

**UNITED STATES OF AMERICA**  
**Before the**  
**SECURITIES AND EXCHANGE COMMISSION**

**SECURITIES EXCHANGE ACT OF 1934**  
**Release No. 78291 / July 12, 2016**

**ADMINISTRATIVE PROCEEDING**  
**File No. 3-17338**

**In the Matter of**

**Citigroup Global Markets, Inc.**

**Respondent.**

**ORDER INSTITUTING ADMINISTRATIVE  
AND CEASE-AND-DESIST PROCEEDINGS,  
PURSUANT TO SECTIONS 15(b) AND 21C  
OF THE SECURITIES EXCHANGE ACT OF  
1934, MAKING FINDINGS, AND IMPOSING  
REMEDIAL SANCTIONS AND A CEASE-  
AND-DESIST ORDER**

**I.**

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 15(b) and 21C of the Securities Exchange Act of 1934 (“Exchange Act”) against Citigroup Global Markets, Inc. (“CGMI” or “Respondent”).

**II.**

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (“Offer”) that the Commission has determined to accept. Respondent admits the facts set forth in Paragraphs 1 through 12 below, acknowledges that its conduct violated the federal securities laws, admits the Commission’s jurisdiction over it and the subject matter of these proceedings, and consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings, Pursuant to Sections 15(b) and 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order (“Order”), as set forth below.

**III.**

On the basis of this Order and Respondent’s Offer, the Commission finds that:

## Summary

These proceedings arise out of CGMI's failure to furnish to the Commission true and complete trade data in response to Commission staff's electronic blue sheet ("EBS") requests for a period of over 15 years.

In connection with its investigative and examination responsibilities, Commission staff routinely sends requests for securities trading records to clearing firms in order to identify buyers and sellers of securities. In response to such requests, firms are required to submit promptly information concerning transactions by all proprietary and customer accounts that bought or sold a particular security during a specified period, including information regarding the time of the trade, the type of trade, the number of securities traded, the price, and other customer identifying information.<sup>1</sup>

In the late 1980s, as the volume of trading and securities transactions dramatically increased, the Commission and self-regulatory organizations ("SROs") developed and implemented an electronic system, commonly known as the "electronic blue sheet" or "EBS" system, so that firms could provide the requested records in a universal electronic format.<sup>2</sup> Firms generally use software to search their account records and download the appropriate information into the standard EBS format and then transmit the data to the Securities Industry Automation Corporation ("SIAC"). SIAC, in turn, routes the file electronically to the Commission or to the requesting SRO.

Records requested through the EBS system are vital to the Commission's enforcement and regulatory functions. They assist Commission staff in the investigation of possible securities law violations and in conducting market reconstructions, primarily following significant market

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<sup>1</sup> See Exchange Act Rule 17a-4(j) ("Every member, broker and dealer subject to this section shall furnish promptly to a representative of the Commission legible, true, complete, and current copies of those records of the member, broker or dealer that are required to be preserved under this section . . ."); Exchange Act Rule 17a-3(a)(1) (requiring broker-dealers to maintain "blotters . . . show[ing] the account for which each securities transaction was effected, the name and amount of securities, the unit and aggregate purchase or sale price (if any), the trade date, and the name or other designation of the person from whom purchased or received or to whom sold or delivered."); and Exchange Act Rule 17a-3(a)(6) (requiring broker-dealers to maintain "a memorandum of each brokerage order . . . given or received for the purchase or sale of securities . . . show[ing] . . . the account for which entered; the time the order was received; the time of entry; the price at which executed; the identity of each associated person, if any, responsible for the account . . . and, to the extent feasible, the time of execution or cancellation").

<sup>2</sup> See *Electronic Submission of Securities Transaction Information by Exchange Members, Brokers, and Dealers*, 66 Fed. Reg. 35836, 35836 (July 9, 2001) (final rule release). "For several decades, the Commission requested this information by mailing questionnaire forms (known as 'blue sheets' because of the color on which the forms were printed) to broker-dealers to be manually completed and mailed back to the Commission." *Id.*

volatility.<sup>3</sup> A broker-dealer's failure to furnish promptly true and complete records through the EBS system can undermine the integrity of Commission investigations and examinations, impede the Commission's ability to discharge its statutory obligations, and ultimately interfere with the Commission's ability to protect investors.

CGMI failed to produce records for 26,810 securities transactions comprising over 291 million shares of stock and options in response to 2,382 EBS requests made by Commission staff, between May 1999 and April 2014, due to an error in the computer code for CGMI's EBS response software. Despite discovering the error in late April 2014, CGMI did not report the issue to Commission staff or take steps to produce the omitted data until nine months later on January 27, 2015. CGMI's failure to discover the coding error and to produce the missing data for many years potentially impacted numerous Commission investigations.

CGMI's actions violated the recordkeeping requirements of Section 17(a) of the Exchange Act and Rule 17a-4(j) thereunder, which require broker-dealers to "furnish promptly" accurate and complete copies of required records upon request by a representative of the Commission, and Rule 17a-25 thereunder, which requires broker-dealers to submit electronically securities transaction information upon request by the Commission.

### **Respondent**

1. **Citigroup Global Markets, Inc. ("CGMI")** is a New York corporation with its principal place of business in New York, New York. CGMI is an indirect wholly owned subsidiary of Citigroup, Inc. CGMI has been dually registered with the Commission as a broker-dealer and investment adviser since January 1960 and February 1964, respectively. CGMI is a FINRA member and is a full service investment banking firm.

### **Facts**

#### **The Coding Error**

2. CGMI began using its current EBS reporting program in the mid-1990s. The EBS program code was designed to filter out transactions used for testing purposes and not for actual securities transactions by assigning them certain three-digit branch codes ranging from "089" to "100." In 1998, CGMI introduced alphanumeric branch codes for the first time to accommodate its expanding number of customer accounts. After this change, the EBS system could not distinguish between the testing branch codes and certain newly introduced alphanumeric branch codes. The EBS system filtered out transactions from codes for actual branch offices that began with the number 10 followed by a letter (e.g., 10B, 10C) because the program's reporting logic treated those alphanumeric branch codes as falling within the omitted testing range between

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<sup>3</sup> *Id.*

“089” and “100.”<sup>4</sup> Between 1999 and 2008, CGMI used 11 alphanumeric branch codes for offices that handled customers’ securities transactions and were subject to this coding error.

3. CGMI failed to discover the coding error because it did not have in place a reasonable process to check the accuracy and completeness of its EBS submissions. Prior to April 2013, CGMI primarily reviewed the accuracy of its EBS submissions only in response to regulatory changes and inquiries regarding specific EBS submissions. Beginning in April 2013, CGMI implemented additional controls regarding its EBS submissions, however none of the newly added controls were reasonably designed to ensure that each EBS submission contained all responsive transactions, and none in fact resulted in the coding error being identified.

### **CGMI’s Discovery of the Coding Error**

4. CGMI discovered the coding error when responding to a Commission EBS request seeking trading data for a large number of options series on April 14, 2014. CGMI’s Institutional Client Group Operations (“ICG Ops”) was the group responsible at that time for responding to EBS requests.<sup>5</sup> Due to the size and complexity of the request, ICG Ops sought help from its technical support team in identifying CGMI’s internal identification numbers for all of the requested options series and entering those numbers into CGMI’s automated EBS system. While assisting in this EBS request, the technical support team identified a responsive trade that had been incorrectly excluded by CGMI’s EBS program code. An examination of this trade resulted in the discovery of the coding error that caused its exclusion. The technical support team notified ICG Ops personnel of the coding error on April 25, 2014, and proposed a fix to resolve the problem, which was implemented on April 29, 2014.

5. After the computer code was fixed, ICG Ops began reviewing some of CGMI’s prior EBS submissions to determine which submissions had omitted reportable trades. Although ICG Ops determined that the coding error potentially impacted EBS submissions as far back as 1998, ICG Ops only reviewed EBS submissions between January 2010 and April 2014 and determined that over 1,500 EBS submissions had been impacted and approximately 15,700 trades had been omitted. No one at CGMI at this time analyzed the pre-2010 trade data to determine the full scope of the problem; namely how many total EBS submissions were impacted and how many total trades and shares were omitted.

6. ICG Ops first raised the coding issue with the compliance department (“Compliance”) on July 1, 2014, when senior managers from ICG Ops met with senior Compliance managers. At the meeting, ICG Ops reported on the coding issue and provided a written description of the issue indicating that it was in the process of deciding whether to

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<sup>4</sup> The reporting logic treated letters, such as A, B, C, as being less than the number 0. Therefore, 10B was treated as being a three-digit number with a value less than 100.

<sup>5</sup> ICG Ops became responsible for responding to EBS requests on April 29, 2013, after it was assigned responsibility for all of the Institutional Client Group’s regulatory reporting. Prior to that date, CGMI’s compliance department had been responsible for responding to EBS requests.

escalate the coding error to CGMI's 4530 Committee, which is comprised of senior members of Compliance and the Legal Department.<sup>6</sup>

7. Following the July 1, 2014 meeting, no one from either ICG Ops or Compliance took any meaningful action to escalate the EBS reporting issue to the 4530 Committee for nearly four months. During this period of time, no one from either department made any effort to (i) analyze the EBS submissions prior to 2010 to determine the full scope of CGMI's reporting deficiencies, (ii) report the coding error to the Commission or FINRA, or (iii) furnish the omitted information from CGMI's prior EBS submissions to the Commission, FINRA, and other SROs.

8. In October 2014, ICG Ops again met with Compliance to discuss the coding issue. Although both departments agreed that the coding issue should be elevated promptly to the 4530 Committee, the issue was not raised to the 4530 Committee until December 2014.

### **CGMI's Disclosure of the Coding Error and EBS Omissions to Commission Staff**

9. At the 4530 Committee on December 17, 2014, the Committee directed ICG Ops to review CGMI's pre-2010 trading data to determine the total number of impacted EBS requests and omitted transactions. This was the first time CGMI analyzed the pre-2010 EBS responses. After the required information was compiled, CGMI reported the coding error to the Commission's Division of Enforcement on January 27, 2015, over nine months after the issue was first identified.

10. In total, the coding error impacted a total of 3,528 EBS submissions between May 25, 1999, and April 29, 2014, including 2,382 submissions to the Commission and 753 submissions to FINRA, resulting in the omission of 34,412 trades. On April 23, 2015, CGMI finally uploaded to SIAC the data omitted from the 2,382 EBS submissions to the Commission. The data identified 26,810 securities transactions comprising over 291 million shares and options.

### **CGMI's Remedial Efforts Concerning Its EBS Responses**

11. CGMI corrected the code within days of discovering the error. Since April 29, 2014, CGMI's EBS submissions have included responsive transactions from the previously omitted alphanumeric branches.

12. CGMI instituted several new controls over its EBS system to ensure the completeness and accuracy of its responses. First, CGMI analyzed the entire computer code governing the EBS filtering process to confirm that only duplicative, testing, and other internal, non-reportable transactions are excluded from EBS responses. Second, CGMI implemented a daily exception reconciliation report that compares, for every EBS request, the number of

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<sup>6</sup> The 4530 Committee is a CGMI committee that determines whether potential violations of the federal securities laws or of FINRA's rules or regulations need to be reported to the Commission and/or FINRA. It is named after FINRA Rule 4530, which requires member firms to promptly report to FINRA upon learning of any violations of "securities . . . laws, rules, regulations or standards of conduct of any domestic or foreign regulatory body or self-regulatory organization."

potentially responsive transactions to the number of transactions actually reported, and reconciles any discrepancies identified in those reports. Third, CGMI now conducts a manual review of a sample of EBS responses to ensure that all responsive transactions are being produced.

### **Violations of the Federal Securities Laws**

13. Section 17(a)(1) of the Exchange Act requires, among other things, that broker-dealers make and keep for prescribed periods such records, furnish such copies thereof, and make and disseminate such reports as the Commission, by rule, prescribes as necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the securities laws. Exchange Act Rule 17a-4(j), promulgated thereunder, requires, in part, broker-dealers such as CGMI to furnish promptly legible, true, complete, and current copies of those records of the member, broker or dealer that are required to be preserved under Exchange Act Rule 17a-4 and that are requested by a representative of the Commission. Likewise, Exchange Act Rule 17a-25 requires that broker-dealers such as CGMI shall, upon request, electronically submit to the Commission the securities transaction information as required in the rule.

14. As a result of the conduct described above, CGMI willfully violated the recordkeeping and reporting requirements of Section 17(a) of the Exchange Act and Rule 17a-4(j) thereunder by failing to furnish promptly true and complete trading information as requested by Commission staff for a period of over 15 years. In addition, CGMI violated Exchange Act Rule 17a-25 by failing to submit electronically certain securities transaction information to the Commission through the blue sheet system in response to the staff's 2,382 requests. CGMI's violations were willful.<sup>7</sup> CGMI failed to report to the Commission that it had provided deficient EBS submissions until nine months after first discovering the problem and failed to furnish the omitted records to the Commission for twelve months after discovering the problem.

### **CGMI's Remedial Efforts**

In determining to accept the Offer, the Commission considered remedial acts undertaken by Respondent and cooperation afforded the Commission staff.

## **IV.**

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondent CGMI's Offer.

Accordingly, pursuant to Sections 15(b) and 21C of the Exchange Act, it is hereby ORDERED that:

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<sup>7</sup> A willful violation of the securities laws means merely "that the person charged with the duty knows what he is doing." *Wonsover v. SEC*, 205 F.3d 408, 414 (D.C. Cir. 2000) (quoting *Hughes v. SEC*, 174 F.2d 969, 977 (D.C. Cir. 1949)). There is no requirement that the actor "also be aware that he is violating one of the Rules or Acts." *Id.* (quoting *Gearhart & Otis, Inc. v. SEC*, 348 F.2d 798, 803 (D.C. Cir. 1965)).

A. Respondent CGMI cease and desist from committing or causing any violations and any future violations of Section 17(a) of the Exchange Act and Rules 17a-4(j) and 17a-25 promulgated thereunder.

B. Respondent CGMI is censured.

C. CGMI shall, within ten (10) days of the entry of this Order, pay a civil money penalty in the amount of \$7,000,000 (\$7 million) to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. §3717. Payment must be made in one of the following ways:

- (1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
- (2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at <http://www.sec.gov/about/offices/ofm.htm>; or
- (3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center  
Accounts Receivable Branch  
HQ Bldg., Room 181, AMZ-341  
6500 South MacArthur Boulevard  
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying CGMI as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Robert A. Cohen, Co-Chief, Market Abuse Unit, Division of Enforcement, Securities and Exchange Commission, 100 F St., NE, Washington, DC 20549.

D. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondent agrees that in any Related Investor Action, it shall not argue that it is entitled to, nor shall it benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondent's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondent agrees that it shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty

imposed in this proceeding. For purposes of this paragraph, a “Related Investor Action” means a private damages action brought against Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

By the Commission.

Brent J. Fields  
Secretary