

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT**

NO. 20130358235-01

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

RE: Citigroup Global Markets Inc., Respondent
Broker-Dealer
CRD No. 7059

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Citigroup Global Markets Inc. (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 the firm alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. The firm 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

The firm has been a member of FINRA since October 16, 1936, and its registration remains in effect.

RELEVANT DISCIPLINARY HISTORY

On September 26, 2013, FINRA accepted an AWC in which the firm was censured and fined \$32,500 for equity trade reporting violations between January 2012 and April 2012.

On August 20, 2013, FINRA accepted an AWC in which the firm was censured and fined \$60,000 for Order Audit Trail System ("OATS") reporting violations between January 2010 and April 2010, and between January 2011 and April 2011.

On August 9, 2013, FINRA accepted an AWC in which the firm was censured and fined \$155,000 for equity trade reporting violations, record keeping violations, OATS violations,

SEC Rule 605 violations, and SEC Rule 10b-10 violations during various periods in 2009, 2010, and 2011.

On May 30, 2013, FINRA accepted an AWC in which the firm was censured and fined \$800,000 for equity trade reporting and related supervisory violations, record keeping violations, and OATS violations during various periods between February 2002 and August 2011.

On December 21, 2012, FINRA accepted an AWC in which the firm was censured and fined \$575,000 for record keeping and related supervisory violations between April 2009 and March 2010.

On August 14, 2012, FINRA accepted an AWC in which the firm was censured and fined \$900,000 for Trade Reporting and Compliance Engine ("TRACE") reporting and record keeping violations between July 2007 and December 2010.

On May 21, 2012, FINRA accepted an AWC in which the firm was censured and fined \$3,500,000 which included record keeping and supervisory violations between January 2006 and October 2007.

On February 3, 2012, FINRA accepted an AWC in which the firm was censured and fined \$12,500 for OATS reporting violations between October 2007 and December 2007.

SUMMARY

In connection with the firm's 2013 Trading and Financial Compliance Examinations ("TFCE") review, conducted under matter no. 20130358235, the TFCE staff of FINRA's Department of Market Regulation (the "staff") reviewed certain trading activity for trade date August 6, 2013 (the "2013 exam review period"). As a result of this exam, among other findings, the firm identified a system issue which caused it to incorrectly mark 203,653 short sales as long sales on its books and records between January 8, 2013 and October 16, 2013. The issue effected customer orders with non-standard settlement instructions that the firm handled on a riskless principal basis. The firm also identified OATS reporting issues causing several million OATS reporting violations between November 21, 2008 and December 3, 2013. Two separate issues also caused the firm include certain orders in its SEC Rule 605 of Regulation NMS ("SEC Rule 605") reports between January 1, 2013 and March 13, 2014, and January 1, 2013 and October 31, 2014, that should not have been included. The second SEC Rule 605 issue was also identified in the 2014 exam.

In connection with the firm's 2014 TFCE review, conducted under matter no. 20140399387, the staff reviewed certain trading activity for trade dates July 14 and 15, 2014 (the "2014 exam review period").¹ As a result of this exam, among other findings, the firm identified another OATS reporting issue that caused millions of OATS reporting violations between June 1, 2012 and June 1, 2015.

¹ Additional issues related to the firm's SEC Rule 10b-10 customer confirmations that were identified in the 2014 and 2015 exams will be resolved separately with the investigation conducted under matter no. 20140396537.

In connection with the firm's 2015 TFCE review, conducted under matter no. 20150442275, the staff reviewed certain trading activity for trade dates between July 15 through July 29, 2015 (the "2015 exam review period"). As a result of this exam, the staff identified violations of SEC Rule 606 of Regulation NMS and FINRA Rule 2010.

FACTS AND VIOLATIVE CONDUCT

Matter no. 20130358235 – 2013 TFCE Review

1. Between January 8, 2013 and October 16, 2013, the firm recorded 203,653 short sale executions on its books and records as long sales. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 17a-3 and FINRA Rules 4511 and 2010.
2. Between November 21, 2008 and December 3, 2013, the firm submitted inaccurate order origination codes and account type codes to OATS for approximately 2,775,338 orders. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 6955 (for conduct prior to December 15, 2008) and FINRA Rule 7450 (for conduct on or after December 15, 2008).
3. Between June 1, 2012 and August 26, 2013, the firm submitted New Order Reports instead of Desk Reports to OATS for approximately 2,742,362 orders. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 7450.
4. During the 2013 exam review period, the firm reported 30 inaccurate allocation times in the execution field of trade reports for step-out transactions reported to the FINRA/Nasdaq Trade Reporting Facility ("FNTRF"). This issue dates back to approximately May 1998 and continued through November 2014, and impacted approximately 1,000 step-out transactions per day. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 6130 (for conduct prior to December 15, 2008) and FINRA Rule 7230A (for conduct on or after December 15, 2008).
5. During the 2013 exam review period, on seven occasions the firm accepted orders from customers for execution in the pre-market session or post-market session without disclosing to such customers that extended hours trading involves material trading risks, including the possibility of lower liquidity, high volatility, changing prices, unlinked markets, an exaggerated effect from news announcements, wider spreads and any other relevant risk. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 2265.
6. Between January 1, 2013 and March 13, 2014, the firm made available reports on covered orders in national market system securities that one of the firm's alternative trading systems ("ATS") received for execution. The reports for that ATS incorrectly included information for approximately 52,506 orders that were routed to another destination for execution. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 605 of Regulation NMS and FINRA Rule 2010.
7. Between January 1, 2013 and October 31, 2014, the firm made available reports on covered orders in national market system securities that one of the firm's ATSs

received for execution. Those reports incorrectly included “not held” orders that were ultimately routed to external destinations for execution. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 605 of Regulation NMS and FINRA Rule 2010.

Matter no. 20140399387 – 2014 TFCE Review

8. Between June 1, 2012 and June 1, 2015, the firm submitted approximately 4,300,000 orders to OATS with inaccurate special handling instructions of “go along” or “over the day.” The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 7450.

Matter no. 20150442275 – 2015 TFCE Review

9. For the third and fourth calendar quarters of 2015, and the first calendar quarter of 2016, the firm made publicly available reports on its routing of non-directed orders in covered securities during those quarters. Those reports included incomplete information as to a material aspect of the firm’s relationship with one affiliated venue to which it routed large percentages of its total non-directed orders. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 606 of Regulation NMS and FINRA Rule 2010.

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

A censure and a \$300,000 fine (comprised of \$80,000 for the record keeping violations, \$100,000 for the OATS violations, \$25,000 for the trade reporting violations, \$10,000 for the extended hours disclosure violations, \$60,000 for SEC Rule 605 of Regulation NMS violations, and \$25,000 for SEC Rule 606 of Regulation NMS violations).

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

The firm 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

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 the firm;
- 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 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 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

The firm 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 the firm; 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 the firm;
 - 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. 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: (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. 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 it 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 herein and the prospect of avoiding the issuance of a Complaint, has been made to induce the firm to submit it.

10/17/16
Date

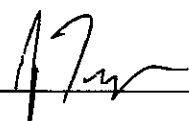
Respondent
Citigroup Global Markets Inc.

By: 

Name: John E. Lewis

Title: Managing Director

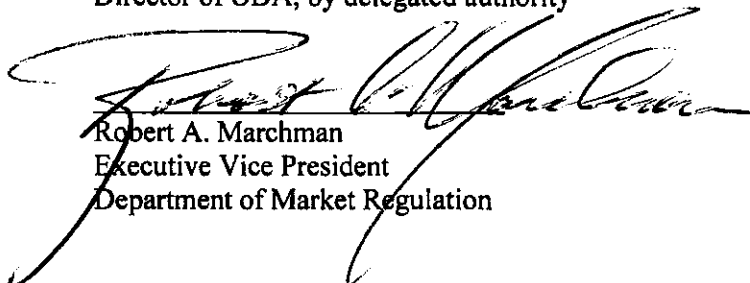
Reviewed by:


Attorney Name: J. Tyne
Counsel for Respondent ☒

Accepted by FINRA:

11/9/16
Date

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


Robert A. Marchman
Executive Vice President
Department of Market Regulation