRD printout entitled "Organization Registration Status."

Exhibit List

1. Order, *In the Matter of Citigroup Global Markets, Inc.*, Exchange Act Release No. 75729 (Aug. 19, 2015).
2. MC-400 Application submitted by CGMI dated October 12, 2015.
3. Firm's CRD printout entitled "Organization Registration Status."
4. FINRA examination documents from 2016 Cycle Examination, matter no. 20160476859.
5. FINRA examination documents from and 2015 Cycle Examination, matter no. 20150432631.
6. FINRA Letters of Acceptance, Waiver and Consent from April 2015 through April 2017.
7. SEC Administrative Proceedings: No. 3-17817-January 26, 2017; No. 3-17808-January 24, 2017; No. 3-17338-July 12, 2016; No. 3-16757-August 17, 2015; and No. 3-16613-June 18, 2015.
8. Assurance of Discontinuance No. 16-178, Investor Protection Bureau of the State of New York and excerpts from CGMI's Uniform Application for Broker-Dealer Registration ("Form BD") providing abstracts of settlements with state securities commissions, including in the NASAA global settlement.
9. Excerpts from CGMI's Form BD providing abstracts of each settlement with other SROs or exchanges.
10. CFTC Order Instituting Proceedings, Docket No. 17-06, dated January 19, 2017.
11. Prior SEC Rule 19h-1 notices approving CGMI to continue in FINRA membership.
12. Supervisory Plan executed by CGMI on April 24, 2017.
13. Appendix C to the MC-400 Application.
14. SEC Waiver Orders in proceeding No. 3-16764, August 19, 2015.