

**FINANCIAL INDUSTRY REGULATORY AUTHORITY  
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT  
NO. 2021070664101**

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

RE: Citigroup Global Markets Inc. (Respondent)  
Member Firm  
CRD No. 7059

Pursuant to FINRA Rule 9216, Respondent Citigroup Global Markets Inc. 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 in this AWC.

**I.**

**ACCEPTANCE AND CONSENT**

- A. Respondent accepts and consents to the following findings by FINRA without admitting or denying them:

**BACKGROUND**

Citigroup Global Markets Inc. (CGMI) has been a FINRA member since 1936 and is headquartered in New York, NY. CGMI conducts a general securities business and has approximately 8,200 registered representatives operating out of approximately 740 branch offices.<sup>1</sup>

**OVERVIEW**

From October 2012 through March 2021, CGMI failed to collect initial and maintenance margin on over-the-counter (OTC) equity option contracts it entered into with two affiliated entities. As a result, the firm: (i) failed to collect the requisite margin in violation of FINRA Rules 4210 and 2010; (ii) extended credit in cash accounts in violation of Exchange Act § 7(c), Regulation T of the Board of Governors of the Federal Reserve System (Reg T) and FINRA Rules 4210 and 2010; (iii) inaccurately reported net capital in violation of Exchange Act § 15(c)(3), Exchange Act Rule 15c3-1(c) and FINRA Rule 2010; (iv) filed inaccurate FOCUS Reports in violation of Exchange Act § 17(a)(1), Exchange Act Rule 17a-5 and FINRA Rule 2010; and (v) maintained

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<sup>1</sup> For more information about the firm, including prior regulatory events, visit BrokerCheck® at [www.finra.org/brokercheck](http://www.finra.org/brokercheck).

inaccurate schedules to the firm's general ledger in violation of Exchange Act § 17(a), Exchange Act Rule 17a-3, and FINRA Rules 4511 and 2010.

### **FACTS AND VIOLATIVE CONDUCT**

This matter originated after CGMI reported its failure to collect margin to FINRA pursuant to the requirements of Exchange Act Rule 17a-11(d)(1).

#### **A. CGMI entered into OTC equity option contracts with affiliated entities.**

CGMI has entered into OTC equity option contracts with one of its affiliated entities since at least the early 2000s and with a second affiliated entity since 2016. OTC equity option contracts are customized, bilateral option contracts agreed to and traded directly by the parties and not traded on a national securities exchange. CGMI's affiliates used these contracts to hedge credit risk. Although the affiliated entities generally held assets at CGMI in portfolio margin accounts, they held the OTC equity option contracts separately in cash (non-margin) brokerage accounts.

#### **B. CGMI failed to collect initial and maintenance margin on the affiliated entities' OTC equity option contracts.**

FINRA Rule 4210 sets forth the terms on which firms can extend credit for securities transactions, including the corresponding margin requirements. Margin requirements for OTC option contracts are prescribed in FINRA Rule 4210(f)(2). It is a violation of FINRA Rule 4210 when a firm fails to collect the required initial and maintenance margin. A violation of FINRA Rule 4210 also constitutes a violation of FINRA Rule 2010, which requires members, in the conduct of their business, to "observe high standards of commercial honor and just and equitable principles of trade."

Beginning in October 2012, CGMI failed to collect initial and maintenance margin on OTC equity option contracts it entered into with two affiliated entities. Prior to this time, CGMI calculated margin requirements for OTC equity option contracts with a manually created report. The firm discontinued using the report in September 2012 during a change in management of the firm's Margin Operations team. As a result, CGMI had no process to calculate or collect initial or maintenance margin on OTC equity option contracts entered into with the two affiliated entities until March 2021 when the firm resumed manually calculating margin requirements after discovering its failure to calculate margin.

After self-identifying the failure and the issues described herein in February 2021, CGMI initiated remediation, conducted an internal investigation, and shared the results of that investigation with FINRA. In May 2022, CGMI implemented an automated process to calculate margin for OTC equity options entered into with the two affiliated entities.

CGMI's failure to collect margin on OTC equity option contracts it entered into with one affiliated entity resulted in a margin deficiency for most dates in a sample period of March 2020 through end of May 2020, ranging from approximately \$16 million to

approximately \$2.2 billion. CGMI's failure to collect margin on OTC equity option contracts it entered into with the other affiliated entity resulted in margin deficiencies for nine of the dates in the sample period, ranging from approximately \$1 million to approximately \$81.1 million. On other dates in the sample period, there were no margin deficiencies. CGMI had sufficient net capital on all dates sampled.

CGMI's failure to collect the required margin on OTC equity options conferred a benefit to the firm's affiliates in that they were not required to deposit additional cash or securities.

Based on the foregoing, CGMI violated FINRA Rules 4210 and 2010.

**C. CGMI's extension of credit to its affiliated entities for OTC option transactions violated federal securities laws and FINRA rules.**

Exchange Act § 7(c) makes it unlawful for a broker-dealer to extend credit to a customer except in accordance with the regulations prescribed by the Federal Reserve Board under Reg T. Section 220.8 under Reg T governs cash accounts and prohibits options transactions in cash accounts except in limited circumstances not applicable here. FINRA Rule 4210(f)(2)(N) states that a member may make option transactions in a customer's cash account if the transaction is permissible under Regulation T, Section 220.8 or meets certain requirements not applicable here. A violation of Exchange Act § 7(c), Reg T and FINRA Rule 4210 is also a violation of FINRA Rule 2010.

From October 2012 through March 2021, the OTC equity option contracts executed for CGMI's affiliated entities improperly occurred in cash accounts. Further, by failing to collect margin on the OTC option transactions held in those accounts, CGMI improperly extended credit to the affiliated entities associated with the options trading.

Therefore, CGMI violated Exchange Act § 7(c), Section 220.8 of Reg T and FINRA Rules 4210 and 2010.

**D. CGMI's failure to collect margin resulted in inaccurate computation of net capital.**

Exchange Act § 15(c)(3) and Exchange Act Rule 15c3-1 thereunder require FINRA members to maintain minimum net capital in order to conduct a securities business and to compute net capital in accordance with specified provisions. In particular, Exchange Act Rule 15c3-1(c)(2)(xii) specifies the need to take net capital deductions for "certain undermargined accounts." A violation of Exchange Act § 15(c)(3) and Exchange Act Rule 15c3-1 is also a violation of FINRA Rule 2010.

From October 2012 to March 2021, CGMI's failure to collect margin from its affiliated entities caused the firm's net capital calculations to be inaccurate. By not deducting the margin deficiencies from its net capital computations, CGMI overstated its reported net

capital. During the sample period of March through May 2020, CGMI overstated its net capital by as much as \$2.2 billion. CGMI had sufficient net capital on all dates sampled.

Therefore, CGMI violated Exchange Act § 15(c)(3), Exchange Act Rule 15c3-1(c), and FINRA Rule 2010.

**E. CGMI's inaccurate computation of net capital and margin resulted in its failure to maintain accurate books and records and filing of inaccurate FOCUS reports.**

FINRA Rule 4511 requires each FINRA member to make and preserve books and records as required under Exchange Act § 17(a)(1) and applicable Exchange Act rules.

Exchange Act Rule 17a-3(a)(11) requires broker-dealers to make and keep current a record of their "computation of aggregate indebtedness and net capital, as of the trial balance date...." Exchange Act Rule 17a-5 requires every broker-dealer to prepare and file monthly or quarterly FOCUS reports containing certain accounting and financial information, including the firm's minimum required net capital, net capital, and excess net capital. Exchange Act Rule 17a-5(a)(ii) further requires every broker-dealer to file a FOCUS report no later than 17 business days after the end of each calendar month or quarter as applicable. Inherent in the obligation to make and preserve books and records is the requirement that they be accurate.

A violation of Exchange Act § 17(a)(1), Exchange Act Rules 17a-3 and 17a-5, and FINRA Rule 4511 is also a violation of FINRA Rule 2010.

From October 2012 through March 2021, CGMI inaccurately calculated its aggregate indebtedness and net capital by not accounting for margin deficiencies associated with OTC equity option contracts with its affiliated entities. As a result, the firm's general ledger and computations of aggregate indebtedness and net capital were inaccurate. In addition, FOCUS reports filed by CGMI during this period contained inaccurate computations of net capital.

Therefore, CGMI violated Exchange Act § 17(a)(1), Exchange Act Rules 17a-3 and 17a-5, and FINRA Rules 4511 and 2010.

B. Respondent also consents to the imposition of the following sanctions:

- a censure; and
- a \$1,400,000 fine.

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

Respondent specifically and voluntarily waives any right to claim an inability to pay, now or at any time after the execution of this AWC, the monetary sanction imposed in this matter.

The sanctions imposed in this AWC shall be effective on a date set by FINRA.

## **II.**

### **WAIVER OF PROCEDURAL RIGHTS**

Respondent 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, Respondent specifically and voluntarily waives any right to claim bias or prejudgment 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 its acceptance or rejection.

Respondent 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

[REDACTED]

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 Respondent's permanent disciplinary record and may be considered in any future action brought by FINRA or any other regulator against Respondent;
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 its subject matter in accordance with FINRA Rule 8313; and
4. Respondent 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. Respondent 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 Respondent's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party. Nothing in this provision affects Respondent's testimonial obligations in any litigation or other legal proceedings.

D. Respondent may attach a corrective action statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondent 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.

The undersigned, on behalf of Respondent, certifies that a person duly authorized to act on Respondent's 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 Respondent has agreed to the AWC's provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than

the terms set forth in this AWC and the prospect of avoiding the issuance of a complaint, has been made to induce Respondent to submit this AWC.

September 30, 2024

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Date

*Leticia Vandelaar*

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Citigroup Global Markets Inc.  
Respondent

Print Name: Leticia Vandelaar

Title: Head of Investigations - Legal

Reviewed by:

*Mark Lanpher*

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Mark Lanpher  
Counsel for Respondent  
A&O Shearman  
401 9<sup>th</sup> Street, NW  
Washington, DC 20004

Accepted by FINRA:

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

*Maya Krugman*

October 7, 2024

\_\_\_\_\_  
Date

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Maya Krugman  
Senior Counsel  
FINRA  
Department of Enforcement  
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New York, NY 10821