

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 62593 / July 29, 2010

ADMINISTRATIVE PROCEEDING
File No. 3-13985

In the Matter of

GARY L. CRITTENDEN and
ARTHUR H. TILDESLEY, JR.

Respondents.

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

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 Gary L. Crittenden (“Crittenden”) and Arthur H. Tildesley, Jr. (“Tildesley”).

II.

In anticipation of the institution of these proceedings, Crittenden has submitted an Offer of Settlement of Gary L. Crittenden (“Crittenden Offer”) and Tildesley has submitted an Offer of Settlement of Arthur H. Tildesley, Jr. (“Tildesley Offer”), which offers 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 them and the subject matter of these proceedings, which are admitted, Crittenden and Tildesley consent 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 Cease-and-Desist Orders (“Order”), as set forth below.

III.

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

A. SUMMARY

In late September and early October 2007, Crittenden, the chief financial officer ("CFO") of Citigroup Inc. ("Citigroup") and Tildesley, the head of Citigroup's Investor Relations ("IR") department, both helped draft and then approved, and Crittenden subsequently made, misstatements about the exposure to sub-prime mortgages of Citigroup's investment bank. Citigroup then included a transcript of the misstatements in a Form 8-K that it filed with the Commission on October 1, 2007. The misstatements were made at a time of heightened investor and analyst interest in public company exposure to sub-prime mortgages and related to disclosures that the Citigroup investment bank had reduced its sub-prime exposure from \$24 billion at the end of 2006 to slightly less than \$13 billion. In fact, however, in addition to the approximately \$13 billion in disclosed sub-prime exposure, the investment bank's sub-prime exposure included more than \$39 billion of "super senior" tranches of sub-prime collateralized debt obligations and related instruments called "liquidity puts" and thus exceeded \$50 billion. Citigroup did not acknowledge that the investment bank's sub-prime exposure exceeded \$50 billion until November 4, 2007, when the company announced that the investment bank then had approximately \$55 billion of sub-prime exposure.

By including a transcript containing the misstatements in a Form 8-K, Citigroup violated Section 13(a) of the Exchange Act and Exchange Act Rules 12b-20 and 13a-11. As a result of the role that they played, Crittenden and Tildesley each was a cause of Citigroup's violation.

B. RESPONDENTS

Respondent Gary L. Crittenden, age 57, resides in Salt Lake City, Utah. After serving as CFO of several large public companies, Crittenden joined Citigroup in March 2007 as the Citigroup's CFO. He remained Citigroup's CFO until March 2009. He then became head of a Citigroup unit known as Citi Holdings and held that position until July 2009. In July 2009, Crittenden left Citigroup.

Respondent Arthur H. Tildesley, Jr., age 49, resides in Fair Haven, New Jersey. Tildesley joined a predecessor of Citigroup in 1986 and has remained with the company, now known as Citigroup, subsequent to that time. In 2003, after working for several years in Citigroup's

¹ The findings herein are made pursuant to the Crittenden Offer and the Tildesley Offer and are not binding on any other person or entity in this or any other proceeding.

investment bank, Tildesley joined Citigroup's IR department and became head of that department in September 2004. Tildesley remained head of IR until February 2008. He then became chief administrative officer of Citigroup's Global Wealth Management division. Tildesley subsequently became, and remains, Citigroup's head of Global Cross Marketing. At all times relevant to these proceedings, Tildesley reported directly to Crittenden.

C. RELEVANT ENTITY

Citigroup is a Delaware corporation with its principal place of business in New York, New York. Citigroup is a global financial services company that provides a broad range of financial services to consumer and corporate clients. During the time relevant to these proceedings, the company was organized into the following five divisions: Global Consumer Group; Markets & Banking; Global Wealth Management; Alternative Investments; and Corporate/Other. Citigroup's United States residential mortgage-related assets were held primarily within the Consumer Lending division, which was part of the Global Consumer Group, and within the investment bank, which was part of the Securities and Banking business, which in turn was part of Markets & Banking. Citigroup's securities are registered with the Commission under Section 12(b) of the Exchange Act, and the company's common stock is listed on the New York Stock Exchange, the Tokyo Stock Exchange, and the Mexico Stock Exchange. Citigroup reports its results on a calendar-year basis.

D. FACTS

1. Background

During 2006 and continuing into 2007, the price of homes in the United States stopped rising and began to decline; new housing starts and existing home sales declined; and defaults on mortgages, particularly sub-prime mortgages, increased. As a result of these developments, there was increasing investor and analyst interest in the amount of residential mortgage-related assets that Citigroup held and, in particular, Citigroup's exposure to what were known as sub-prime mortgage-related assets.

During the time in 2007 relevant to these proceedings, Citigroup held residential mortgage-related assets primarily in its investment bank and its Consumer Lending business. Within the Consumer Lending business, these assets included prime and sub-prime mortgages that the Consumer Lending business originated or purchased from third parties and then securitized or held. Within the investment bank, these assets included sub-prime mortgages that Citigroup purchased for securitization or trading, sub-prime mortgage-related assets held as collateral for financing provided by Citigroup, sub-prime mortgage-backed securities that Citigroup "warehoused" for future inclusion in collateralized debt obligations, and tranches of previously structured collateralized debt obligations.

A collateralized debt obligation (“CDO”) is a type of asset-backed security collateralized by a pool of fixed income assets, such as sub-prime mortgage-backed securities, and issued by a bankruptcy-remote special purpose vehicle (“SPV”). A CDO is structured into tranches with each tranche representing a different level of risk and return. The most senior tranche generally is known as the “super senior” tranche and typically represents between sixty and eighty percent of the capital structure of the CDO. Below the super senior tranche are one or more senior tranches, one or more mezzanine tranches, and an equity tranche. All of the tranches have the same underlying collateral. The super senior tranche has the highest priority claim on the cash flows from that collateral. The equity tranche has the lowest priority claim and receives payments only after all of the higher tranches have been paid in full. The senior and mezzanine tranches are rated by rating agencies; the equity tranche is not rated. Due to its first priority claim to the cash flows from the CDO’s collateral, as well as other structural features, the super senior tranche historically was considered the safest tranche from a credit risk perspective. Because the super senior tranche was considered safer than the most senior of the senior tranches and because that senior tranche was rated AAA, the highest available rating from the rating agencies, the super senior tranche typically was not rated. Due primarily to the large size and relatively low yield of the super senior tranche, a limited number of potential purchasers for that tranche existed, and the super senior tranche typically did not trade in the secondary market.

Citigroup’s CDO structuring business included advising asset managers on collateral selection and CDO structuring, providing CDO warehouses, underwriting CDO offerings and placing CDOs with investors, as well as trading CDOs in the secondary market. Prior to a CDO closing, the assets purchased for the CDO are held in what is referred to as a CDO warehouse. Upon closing of the CDO, the assets are transferred from the warehouse to an SPV in exchange for the proceeds of the sale of the CDO tranches. Citigroup earned fees in connection with its CDO structuring business.

Certain of the CDOs that Citigroup structured and underwrote as part of its CDO business included a feature known as a “liquidity put.” The liquidity put was an instrument that obligated Citigroup under certain circumstances to purchase commercial paper backed by the super senior tranche of a CDO. Under the terms of the liquidity put arrangement, Citigroup’s obligation to purchase that commercial paper would be triggered if there was a dramatic drop in demand for the commercial paper such that the commercial paper issuer, i.e., the CDO, was unable to re-issue the commercial paper below a certain interest rate. For Citigroup, owning the commercial paper essentially would be the economic equivalent of holding the super senior tranche that backed the commercial paper.

2. The Responsibilities of Crittenden and Tildesley with Respect to the Contents of Citigroup’s Public Announcements of Quarterly Results

At the end of each quarter, Citigroup’s investment bank and other businesses gathered information about each business’s financial performance for the quarter. Each business prepared a document that described significant developments and the results of the business for the quarter. The document was referred to within Citigroup as a “Flash Deck.” During the relevant time in

2007, the Flash Deck for Citigroup's investment bank included a section prepared by Citigroup's Risk Management organization that set forth information about the sources and amount of risk to which the investment bank was exposed as well as steps that the investment bank had taken to mitigate risk.

The Flash Decks that Citigroup's businesses prepared were used in conjunction with what were known as "Flash Calls." The Flash Calls, in turn, were to prepare the CFO and other members of senior management, members of IR, and others for the public release of the company's earnings. After the end of each quarter, representatives of each business made an oral presentation about the business's financial performance for the quarter to Citigroup corporate-level personnel that included Crittenden, Tildesley and one or more other members of IR, the corporate controller, representatives of the Financial Planning and Analysis department, and representatives of the Risk Management organization. Before or during the Flash Calls, the participants were provided with a copy of the Flash Decks that the businesses had prepared.

For each quarter of 2007, Crittenden and Tildesley attended the Flash Calls and were provided with the Flash Decks that Citigroup's investment bank and other businesses prepared. The Flash Decks for each quarter included information that was used for, among other things, the preparation of the press release announcing Citigroup's earnings for the quarter ("earnings release") as well as the script for senior management to use for the quarterly conference call with investors and analysts to discuss the company's results for the quarter ("earnings script").

Following the quarterly Flash Calls, representatives of IR often communicated with representatives of Citigroup's businesses to obtain additional information that they believed was needed to prepare (a) the earnings release, (b) a deck of slides containing quarterly financial information to be released with the earnings release, (c) the earnings script, and (d) a list of questions and answers to be used internally to prepare for questions that might be asked during the conference call with investors and analysts.

Also following the Flash Calls, Crittenden met with Tildesley and members of senior management to discuss information that should be included in the earnings script. As head of IR, Tildesley oversaw the drafting of the earnings script and the earnings release and gave IR's approval of those documents. Crittenden also reviewed drafts of these documents and approved the final versions of them.

3. First and Second Quarters of 2007

As Citigroup prepared to announce its earnings for the first quarter of 2007, senior management and senior personnel in IR, including Crittenden and Tildesley, gathered information in order to have responses to anticipated questions about the investment bank's sub-prime exposure from analysts and others. Senior management and IR personnel requested information from the investment bank and, in response, were provided with documents and other information detailing the investment bank's sub-prime exposure.

The sub-prime assets of Citigroup's investment bank were located primarily in two of the investment bank's business units: Global Securitized Markets ("GSM"), which did not hold CDOs, and Global Structured Credit Products ("GSCP"), which did hold CDOs. In responding to the request for information on sub-prime exposure, the investment bank provided Crittenden, Tildesley, and others with documents that showed that GSM had approximately \$10.1 billion of sub-prime exposure and that, excluding certain sub-prime assets related to secondary trading and market making activities ("trading exposure"), GSCP had approximately \$7 billion of sub-prime exposure. One of the documents provided, entitled "Overview of Subprime Exposure in the Global Structured Credit Product Business," also showed that GSCP had an additional \$37.8 billion in sub-prime exposure from super senior tranches of CDOs (\$14.6 billion) and liquidity puts (\$23.2 billion). The document, however, included an explanation that the investment bank considered the risk of default on the super senior tranches and the liquidity puts to be "extremely small" and that it therefore "excluded" the \$37.8 billion amount from its internal analysis of GSCP's sub-prime exposure. When Citigroup subsequently announced its results for the first quarter of 2007, it did not disclose the investment bank's sub-prime exposure, and the topic was not raised during a conference call with investors and analysts to discuss the company's results for the quarter.

As the second quarter of 2007 ended, there again was consideration of making disclosures about the Citigroup investment bank's sub-prime exposure. Citigroup senior management and IR personnel, including Crittenden and Tildesley, again sought and received information about that exposure. During a Flash Call on July 10, 2007, Crittenden, Tildesley, and others received a Flash Deck from the investment bank. The Flash Deck included a table prepared by the company's Risk Management organization that showed the investment bank's sub-prime "Exposures" as of the end of the second quarter of 2007. That table showed, among other things, that the investment bank's sub-prime exposure included more than \$33 billion of exposure from super senior tranches of CDOs and liquidity puts.

Also on July 10, 2007, at Crittenden's request, representatives of Citigroup's investment bank had a separate meeting with Crittenden, Tildesley, and one or more other individuals to discuss GSCP's sub-prime exposure. During this meeting, the investment bank representatives provided a document entitled "Overview of Subprime Exposure in the Global Structured Credit Products Business" that was an updated version of the document provided in April 2007. The updated document showed that, excluding trading exposure, GSCP had approximately \$4.7 billion of sub-prime exposure. In addition, the document showed that there was approximately \$39 billion in sub-prime exposure from super senior tranches of CDOs (\$14.7 billion) and liquidity puts (\$24.5 billion). The document again showed that the investment bank was excluding the \$39 billion in exposure from the super senior tranches and the liquidity puts from its internal analysis of GSCP's sub-prime exposure because the investment bank considered the risk of default on those items to be "extremely small." Contemporaneous documents reflect discussion on July 10 of \$12 billion of sub-prime exposure; the documents do not reflect whether there was any discussion of the super senior tranches of CDOs or the liquidity puts.

On July 19, 2007, Crittenden and Tildesley participated in a meeting with senior Citigroup personnel to finalize disclosures related to sub-prime for the company's upcoming earnings call. Tildesley's contemporaneous notes concerning the amount of the investment bank's sub-prime exposure reflect only discussion of the approximately \$13 billion of sub-prime assets. The notes do not reflect whether there was any discussion of the super senior tranches of CDOs or the liquidity puts.

On July 20, 2007, Citigroup issued a press release announcing the company's earnings for the second quarter of 2007 and conducted a telephone conference call with investors and analysts to discuss the company's results for the second quarter ("July 20 Earnings Call"). One week later, on July 27, 2007, Citigroup conducted its semi-annual Fixed Income Investor Review conference call ("July 27 Fixed Income Call") with investors and analysts. During both the July 20 Earnings Call and the July 27 Fixed Income Call, there was discussion of the Citigroup investment bank's sub-prime exposure. In the July 20 Earnings Call, it was represented that the investment bank's sub-prime exposure could be divided into two categories, "secured lending" and "trading"; that the company had been managing down the exposure from secured lending; and that the investment bank had reduced the assets in secured lending from \$24 billion at the end of 2006 to \$20 billion at the end of the first quarter of 2007 and to \$13 billion at the end of the second quarter of 2007.² In the July 27 Fixed Income Call, it again was stated that the investment bank had reduced its sub-prime exposure to \$13 billion. The Citigroup investment bank's sub-prime exposure was materially understated during both the July 20 Earnings Call and the July 27 Fixed Income Call primarily because, with the super senior tranches of CDOs and the liquidity puts, the investment bank's sub-prime exposure in secured lending exceeded \$50 billion at the end of the second quarter of 2007 rather than the \$13 billion that was disclosed.

4. Third Quarter of 2007

During the third quarter of 2007, the housing market in the United States continued to deteriorate, and defaults on sub-prime mortgages increased. Due at least in part to investor concerns over a lack of transparency about the potential sub-prime exposure of commercial paper issuers, the demand for asset-backed commercial paper fell dramatically. As a result, Citigroup believed that the issuers of the commercial paper that was backed by the super senior tranches of CDOs would exercise the liquidity puts and require Citigroup to purchase the commercial paper. In anticipation of the exercise of the liquidity puts, Citigroup, beginning in August 2007, purchased the commercial paper that had the liquidity put feature described above. By mid-September 2007, Citigroup had purchased approximately \$25 billion, substantially all, of the commercial paper backed by super senior tranches of sub-prime CDOs. Crittenden was aware of these purchases; Tildesley was informed of at least some of these purchases.

² There was no disclosure of the amount of the investment bank's sub-prime exposure that was in the trading category. The super senior tranches of CDOs and the liquidity puts, however, were not part of the trading category.

Also during the third quarter of 2007, Tildesley, in his role as head of IR, was aware of the ongoing and increasing investor and analyst interest in the size of Citigroup's and other banks' sub-prime exposure. In July and August 2007, a limited number of the analyst reports that Tildesley and others received quantified Citigroup's sub-prime exposure by referencing the \$13 billion figure discussed during the July 20 Earnings Call.

As a result of the continuing decline in the value of, and the lack of liquidity for, sub-prime-related securities during the third quarter of 2007, Citigroup re-examined its method of valuing the super senior tranches of sub-prime CDOs. By the end of August 2007, the valuation methods the company was considering showed potential losses ranging from approximately \$15 million to over \$2 billion. Citigroup continued to work on its valuation methods, including through consultation by the investment bank and the Risk Management organization with Crittenden and others. Tildesley did not participate in the valuation process.

As part of the valuation process, in early September 2007, Crittenden met with the head of Citigroup's Risk Management organization and others to discuss the valuation issues related to the super senior tranches of sub-prime CDOs. At the meeting, Crittenden was provided with a document entitled "Super Senior Valuation and Potential P&L Impact." Among other things, the document showed, and the meeting participants discussed, that based on different potential valuation methodologies, Citigroup could have third quarter 2007 losses ranging from \$43 million to \$1.35 billion on the more than \$16 billion of super senior tranches that the investment bank then held. Following the meeting, Crittenden directed financial personnel in the investment bank to oversee a process to determine the appropriate valuation methodology. Because of anticipated losses resulting from what the company characterized as "dislocations in the mortgage-backed securities and credit markets and a deterioration in the consumer credit environment," which included the anticipated losses on the super senior tranches, Citigroup concluded that there would be a substantial decline in the company's anticipated net income for the third quarter of 2007. Citigroup therefore decided to issue a pre-announcement of its third quarter financial results.

After Citigroup decided to issue the pre-announcement of its expected third quarter 2007 results, Crittenden, Tildesley, and others began working on a script for a recorded call with investors and analysts and an accompanying press release. During this time, Crittenden referred to the super senior tranches of CDOs as one of the "critical issues" and a "major issue" to be resolved before the pre-announcement. Tildesley wrote the initial draft of the portion of the pre-announcement script relating to sub-prime and CDOs. The initial draft of the pre-announcement script did not include any reference to the super senior tranches or the liquidity puts. Following preparation of the initial draft, Crittenden met with an IR officer to discuss the script and requested that a reference to the "highest-rated tranches" of CDO be added; Crittenden did not request that the amount of the super senior tranches and the liquidity puts be referenced. After this meeting, additional work on the script was performed and references to "highest-rated tranches" and to CDOs' experiencing declines in value during the third quarter of 2007 were added.³ By this time,

³ The reference to the highest-rated tranches was an apparent reference to the super senior tranches.

both Tildesley and Crittenden had received information showing that Citigroup was anticipating approximately \$300 million in write-downs on the value of the super senior tranches.

On September 27, 2007, a pre-announcement was recorded. At the time, Citigroup was expecting that the write-down in the value of the super senior tranches of CDOs would be approximately \$300 million. Shortly after the recording of the pre-announcement, however, it was determined that there had been an error in the model that had been used to calculate the value of the super senior tranches and that the amount of the write-down was approximately \$100 million. Tildesley then informed Crittenden that due to the change in the write-downs of the super senior tranches, Crittenden would have to re-record that part of the pre-announcement.

Following the decision to re-record the pre-announcement, there was an electronic mail message (“e-mail”) exchange, which did not include Crittenden, during which the following language was circulated to Tildesley other members of IR, a senior officer, and representatives of the investment bank:

We typically have sold the lowest rated tranches of the CDOs and held onto most of the highest rated tranches, which historically have enjoyed more stable valuations. As the subprime problem spread across various security types, we started to see valuation declines even in the highest rated tranches.

The proposed draft continued:

Starting in January of this year, we began to lower our exposure to these sub-prime assets as we saw the market changing. At the beginning of this year we had \$24 billion of secured sub-prime exposure in our lending and structuring business. That number was \$13 billion at the end of June, and declined slightly this quarter. Despite our aggressive efforts this year to work these positions down and to put in place appropriate hedges, we were still holding mortgage assets in our warehouse, or holding undistributed tranches of CDOs, when the market dislocated. And although we had hedged, this only partially offset our losses, which netted to a write-down of approximately \$1.0 billion.

In reviewing that draft pre-announcement script, an investment bank officer, in an e-mail sent to Tildesley and others, noted the potential for a listener to the announcement to conclude that the investment bank’s sub-prime exposure was only \$13 billion. An IR officer responded that, because the super senior tranches of CDOs previously had not been discussed in the prior disclosures and because of a request by the investment bank that the IR officer understood to be a request not to discuss those tranches, there was no choice other than to let listeners conclude that the investment bank’s total sub-prime exposure was \$13 billion. In response to that assessment, the investment bank officer suggested removing the discussion about the highest rated tranches so as to avoid eliciting questions about super seniors. Another investment bank

executive agreed with that suggestion, and noted that the write-down in the value of the super senior tranches had declined. Tildesley took no action with respect to the issue that had been raised.

Following the e-mail exchange described above, the script for the pre-announcement call was finalized. As finalized, the script included a statement that the company held on to “most of the highest rated tranches” but then did not include disclosure of the amount of the investment bank’s sub-prime exposure from the super senior tranches of CDOs and the liquidity puts. Crittenden and Tildesley reviewed and approved the final version of the script.

On October 1, 2007, Citigroup issued a press release and a recorded telephone announcement in which the company pre-announced expected financial results for the third quarter of 2007. In the press release, the company announced that its Securities and Banking business, which included the investment bank, had experienced pre-tax losses of approximately \$1.3 billion, net of hedges, on its sub-prime exposure from CDOs and related securities and from leveraged loans warehoused for future securitizations. Citigroup did not provide a breakdown of the approximately \$1.3 billion in losses, but the amount included approximately \$300 million in losses from leveraged loans warehoused for future collateralized loan obligation securitizations and approximately \$1 billion in losses on sub-prime exposure. The approximately \$1 billion in losses on the sub-prime exposure, in turn, included approximately \$100 million in losses on the super senior tranches of CDOs.

In the October 1, 2007 recorded telephone announcement (“October 1 Pre-Announcement Call”), Crittenden made the following prepared statements about the Citigroup investment bank’s sub-prime exposure:

[W]e took significant write-downs in the value of mortgage-backed securities in the ‘warehouses’ and CDOs.

This is a business where we accumulate pools of mortgages or mortgage backed securities (mostly sub-prime) and hold them in a warehouse until we have sufficient assets to create a CDO for sale in the market.

We typically have sold the lowest rated tranches of the CDOs and held onto most of the highest rated tranches, where historically values have been stable. In July, however, actions by the rating agencies which involved methodology changes and downgrades of certain CDO tranches caused investors to suddenly pull back from the entire CDO market, resulting in a rapid decline in CDO values.

Starting in January of this year, we began to lower our exposure to these sub-prime assets as we saw the market changing. At the beginning of the year we had \$24 billion of secured sub-

prime exposure in our lending and structuring business. That number was \$13 billion at the end of June, and declined slightly this quarter. Despite our aggressive efforts this year to work these positions down, and to put in place appropriate hedges, we were still holding mortgage assets in our warehouse, or holding undistributed tranches of CDOs, when the market dislocated. Although hedging activity produced gains, they only partially offset our losses, which netted to a write-down of approximately \$1.0 billion.

Also on October 1, 2007, Citigroup filed a Current Report on Form 8-K (“October 1 Form 8-K”) with the Commission. Citigroup included the October 1 press release and a transcript of the October 1 Pre-Announcement Call in that October 1 Form 8-K. Citigroup incorporated by reference the October 1 Form 8-K into certain registration statements that the company filed, including shelf registration statements on Form S-3ASR filed on March 2, 2006, March 13, 2006, and June 20, 2006, and a registration statement on Form S-8 filed on May 4, 2005.

The statements about the amount of the Citigroup investment bank’s sub-prime exposure made during the October 1 Pre-Announcement Call, and included in the October 1 Form 8-K, did not disclose what was then approximately \$43 billion of sub-prime exposure from the super senior tranches of CDOs (\$18 billion) and the liquidity puts (\$25 billion). By referencing the retention of the “highest rated tranches” of CDOs, the disclosure suggested that the investment bank’s entire sub-prime exposure was slightly less than \$13 billion. By October 1, 2007, however, the investment bank’s sub-prime exposure was not slightly less than \$13 billion but was approximately \$55 billion. As such, on the October 1 Pre-Announcement Call, the investment bank’s sub-prime exposure was materially understated. After the October 1 Pre-Announcement Call, several analyst reports and newspaper articles reported that the Citigroup investment bank’s sub-prime exposure was \$13 billion or slightly less than that amount.

5. Citigroup Discloses that Its Investment Bank Has \$55 Billion in Sub-Prime Exposure

Following the earnings pre-announcements and the filing of the October 1 Form 8-K, Citigroup worked on finalizing its results for the third quarter of 2007. On October 15, 2007, Citigroup issued a press release and held a conference call with investors and analysts to announce and discuss the company’s results for the third quarter of 2007. During the October 15, 2007 conference call (“October 15 Earnings Call”), it again was represented that the Citigroup investment bank’s sub-prime exposure was \$24 billion at the beginning of 2007, was \$13 billion at the end of the second quarter of 2007, and had declined slightly during the third quarter of the year.⁴ The investment bank’s sub-prime exposure was materially understated during the October 15 Earnings Call because, with the super senior tranches of CDOs and the liquidity puts, the

⁴ By the time of the October 15 Earnings Call, Citigroup had determined that the write-downs on the super senior tranches of CDOs for the third quarter of 2007 were approximately \$300 million rather than the approximately \$100 million that had been determined at the time of the October 1 Pre-Announcement Call.

investment bank's sub-prime exposure in secured lending exceeded \$50 billion at the end of the third quarter of 2007 rather than the approximately \$13 billion that was disclosed.

Following the October 15, 2007 press release and the October 15 Earnings Call, certain rating agencies downgraded tranches of sub-prime-backed CDOs. These downgrades followed earlier rating agency downgrades of certain mortgage-backed securities. Particularly due to the rating agency downgrades that took place after October 15, 2007, Citigroup determined that the downgrades would have a negative effect on the value of the super senior and other CDO tranches and the liquidity puts. The company estimated that the losses would be in the range of \$8 billion to \$11 billion for the fourth quarter of 2007. The company then decided to disclose the range of loss and the amount of the investment bank's sub-prime exposure, including the super senior tranches and the liquidity puts.

On November 4, 2007, Citigroup issued a press release in which, for the first time, the company disclosed an amount for the investment bank's sub-prime exposure that included the amount of the exposure from the super senior tranches and the liquidity puts. The company announced that it had experienced

significant declines since September 30, 2007 in the fair value of the approximately \$55 billion in U.S. sub-prime related direct exposures in its Securities and Banking (S&B) business. Citi estimates that, at the present time, the reduction in revenues attributable to these declines ranges from approximately \$8 billion to \$11 billion (representing a decline of approximately \$5 billion to \$7 billion in net income on an after-tax basis).

The company also specifically disclosed that the \$55 billion included \$43 billion in exposure from the super senior tranches of CDOs and the liquidity puts. In addition, the company disclosed that, due to a correction of its earlier valuation, the losses on the super senior tranches and the liquidity puts for the third quarter of 2007 had increased by \$270 million. As a result, the total losses attributable to the super senior tranches and the liquidity puts for the third quarter of 2007 were over \$500 million.

E. LEGAL ANALYSIS

Section 13(a) of the Exchange Act and Exchange Act Rule 13a-11 require issuers of securities registered pursuant to Section 12 of the Exchange Act, such as Citigroup, to file with the Commission accurate periodic reports, including current reports Form 8-K. An issuer violates these provisions if it files a report that is not complete, accurate, and timely. *See SEC v. Falstaff Brewing Corp.*, 629 F.2d 62, 72 (D.C. Cir. 1980); *SEC v. Savoy Indus., Inc.*, 587 F.2d 1149, 1165 (D.C. Cir. 1978). Rule 12b-20 further requires that periodic reports contain any material information necessary to make the required statements made in the reports not misleading.

The statements about the Citigroup investment bank's sub-prime exposure made during the October 1 Pre-Announcement Call were materially misleading because the investment bank's sub-prime exposure was not \$13 billion at the end of the second quarter of 2007 and slightly less than that amount at the end of the third quarter of 2007, as represented, but rather exceeded \$50 billion. As a result of the inclusion of a transcript of the October 1 Pre-Announcement Call in the October 1 Form 8-K, the October 1 Form 8-K was materially misleading. Citigroup, therefore, violated Section 13(a) of the Exchange Act and Exchange Act Rules 12b-20 and 13a-11. Based on the information that they had at the time, Crittenden and Tildesley each should have known that the statements made during the October 1 Pre-Announcement Call were materially misleading. Under these circumstances and in light of the roles that they played in the misstatements made during the October 1 Pre-Announcement Call, which then were included in the October 1 Form 8-K, Crittenden and Tildesley each was a cause of Citigroup's violation.

F. UNDERTAKINGS

Crittenden has undertaken to pay \$100,000.00. Crittenden will make this payment within ten (10) days of the issuance of this Order. Payment shall be (A) made by wire transfer, United States postal money order, certified check, bank cashier's check or bank money order; (B) made payable to the Securities and Exchange Commission; (C) hand-delivered or mailed to the Office of Financial Management, Securities and Exchange Commission, Operations Center, 6432 General Green Way, Stop 0-3, Alexandria, VA 22312; and (D) submitted under cover letter that identifies Crittenden as a respondent in these proceedings, the file number of these proceedings, a copy of which cover letter and wire transfer instructions, money order, or check shall be sent to Andrew H. Feller, Esq. Division of Enforcement, Securities and Exchange Commission, 100 F St., N.E., Washington, D.C. 20549-5010. The Commission shall remit the funds paid pursuant to this paragraph to the United States Treasury. In determining whether to accept the Crittenden Offer, the Commission has considered this undertaking by Crittenden.

Tildesley has undertaken to pay \$80,000.00. Tildesley will make this payment within ten (10) days of the issuance of this Order. Payment shall be (A) made by wire transfer, United States postal money order, certified check, bank cashier's check or bank money order; (B) made payable to the Securities and Exchange Commission; (C) hand-delivered or mailed to the Office of Financial Management, Securities and Exchange Commission, Operations Center, 6432 General Green Way, Stop 0-3, Alexandria, VA 22312; and (D) submitted under cover letter that identifies Tildesley as a respondent in these proceedings, the file number of these proceedings, a copy of which cover letter and wire transfer instructions, money order, or check shall be sent to Andrew H. Feller, Esq. Division of Enforcement, Securities and Exchange Commission, 100 F St., N.E., Washington, D.C. 20549-5010. The Commission shall remit the funds paid pursuant to this paragraph to the United States Treasury. In determining whether to accept the Tildesley Offer, the Commission has considered this undertaking by Tildesley.

IV.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions to which Crittenden agreed in the Crittenden Offer and to which Tildesley agreed in the Tildesley Offer.

Accordingly, it is hereby ORDERED that:

Pursuant to Section 21C of the Exchange Act, Crittenden and Tildesley each shall cease and desist from causing any violations and any future violations of Section 13(a) of the Exchange Act and Exchange Act Rules 12b-20 and 13a-11.

By the Commission.

Elizabeth M. Murphy
Secretary

Service List

Rule 141 of the Commission's Rules of Practice provides that the Secretary, or another duly authorized officer of the Commission, shall serve a copy of the Order Instituting Cease-and-Desist Proceedings Pursuant to Section 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing Cease-and-Desist Orders ("Order"), on the Respondents and their legal agents.

The attached Order has been sent to the following parties and other persons entitled to notice:

Honorable Brenda P. Murray
Chief Administrative Law Judge
Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-2557

Laura B. Josephs, Esq.
Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-2557

Mr. Gary L. Crittenden
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John K. Carroll, Esq.
Skadden, Arps, Slate, Meagher & Flom LLP
Four Times Square
New York, NY 10036 (Counsel for Gary L. Crittenden)

Mr. Arthur H. Tildesley, Jr.
c/o Mark Stein, Esq.
Simpson, Thacher & Bartlett LLP
425 Lexington Avenue
New York, NY 10017

Mark Stein, Esq.
Simpson, Thacher & Bartlett LLP
425 Lexington Avenue
New York, NY 10017 (Counsel for Arthur H. Tildesley, Jr.)