

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 83858 / August 16, 2018

ACCOUNTING AND AUDITING ENFORCEMENT
Release No. 3958 / August 16, 2018

ADMINISTRATIVE PROCEEDING
File No. 3-18646

In the Matter of

CITIGROUP INC.,

Respondent.

**ORDER INSTITUTING CEASE-AND-
DESIST PROCEEDINGS PURSUANT TO
SECTION 21C OF THE SECURITIES
EXCHANGE ACT OF 1934, MAKING
FINDINGS, AND IMPOSING A CEASE-
AND-DESIST ORDER**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 21C of the Securities Exchange Act of 1934 (“Exchange Act”), against Citigroup Inc. (“Respondent”).

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Cease-and-Desist Proceedings Pursuant to Section 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing a Cease-and-Desist Order (“Order”), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds¹ that:

Summary

These proceedings involve Citigroup Inc.'s ("Citigroup") failure to devise and maintain a sufficient system of internal accounting controls concerning a wholly-owned subsidiary, the Mexican bank Grupo Financiero Banamex, S.A. de C.V. ("Banamex"), sufficient to provide reasonable assurances that Banamex's transactions were recorded as necessary to permit the preparation of Citigroup's financial statements in accordance with generally accepted accounting principles ("GAAP") and to maintain accountability for assets. Over the period between 2008 and February of 2014, Banamex loaned billions of dollars on the basis of invoices and work estimates – also known as "accounts receivable factoring" in the banking industry – reflecting work performed for Petroleos Mexicanos, S.A. de C.V. ("Pemex") by Oceanografia, S.A. ("OSA"), a Mexican marine services provider for the oil industry in the Gulf of Mexico. However, some of the factored documents received from OSA, amounting to about \$400 million, were fraudulent and included forged signatures. Banamex had deficient internal accounting controls over its accounts receivable factoring program used by OSA, including lacking internal accounting controls necessary to test the authenticity of the factored documents prior to advancing funds to OSA and recording them as accounts receivable. Banamex also lacked internal accounting controls sufficient to identify and respond to red flags that arose during the relationship between Banamex and OSA potentially warning Banamex of the ongoing fraud. Instead, it was not until the Government of Mexico itself accused OSA of failing to post a satisfactory insurance bond and decided to temporarily cease doing new business with OSA in February of 2014, at a time when Banamex had approved funding of over \$600 million dollars to OSA and was still advancing monies to OSA, that Citigroup discovered many of the work estimates were falsified. Banamex's internal accounting controls surrounding the factoring program were not sufficient to allow the earlier detection of OSA's fraud. As a result, Citigroup recorded nearly \$475 million in expenses in its financial statements. In particular, Citigroup adjusted its fourth quarter and full year 2013 financial results downward by the then-estimated \$360 million loss and recognized an additional loss of \$113 million in 2014, when Citigroup had determined the full magnitude of the fraud.

Respondent

1. **Citigroup**, a Delaware corporation headquartered in New York, New York, is a diversified global financial services holding company whose businesses provide a broad range of financial services to consumer and corporate customers. At all times pertinent to this Order, Citigroup's securities were registered with the Commission pursuant to Section 12(b) of the Exchange Act, and its securities traded on the New York Stock Exchange under the symbol "C."

¹ The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

Other Relevant Entity

2. **Banamex** is a Mexican corporation and is a wholly-owned subsidiary of Citigroup. It was created in August of 2001, when Citigroup acquired Banamex's predecessor entity Grupo Financiero Banamex-Accival. Banamex is a diversified financial services provider to a broad range of consumer and corporate customers, primarily in Mexico, and is the second largest bank in Mexico.

Facts

Banamex's Accounts Receivable Factoring Program

3. From at least 2008 through February 2014 (the "Relevant Period"), Banamex offered accounts receivable factoring to certain customers. An accounts receivable factoring product normally involved a supplier of goods or services receiving advances from Banamex in exchange for the supplier assigning to Banamex all rights, including the right to receive payment, under the supplier's invoices to buyers of its goods and services. Depending on the arrangement, either the supplier or the buyer of the goods and services was liable to remit payment to Banamex.

4. Under an accounts receivable factoring program, Banamex typically "discounted" or "factored" the invoice by advancing to its customer an amount less than the face value of the factored invoice.

5. Throughout the Relevant Period, the Banamex accounts receivable factoring facilities were provided in two of Citigroup's banking divisions: (1) the Consumer and Commercial Bank ("CCB") and (2) the Institutional Clients Group ("ICG"). Regardless of whether the facility was in CCB or ICG, Banamex had its own employees in Mexico that were responsible for implementing and monitoring Banamex's accounts receivable factoring facility. All of ICG's global accounts receivable factoring facilities, including those originating within Banamex, were part of the Treasury and Trade Services ("TTS") business at Citigroup.

6. Throughout the Relevant Period, OSA, a customer of Banamex, was a major oil field services provider in Mexico. Among other things, OSA, in operation since the 1960s, provided Pemex with construction, maintenance, and vessel-chartering services for oil exploration, extraction, and production in the Gulf of Mexico. OSA's largest customer was the Mexican Government-owned and -operated oil company, Pemex.

7. Throughout the Relevant Period, Pemex was a financially stable, large oil company with a high credit rating assigned by Banamex and the financial backing of the Mexican Government. Banamex, by contrast, had assigned OSA a lower credit rating.

8. OSA began using Banamex's accounts receivable factoring program in approximately 2008, and over the Relevant Period received over \$3.3 billion in financing from Banamex (the "Program"). Over the life of the Program, as some amounts were repaid and additional advances were made, the outstanding amount of accounts receivable on Banamex's

financial statements grew to over \$580 million and was authorized to grow to approximately \$700 million.

9. OSA was at first a CCB customer but was transferred to ICG in 2012, as OSA and the factored amount grew in size.

10. As a result of OSA's fraud, which was not detected earlier in part because of the internal accounting controls deficiencies identified herein, Banamex eventually failed to collect on over \$400 million in repayments owed to it under the Program.

Banamex Lacked Sufficient Internal Accounting Controls Governing the Transfer of Clients Between Divisions

11. As part of the transfer of the Program from the CCB business to the ICG business in 2012, the Program was selected as one of the products under which Banamex sought to increase its market share and profitability.

12. The CCB group normally manages relationships with customers that are under a certain relatively small market capitalization threshold, whereas the ICG group manages relationships with customers that have a much larger market capitalization, in the hundreds of millions of dollars.

13. Around the same time that the OSA relationship was transferred from the CCB group to the ICG group within Banamex in 2012, OSA was identified by Banamex as a "target client."

14. After the transfer, OSA was subject to a credit approval by Banamex ICG's Independent Risk function, customer acquisition due diligence, and an ICG business process designed to ensure that ICG assets were deployed effectively (the Global Deal Review or "GDR," described below). However, Banamex's internal accounting controls required insufficient additional safeguards, procedures, or diligence with respect to a client upon the transfer of a relationship from CCB to ICG. In particular, Banamex's Independent Risk function did not undertake an additional risk assessment with respect to OSA's use of the Program. Banamex's internal accounting controls did not require it to, for example, revisit the designation of the Program as a credit of Pemex as opposed to of OSA (as further discussed below, and which would have indicated that the advances should in reality have been considered a credit of OSA), review the payment history of the credit facility (which would have revealed that some of the payments were not being received from Pemex directly), or review the controls surrounding the processing of factored documents under the Program (which, as discussed further below, were deficient), or to otherwise do any additional diligence on OSA or its principals with respect to the Program (which would have revealed publicly available allegations of serious fraud, money-laundering, and tax avoidance with respect to such individuals).

15. In addition, Banamex did not require that CCB and ICG share information at the time of the transfer, leading to inconsistencies in how risk was evaluated and the size of the facilities each unit would agree to extend to any particular client, and to OSA in particular. Specifically,

CCB's internal assessment of OSA's use of the Program was not positive for reasons that included its understanding of the reputational risks that made doing business with OSA and its principals undesirable, and CCB was looking to reduce its exposure. But that information was not shared with ICG in 2012, and was not required under Banamex's procedures to be shared. Rather than reduce Banamex's OSA exposure, Banamex's ICG continued to increase OSA's use of the Program by hundreds of millions of dollars.

16. The response to publicly available information regarding OSA and its principals was insufficient. Media reports alleged that OSA had defrauded another Mexican bank of more than \$30 million dollars in 2006 under a credit product almost identical to the Program, by submitting fraudulent invoices to obtain financing from that bank, i.e. in the exact manner in which OSA defrauded Banamex. This information was publicized in the media and available to Banamex.

17. Although Citigroup and Banamex had procedures for information sharing, such as periodic country reviews, Banamex's internal accounting controls did not specifically require it to share such reports regarding OSA's negative reputation with TTS management or TTS risk officers (nor did Citigroup's internal accounting controls require that this information be shared outside of a subsidiary into the broader TTS management or risk officers).

18. In 2012, another Citigroup subsidiary refused to permit one of OSA's two principals ("Executive A") to open private bank accounts at that Citigroup subsidiary. In doing so, the subsidiary noted that Executive A presented a serious negative reputational risk, given the publicly available information about him, his dealings, his corrupt connections to the Mexican government, and his alleged violations of law. Accordingly, while one Citigroup subsidiary refused to even open a bank account for Executive A, another Citigroup entity, Banamex, was advancing hundreds of millions of dollars to Executive A's business. Although Banamex reviewed this negative information as part of its anti-money laundering review, its internal accounting controls did not require that this information be shared with, or considered by, the TTS managers and risk officers responsible for the Program.

Banamex Improperly Classified the Advances Made to OSA as Credit Risk to Pemex

19. Having failed to properly identify and consider the risks relating to OSA, Banamex's other deficient internal accounting controls compounded the error by failing to ensure that the advances made to OSA under the Program were properly considered by Banamex to be credit risk to OSA, rather than Pemex.

20. At Banamex, and consistent with Citigroup global policy, an accounts receivable factoring program where the ultimate repayment obligation rests primarily on the supplier is called a "seller centric" program, and an accounts receivable factoring program where the ultimate repayment obligation rests primarily on the buyer of the goods (and not the supplier) is called a "buyer centric" program.

21. From the outset of the Program, Banamex misclassified the loans it advanced to OSA as credit risk to Pemex (i.e., as "buyer centric"), instead of what it really was, credit risk to the

much-less financially secure OSA (i.e., as “seller centric”), and lacked the internal accounting controls over the accounts receivable factoring products necessary to identify and correct this error.

22. This was particularly important in the context of OSA because if the Program were properly understood – as credit to OSA and not to Pemex – Banamex would not have made advances at even a fraction of the size that it actually made to OSA. Given the lower credit rating that Banamex itself assigned OSA, OSA could not meet Banamex’s credit guidelines for the magnitude of the advances made under the Program.

23. The group at Banamex that was tasked with classifying the Program, the Independent Risk function, relied heavily on the assertions made to it by the business and product functions within Banamex who were in charge of the relationship between Banamex and the borrower. In other words, the classification of advances as buyer or seller centric was essentially committed to the discretion of the very individuals who stood to gain – in stature and compensation at Banamex – from increasing the advances.

24. The foregoing is in fact what occurred with respect to Program advances to OSA: the “independent” risk group relied largely on the assessment made by the business and product people in charge of the OSA relationship, the people who advocated repeatedly for increasing the loan amounts, that the Program was properly considered buyer centric such that Banamex need only consider the creditworthiness of Pemex, and not of OSA.

25. The OSA accounts receivable factoring facility was thus opened and operated as a buyer centric program (i.e., the credit risk was considered that of Pemex).

26. But this categorization was erroneous. For one, the advances to OSA did not meet Banamex’s internal criteria for which advances were properly considered buyer centric, and Banamex lacked the internal accounting controls sufficient to identify situations, such as this, when an accounts receivable factoring program was misclassified.

27. For example, under Citigroup’s guidelines for accounts receivable factoring programs, a facility was properly considered “buyer centric” if the buyer provides the bank an unconditional acceptance of the commercial transaction, if the credit facility originates with the buyer, and if the buyer’s payments flow directly to Banamex. The Banamex advances to OSA did not meet all of these criteria, but none of Banamex’s internal accounting controls prevented the financing to OSA from being improperly classified as buyer centric.

28. In addition, throughout the life of the Banamex-OSA accounts receivable factoring facility, Banamex’s internal accounting controls were insufficient to appropriately evaluate numerous red flags, specifically signs that indicated the loans should have been characterized as seller centric, including:

- a. Pemex’s refusal in 2010 to pay Banamex on certain invoices OSA had factored with Banamex;
- b. Banamex’s limited contact with Pemex with respect to the advances;

- c. The use of Banamex's advances to OSA in certain instances to extinguish prior (and sometimes aging) debt for unrelated earlier advances;
- d. OSA – not Pemex – telling Banamex in certain instances to which advances any particular payment should be applied; and
- e. Several individuals within Banamex raising questions about the propriety of classifying the program as buyer centric.

29. Despite these warnings, Banamex continued to misclassify the Program as buyer centric, which rendered irrelevant Banamex's assessment of the creditworthiness of the "borrower." Banamex therefore wrongfully analyzed the creditworthiness of Pemex, rather than OSA, the true borrower, in extending hundreds of millions of dollars in loans.

Banamex Lacked Sufficient Internal Accounting Controls For Invoice Processing

30. The processes by which Banamex disbursed funds to OSA under the Program were critically flawed in another respect. Specifically, the internal accounting controls surrounding the advancing of funds allowed a single Banamex employee to verify invoices that led to disbursement of funds with insufficient oversight. This flawed process allowed OSA to defraud the bank under the accounts receivable factoring program.

31. In December of 2009, Banamex had already lost \$1 million under the accounts receivable factoring program when it factored invoices for another company that was a supplier for Pemex without properly validating the documents with Pemex. Claiming that the supplier's work was not timely, Pemex ultimately refused to pay the invoices.

32. When, eventually, Banamex did make changes to the validation procedures, it failed to adopt sufficient oversight or verification of the actions of the employee charged with validating the factored documents under the accounts receivable factoring program generally and under the OSA Program specifically.

33. Banamex's revised procedures, for example, allowed Pemex invoices to be factored without a stamp or validation from Pemex, and eventually began to discount work estimates rather than finalized invoices. The procedures also allowed Banamex to reconcile payments on submitted invoices not with Pemex, but with the submitting company, including OSA.

34. The discounting processes, including those relating to the validation of invoices or work estimates for payment, were developed beginning in 2010 largely by a Banamex employee ("Employee A") and implemented primarily by other employees. Employee A was terminated by Banamex in 2012 after it was discovered that he had engaged in undisclosed personal business with, and received undisclosed payments from, OSA. Even after Employee A was fired, Banamex did nothing to investigate the controls created by Employee A, especially with respect to OSA.

35. After the fraud by OSA on Banamex was discovered, another Pemex supplier was also discovered to have defrauded Banamex under the same deficient discounting processes that OSA was able to use to defraud Banamex.

36. In all, Banamex's deficient discounting processes under the Program resulted in at least three different loss events, two of which involved companies being able to defraud the bank.

37. Banamex's internal accounting control deficiencies over the Program were such that it could not match payments it received from Pemex to the OSA work estimates in connection with which it had made advance payments to OSA and recorded a receivable. Periodically, Banamex did a "reconciliation" with OSA, at which time OSA would tell Banamex which Pemex payments to apply to which work estimates. Essentially, Banamex lacked an adequate ability to independently monitor and keep track of which accounts receivable factoring advances had been paid and which remained outstanding.

38. In addition, OSA itself at times directed Banamex to use new funds received under the Program to cover previously outstanding amounts owed to Banamex, which was made possible by a lack of controls over invoice tracking and permitted OSA to convert past due obligations into current ones. This preemptively limited an additional review of the Program by giving the impression that the Program was working as intended, was profitable, and the accounts receivable balance was current.

39. There was an internal audit of the TTS Mexico business, the report of which was issued in November 2013. The scope of this audit included, among other TTS products and services, accounts receivable factoring facilities originating within Banamex. The audit report raised several control issues associated with those facilities, and reported that accounts receivable factoring transactions, "which are manually input into the back-end processing system, can be manipulated by a single person and as a result, funds can be directed to incorrect beneficiaries" and that the "situation could expose the bank to fraud risk and operational losses." The audit report also noted other, generally applicable control issues relating to accounts receivable factoring transactions.

40. The OSA fraud came to light three months after the audit report was issued, during which period the corrective action plans required by the audit proceeded on a normal timeline, despite the audit's findings.

Banamex Failed to Follow Through on Whatever Internal Accounting Controls Were in Place

41. To the extent Citigroup's policies required internal accounting controls that applied to advances under the Program, Banamex in some instances failed to adhere to them.

42. For example, Citigroup had the GDR process, which was in addition to the credit review and approval process and was intended to ensure that Citigroup was appropriately deploying its assets on a global basis. But the Program was submitted to GDR only three times – when the credit facility was transferred to ICG in June 2012, as part of a Mexico portfolio review in September 2013, and again in December 2013.

43. In the period between the first two GDR reviews, the Program grew substantially—from approximately \$400 million to almost \$700 million. Citigroup did not have a triggered

process in place requiring additional review of the financing facility in light of these significant changes in the size of the risk exposure.

44. In September 2013, the Banamex employees responsible for the Program advocated strongly that the Program be increased, claiming, incorrectly, that the credit risk was an exposure to Pemex. However, a high level ICG manager specifically stated that he was uncomfortable with the amount of credit already extended under the Program. At that late date, individuals within Banamex and Independent Risk for the Latin American Region also openly questioned whether there was sufficient support for the credit facility being classified as a buyer centric program and whether the process for validation and payment of factored documents was sufficiently robust. All of these concerns were apparently assuaged with additional assurances from the business, product and risk teams at Banamex – the very individuals who had mischaracterized the facility as buyer centric.

45. In September 2013, ICG management also specifically questioned Banamex employees as to why they were not more familiar with the Program, given its size, and they also questioned whether the facility had gone through GDR, but little was done as a result of these concerns.

46. After Independent Risk had reviewed and approved credit increases to the Program, Banamex eventually brought the increased Program to GDR for review and approval from a business perspective in December 2013, where it was tabled – meaning that approval was put on hold until the Banamex business team provided additional information. The Banamex team proceeded as if GDR approval had been granted, even though the GDR procedures required reconsideration by the GDR committee.

Violations

47. By virtue of the conduct described above, Citigroup failed to devise and maintain internal accounting controls sufficient to provide reasonable assurances that Banamex's accounts were accurately stated in accordance with generally accepted accounting principles.

48. As a result of the conduct described above, Citigroup violated Section 13(b)(2)(B) of the Exchange Act, which requires all reporting companies to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that, among other things, transactions are executed in accordance with management's general or specific authorization; transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles or any other criteria applicable to such statements, and to maintain accountability for assets; access to assets is permitted only in accordance with management's general or specific authorization; and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

Citigroup's Remedial Efforts

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

IV.

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

Accordingly, it is hereby ORDERED that:

A. Pursuant to Section 21C of the Exchange Act, Respondent Citigroup cease and desist from committing or causing any violations and any future violations of Section 13(b)(2)(B) of the Exchange Act.

B. Citigroup shall, within 30 days of the entry of this Order, pay a civil money penalty in the amount of \$4.75 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 Citigroup 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 Sanjay Wadhwa, Senior Associate Director, Division of Enforcement, New York Regional Office, Securities and Exchange Commission, 200 Vesey Street, New York, NY 10281.

C. 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