

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2015045325201**

**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 of FINRA's Code of Procedure, Respondent Citigroup Global Markets Inc. ("Citigroup" 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. Citigroup 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

Citigroup is a full-service broker-dealer that provides investment banking, asset management, brokerage, securities trading, advisory and other financial services to retail and institutional customers. Citigroup also engages in proprietary trading. The firm has been a FINRA member since October 16, 1936. Citigroup's headquarters are in New York, New York, and it employs approximately 7,398 registered representatives and has approximately 731 branch offices.

RELEVANT DISCIPLINARY HISTORY

The firm does not have any relevant disciplinary history with the Securities and Exchange Commission, any state securities regulators, FINRA, or any other self-regulatory organization.

OVERVIEW

The Securities and Exchange Commission adopted Regulation SHO to address concerns regarding persistent failures to deliver and potentially abusive “naked” short selling, e.g., the sale of securities that an investor does not own or has not borrowed. SEC Rule 201(b) of Regulation SHO requires trading centers to establish, maintain and enforce written policies and procedures to prevent the execution of a short sale at or below the National Best Bid when a short sale circuit breaker is in effect. SEC Rule 203(b)(1) of Regulation SHO imposes requirements related to borrowing or locating stock before an equity short sale. FINRA Rules 6182 and 6624 require members to indicate on trade reports submitted to FINRA whether the transaction is a short sale or a short sale exempt transaction.

Between June 2012 and September 2016, Citigroup failed to obtain locates for approximately 38,888 short sale transactions. During that period, Citigroup also failed to establish, maintain and enforce written policies and procedures reasonably designed to prevent the execution or display of a short sale order in a covered security subject to a short sale circuit breaker at a price at or below the national best bid. During that same period, the firm executed 4,757 orders in a covered security subject to a short sale circuit breaker at a price at or below the national best bid. Finally, from June 2012 through November 2016, Citigroup failed to report accurately 22,354 transactions to a FINRA trade reporting facility with a short sale or short sale exempt indicator.

Between June 2012 and November 2016, Citigroup failed to establish, maintain and enforce a supervisory system, including supervisory procedures, with respect to SEC Rule 201(b) of Regulation SHO, SEC Rule 203(b)(1) of Regulation SHO, and accurate short sale transaction reporting.

As a result of the foregoing, during the stated periods, Citigroup violated SEC Rules 201(b) and 203(b) of Regulation SHO, and FINRA Rules 6182, 6624, 3110 (and NASD Rule 3010 for conduct before December 1, 2014) and 2010.

FACTS AND VIOLATIVE CONDUCT

Citigroup Violated the Locate Rule

1. Pursuant to Rule 203(b)(1), a broker or dealer, subject to certain exceptions not applicable to this matter, may not accept an equity short sale order from another person, or effect an equity short sale for its own account, without having borrowed the security, or entered into a bona-fide arrangement to borrow the security, or reasonable grounds to believe the security can be borrowed, so that it can be delivered when due. The rule also requires documentation of compliance with the above locate requirement.

2. From June 2012 through September 2016, Citigroup effected a short sale for its own account without borrowing the security or entering into a bona fide arrangement to borrow the security, and documenting its compliance with the locate requirement for approximately 38,888 short sale transactions.
3. Citigroup's failure to obtain locates for these short sales resulted from two system issues that failed to recognize short sales when Citigroup was selling short to facilitate customer orders as principal. The two system issues were resolved in March 2015 and September 2016.
4. By virtue of the conduct described in paragraphs 2 and 3, Citigroup violated SEC Rule 203(b)(1) of Regulation SHO and FINRA Rule 2010.

Citigroup Violated the Short Sale Circuit Breaker Rule

5. In relevant part, SEC Rule 201(b) of Regulation SHO requires that a trading center establish, maintain, and enforce written policies and procedures reasonably designed to prevent the execution or display of a short sale order of a covered security at a price that is less than or equal to the current national best bid if the price of that covered security decreases by 10% or more from the covered security's closing price as determined by the listing market for the covered security as of the end of regular trading hours on the prior day. This requirement is referred to as Regulation SHO's "short sale circuit breaker rule."
6. From June 2012 through September 2016, Citigroup largely relied upon compliance filters in its trading platforms to prevent the execution of a short sale order at a price less than or equal to the national best bid during a short sale circuit breaker. However, as the result of three separate system issues, during that period the firm executed 4,757 non-exempt short sale orders subject to circuit breakers at prices at or below the national best bid when it was facilitating customer orders or trading with a firm affiliate.
7. The three system issues were as follows. First, from June 2012 through August 2015, when Citigroup engaged in risk transfer transactions with an affiliated separate legal entity, a systemic programming issue removed the specific order tag for short sale circuit breaker compliance.
8. Second, from March 2014 through August 2015, the firm inadvertently disabled one trading platform's Rule 201(b) compliance logic for after-hours trading sessions.
9. Third, from June 2012 through September 2016, an automated trading platform at the firm failed to recognize instances in which firm traders were selling short to facilitate customer orders.

10. Each of the above technology issues related to trades subject to internal executions. However, the firm's supervision related to SEC Rule 201(b) of Regulation SHO was unreasonable in that it failed to have procedures for all executions subject to SEC Rule 201(b). As a result, the firm did not detect the 4,757 non-exempt short sale orders it executed at prices at or below the national best bid.
11. Accordingly, the firm failed to establish, maintain and enforce written policies and procedures reasonably designed to prevent the execution or display of a short sale order in a covered security subject to a short sale circuit breaker at a price at or below the national best bid.
12. By virtue of the conduct described in paragraph 11, Citigroup violated SEC Rule 201(b) of Regulation SHO and FINRA Rules 3110(b) (and NASD Rule 3010(b) for conduct before December 1, 2014) and 2010.

Citigroup Violated FINRA Trade Reporting Rules for Short Sales

13. FINRA Rule 6182 requires members to indicate on trade reports submitted to FINRA for all NMS stocks whether the transaction is a short sale or a short sale exempt transaction.
14. From June 2012 through November 2016, Citigroup failed to report 4,786 short sale exempt transactions in NMS stocks to a FINRA trade reporting facility with the appropriate short sale exempt modifier. Each of these instances involved Citigroup's failure to include the short sale exempt modifier when it reported the non-media legs of riskless principal transactions to the trade reporting facility. The violations were attributable to the firm's misunderstanding of the trade reporting requirements.
15. By virtue of the conduct described in paragraph 14, Citigroup violated FINRA Rules 6182 and 2010.
16. FINRA Rule 6624 requires members to indicate on trade reports submitted to FINRA for all OTC Equity Securities whether the transaction is a short sale or a short sale exempt transaction.
17. From June 2012 through March 2015, a programming error in one of Citigroup's trading platforms resulted in the platform's failure to recognize that Citigroup was selling short when it was acting as the contra party to a customer trade. As a result, during that period the firm erroneously reported 17,568 short sales to a FINRA trade reporting facility as long sales.
18. By virtue of the conduct described in paragraph 17, Citigroup violated FINRA Rules 6182, 6624 and 2010.

Citigroup's Locate Rule Supervision

19. From June 2012 through September 2016, Citigroup's written supervisory procedures failed to provide guidance as to how the primary supervisor would conduct his or her review for locate compliance for securities that were not on an easy to borrow list. Moreover, the firm's review process did not call for evidence that reviews were actually conducted. Rather, the written supervisory procedures only required documentation for reviews in which the supervisor identified an exception.
20. By virtue of the conduct described in paragraph 19, Citigroup failed to establish, maintain, and enforce written supervisory procedures reasonably designed to achieve compliance with SEC Rule 203(b) of Regulation SHO, in violation of FINRA Rules 3110(b) (and NASD Rule 3010(b) for conduct before December 1, 2014) and 2010.

Citigroup's Short Sale Trade Reporting Supervision

21. From June 2012 through November 2016, Citigroup's supervisory system, including its written supervisory procedures, did not include supervisory reviews for the accurate reporting of short sales to FINRA trade reporting facilities, including whether transactions were short sales or short sale exempt.
22. By virtue of the conduct described in paragraph 21, Citigroup failed to establish, maintain, and enforce a supervisory system, including written supervisory procedures, reasonably designed to achieve compliance with FINRA Rules 6182 and 6624, in violation of FINRA Rules 3110(a) and (b) (and NASD Rules 3010(a) and (b) for conduct before December 1, 2014) and 2010.

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

1. A censure and fine of \$225,000 (including \$80,000 for the locate violations; \$40,000 for the short sale circuit breaker violation; \$25,000 for the trade reporting violations; and \$80,000 for the supervisory violations).
2. An undertaking to revise the supervisory system and written supervisory procedures with respect to the areas described in paragraphs 11, 19, and 21 above. No later than 30 business days after the AWC becomes final, a registered principal of the firm shall submit to the COMPLIANCE ASSISTANT, DEPARTMENT OF ENFORCEMENT, 15200 OMEGA DRIVE, 3rd FLOOR, ROCKVILLE, MD 20850, a signed, dated letter, or an e-mail from a work-related account of the registered principal to MarketRegulationComp@finra.org, providing the following information: (1) a reference to this matter; (2) a representation that the firm has revised its supervisory system and written supervisory procedures to address the deficiencies described in paragraphs 11, 19, and 21; and, (3) the date the revised procedures were implemented.

Respondent agrees to pay the monetary sanction(s) upon notice that this AWC has been accepted and that such payment(s) are due and payable. It 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 that it is unable to pay, now or at any time hereafter, the monetary sanction(s) imposed in this matter.

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

II.

WAIVER OF PROCEDURAL RIGHTS

Respondent(s) specifically and voluntarily waive(s) 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(s) specifically and voluntarily waive(s) 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.

Respondent(s) further specifically and voluntarily waive(s) 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

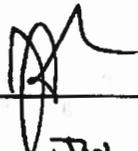
Respondent(s) understand(s) that:

- 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 Respondent(s); 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(s);**
 - 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. Respondent(s) 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(s) 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): (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. Respondent(s) may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondent(s) 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 Respondent, 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 it to submit it.

12-19-2019
Date

Respondent

By: 

Name: Jasher E. Lewis

Title: Managing Director

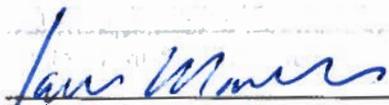
Reviewed by:

Attorney Name
Counsel for Respondent

Accepted by FINRA:

1/14/2020
Date

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



Jack Macken
Senior Counsel
FINRA Department of Enforcement