

**FINANCIAL INDUSTRY REGULATORY AUTHORITY  
LETTER OF ACCEPTANCE, WAIVER AND CONSENT  
NO. E102005008801**

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

RE: Citigroup Global Markets Inc. (BD No. 7059)  
Respondent

Pursuant to NASD Rule 9216 of FINRA's Code of Procedure, Citigroup Global Markets Inc. (BD No. 7059) ("Respondent" or "CGMI") 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. Respondent 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 (formerly known as NASD), 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**

CGMI has been a member of FINRA since 1936 and maintains its principal place of business in New York City. It currently employs approximately 30,000 registered individuals. This matter is limited to the Smith Barney division of CGMI.

**RELEVANT PRIOR DISCIPLINARY HISTORY**

CGMI has no relevant formal disciplinary history with the Securities & Exchange Commission, FINRA, any other self-regulatory organization, or any state securities regulator.

## OVERVIEW

From 2003 through 2007, the customer identification program ("CIP") utilized by the Smith Barney division of CGMI was inadequate in that certain accounts were not subjected to an adequate customer identity verification process at the account opening stage.

## FACTS AND VIOLATIVE CONDUCT

1. Broker/dealers are required to establish and maintain a written CIP. The CIP must be a part of the broker-dealer's anti-money laundering compliance program required under 31 U.S.C. 5318(h).

The CIP must:

- be appropriate for the firm's size and business and, at a minimum, must contain procedures for the following: identity verification, recordkeeping, comparison with government lists, and providing customer notice;
- contain risk-based procedures for verifying the identity of the customer within a reasonable period of time after the account is opened. A firm need not establish the accuracy of every element of the identifying information obtained but it must verify enough information to form a reasonable belief that it knows the true identity of the customer. 31 C.F.R. §103.122(b)(2)(iii);
- contain procedures that describe the documentary and non-documentary methods that firms will use for identity verification. Such methods may include independently verifying the customer's identity through the comparison of information provided by the customer with information obtained from a consumer reporting agency, public database, or other source. 31 C.F.R. §103.122(b)(2)(ii)(B); and
- include procedures for responding to circumstances in which a firm cannot form a reasonable belief that it knows the true identity of a customer. These procedures should describe, *inter alia*, when the firm should not open an account, the terms under which a customer may conduct transactions while the firm attempts to verify the customer's identity, and when the firm should close the account after unsuccessful attempts at verification.

From October 1, 2003 through August 3, 2007, the CIP procedures utilized by the Smith Barney division of CGMI set forth acceptable verification methods for various customer types including: individuals – U.S. domestic and resident aliens with social security numbers; and individuals – non-resident aliens and resident aliens without social security numbers. In connection with its non-documentary verification efforts, the Smith Barney division of CGMI utilized services provided by a consumer reporting agency (the "Agency"). Specifically, identity

information provided by a customer would be submitted to the Agency for independent verification of the customer's identity.

CGMI's procedures called for an account to be restricted within 30 days of the account opening if the firm failed to verify the customer's identity.

While the firm's procedures provided for the possibility that a customer's identity could be verified through documentary and non-documentary means, the overwhelming majority of accounts at issue in this AWC were, according to the firm's procedures, to be verified through the Agency exclusively.

- a. From in or about October 1, 2003 through August 3, 2007, the CIP utilized by the Smith Barney division of CGMI was deficient in that customers who opened approximately 32,898 Smith Barney accounts were not subjected to an adequate customer identity verification process during the account opening stage. Specifically:
  - (i) information concerning customers who opened approximately 12,444 Smith Barney accounts had not been submitted to the Agency for identity verification and were not otherwise verified during the account opening stage. These accounts were opened by customers who were related to CGMI employees and opened their brokerage accounts between October 1, 2003 and June 30, 2006.
  - (ii) in its response to the instant FINRA examination, CGMI conducted reviews that resulted in the detection and disclosure to FINRA of other deficiencies:
    - a. the firm conducted a review that detected that information concerning customers who opened approximately 1,412 additional Smith Barney accounts had not been submitted to the Agency for identity verification and were not otherwise verified during the account opening stage. These accounts were opened by customers who had both United States-issued social security numbers and foreign addresses and opened their brokerage accounts between October 1, 2003 and June 30, 2006;<sup>1</sup> and
    - b. CGMI and a consultant the firm hired detected that information concerning customers who opened approximately 19,042 additional Smith Barney accounts had not been submitted to the Agency for identity verification and were not otherwise

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<sup>1</sup> In connection with this deficiency, CGMI's review initially detected 1,260 such accounts as of May 24, 2006. A consultant the firm hired detected 152 additional such accounts that were opened between October 2, 2003 and June 30, 2006.

verified during the account opening stage. These accounts were opened between October 1, 2003 and August 3, 2007.

These 32,898 Smith Barney accounts were not restricted despite the fact that CGMI failed to properly verify the customers' identities within thirty days of the account opening.

By reason of the foregoing, CGMI violated NASD Conduct Rules 3011(b) and 2110 and MSRB Rule G-41.

### **OTHER FACTORS**

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

- A Censure; and
- A Fine of \$100,000.

Respondent agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. Respondent 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 imposed in this matter.

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

## **II.**

### **WAIVER OF PROCEDURAL RIGHTS**

Respondent specifically and voluntarily waives the following rights granted under FINRA's Code of Procedure:

- A. To have a Formal Complaint issued specifying the allegations against Respondent;
- B. To be notified of the Formal 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 specifically and voluntarily waives any right to claim bias or prejudice of the General Counsel, 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 further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of NASD Rule 9143 or the separation of functions prohibitions of NASD 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 understand 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 NASD 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; and
- C. If accepted:
  - 1. this AWC will become part of Respondent's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against CGMI;
  - 2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about Respondent's disciplinary record;
  - 3. FINRA may make a public announcement concerning this agreement and

the subject matter thereof in accordance with NASD Rule 8310 and IM-8310-3; and

4. Respondent 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 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 right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.
- D. Respondent may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondent 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.

Respondent certifies that it 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 its 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.

6-5-08

Date

Elaine M. Mandelbaum

Respondent Citigroup Global Markets Inc.  
(BD No. 7059)

By: Elaine Mandelbaum, Esq.  
Managing Director and Deputy General  
Counsel

Betty Santangelo

Betty Santangelo, Esq.  
Schulte Roth & Zabel LLP,  
919 Third Avenue  
New York, New York 10022  
Counsel for Respondent

Accepted by FINRA:

June 20, 2008

Date

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

A handwritten signature in black ink, appearing to read 'W. St. Louis', written over a horizontal line.

William St. Louis  
Deputy Regional Chief Counsel  
FINRA Department of Enforcement  
One Liberty Plaza  
New York, New York 10006  
212-858-4036 (phone)