SECURITIES AND EXCHANGE COMMISSION

This file is maintained pursuant to the Freedom of Information Act (5 U.S.C. 552). It contains a copy of each decision, order, rule or similar action of the Commission, for **August 2015**, with respect to which the final votes of individual Members of the Commission are required to be made available for public inspection pursuant to the provisions of that Act.

Unless otherwise noted, each of the following individual Members of the Commission voted affirmatively upon each action of the Commission shown in the file:

MARY JO WHITE, CHAIR

LUIS A. AGUILAR, COMMISSIONER

DANIEL M. GALLAGHER, COMMISSIONER

KARA M. STEIN, COMMISSIONER

MICHAEL S. PIWOWAR, COMMISSIONER

(5 DOCUMENTS)

Commissioner Stein
Commissioner Piwowar
Disapproved

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 9894 / August 17, 2015

ADMINISTRATIVE PROCEEDING
File No. 3-16757

In the Matter of **CITIGROUP INC.**	**ORDER UNDER RULE 405 OF THE SECURITIES ACT OF 1933, GRANTING A WAIVER FROM BEING AN INELIGIBLE ISSUER**

Citigroup Inc. ("Company") has submitted a letter, dated July 23, 2015, constituting an application for relief from the Company being considered an "ineligible issuer" under Clause (1)(vi) of the definition of ineligible issuer in Rule 405 of the Securities Act of 1933 ("Securities Act"). The Company requests relief from being considered an "ineligible issuer" under Rule 405, due to the entry on August 17, 2015 of an order instituting administrative and cease-and-desist proceedings against Citigroup Global Markets Inc. ("CGMI") and Citigroup Alternative Investments LLC ("CAI") (the "Cease-and-Desist Order"). The Cease-and-Desist Order requires CAI and CGMI to cease and desist from committing or causing any violations and any future violations of Sections 17(a)(2) and 17(a)(3) of the Securities Act. Additionally, the Cease-and-Desist Order requires CGMI to cease and desist from committing or causing any violations and any future violations of Section 206(2) of the Investment Advisers Act of 1940 ("Advisers Act"), and CAI to cease and desist from committing or causing any violations and any future violations of Section 206(4) of the Advisers Act and Rules 206(4)-7 and 206(4)-8 promulgated thereunder.

Under Clause (1)(vi) of the definition of ineligible issuer in Rule 405 of the Securities Act, an issuer becomes an ineligible issuer and thus unable to avail itself of well-known seasoned issuer status, if "Within the past three years (but in the case of a decree or order agreed to in a settlement, not before December 1, 2005), the issuer or any entity that at the time was a subsidiary of the issuer was made the subject of any judicial or administrative decree or order arising out of a governmental action that: (A) Prohibits certain conduct or activities regarding, including future violations of, the anti-fraud provisions of the federal securities laws...." Under Clause (2) of the definition of ineligible issuer in Rule 405 of the Securities Act, an issuer shall not be an ineligible issuer if the Commission determines, upon a showing of good cause, that it is not necessary under the circumstances that the issuer be considered an ineligible issuer.

Based on the facts and representations in the Company's July 23, 2015 request, and assuming CAI and CGMI comply with the terms of the Cease-and-Desist Order, the Commission has determined that the Company has made a showing of good cause under Clause (2) of the definition of ineligible issuer in Rule 405 of the Securities Act and that the Company should not be considered an ineligible issuer by reason of the entry of the Cease-and-Desist Order. Accordingly, the relief requested in the Waiver Letter regarding Citigroup Inc. being an ineligible issuer under Rule 405 by reason of the entry of the Cease-and-Desist Order is granted, on the condition that that CAI and CGMI fully comply with the terms of the Cease-and-Desist Order. Any different facts from those represented or failure to comply with the terms of the Cease-and-Desist Order would require us to revisit our determination that good cause has been shown and could constitute grounds to revoke or further condition the waiver. The Commission reserves the right, in its sole discretion, to revoke or further condition the waiver under those circumstances.

Accordingly, IT IS ORDERED, pursuant to Clause (2) of the definition of ineligible issuer in Rule 405 of the Securities Act, that a waiver from the Company being an ineligible issuer under Rule 405 of the Securities Act is hereby granted.

By the Commission.

Brent J. Fields
Secretary

Jill M. Peterson
By: Jill M. Peterson
Assistant Secretary

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 9893 / August 17, 2015

SECURITIES EXCHANGE ACT OF 1934
Release No. 75710 /August 17, 2015

INVESTMENT ADVISERS ACT OF 1940
Release No. 4174 / August 17, 2015

ADMINISTRATIVE PROCEEDING
File No. 3-16757

In the Matter of Citigroup Alternative Investments LLC and Citigroup Global Markets Inc., Respondents.	ORDER INSTITUTING ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS PURSUANT TO SECTION 8A OF THE SECURITIES ACT OF 1933, SECTION 15(b)(4) OF THE SECURITIES EXCHANGE ACT OF 1934, AND SECTIONS 203(e) and 203(k) OF THE INVESTMENT ADVISERS ACT OF 1940, 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 Section 8A of the Securities Act of 1933 ("Securities Act"), Section 15(b)(4) of the Securities Exchange Act of 1934 ("Exchange Act"), and Sections 203(e) and 203(k) of the Investment Advisers Act of 1940 ("Advisers Act") against Citigroup Alternative Investments LLC ("CAI") and Citigroup Global Markets Inc. ("CGMI") (together, "Respondents").

II.

In anticipation of the institution of these proceedings, Respondents have 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

2 of 5

herein, except as to the Commission's jurisdiction over Respondents and the subject matter of these proceedings, which are admitted, Respondents consent to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Section 8A of the Securities Act of 1933, Section 15(b)(4) of the Securities Exchange Act of 1934, and Sections 203(e) and 203(k) of the Investment Advisers Act of 1940, 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 Respondents' Offer, the Commission finds that:

Summary

These proceedings concern material misstatements and omissions made by Respondents between 2002 and 2007 in the offer and sale of securities in two now-defunct hedge funds—the ASTA and MAT funds ("ASTA/MAT") and the Falcon Strategies funds ("Falcon"). The ASTA/MAT and Falcon funds were recommended and sold by two groups of individuals, the "financial advisers" of Smith Barney and the "private bankers" of Citigroup Private Bank (together, the "financial advisers"), to their advisory clients. The financial advisers were associated with respondent CGMI. Both funds were managed by respondent CAI, which acted through its employees, including an employee who had a primary role in creating the funds and serving as the funds' manager during the relevant time period (the "fund manager"). Respondents raised approximately $2.898 billion from approximately 4,000 investors in ASTA/MAT and Falcon. In 2008, both funds collapsed resulting in billions of dollars in losses.

From 2002 through 2008 (the "relevant period"), financial advisers and the fund manager misrepresented the funds' risks and performance to advisory clients, who were told that the investments were "safe," "low-risk," "bond substitutes" and suitable for traditional bond investors, despite statements in marketing documents that the funds should not be viewed as a bond substitute. In addition, while the risk of principal loss was disclosed in written materials provided to clients, certain financial advisers and the fund manager orally minimized the significant risk of loss resulting from, among other things, the funds' investment strategy and use of leverage. Investors were also told that the biggest risk facing ASTA/MAT was the adoption of a flat income tax by the federal government. Financial advisers encouraged many of their advisory clients to sell portions of their bond portfolios in order to invest in the funds. In late 2007, financial advisers and the fund manager continued to offer and sell Falcon as a safe, low-risk investment, even though both funds—the Falcon fund was 20 percent invested in the ASTA/MAT fund—began experiencing increased margin calls and liquidity problems in the second half of 2007 that continued until the funds collapsed.

Moreover, the fund manager was involved in virtually all fund-related communications with the financial advisers and investors. The fund manager and the fund manager's staff were responsible for drafting and reviewing offering materials for the funds, crafting sales pitches to investors, training CAI sales personnel (who, in turn, were responsible for marketing the funds to the financial advisers), drafting quarterly investor reports, disclosing interim fund performance, and managing the funds themselves. Furthermore, throughout the fund offerings and fund operations, the fund manager and the fund manager's staff at CAI met with prospective investors and responded directly to inquiries from the financial advisers concerning the funds without sufficient oversight governing those oral communications. The fund manager and his staff at CAI had significant influence over the dissemination of information relating to the funds without review or oversight, including information relating to the funds' risks and performance. CAI failed to implement a system in which the fund manager's authority was checked adequately or to ensure that the fund manager's communications with investors and financial advisers concerning the ASTA/MAT and Falcon funds were accurate and not misleading.

Respondents

1. **CAI** is an indirect wholly-owned subsidiary of Citigroup Inc. and has its principal place of business in New York, New York. CAI was the investment manager for the ASTA/MAT and Falcon funds. CAI had its own sales force, or "wholesalers," who, along with the fund manager and the fund manager's staff, were responsible for marketing the ASTA/MAT and Falcon funds to the financial advisers. During the relevant period, CAI had approximately $59 billion in assets under management. CAI has been registered as an investment adviser with the Commission since 2002.

2. **CGMI** is an affiliated company of Citigroup Inc. and has its principal place of business in New York, New York. During the relevant period, Smith Barney was a business division of CGMI. The financial advisers who recommended and sold ASTA/MAT and Falcon fund shares to investors were associated persons of CGMI. In 2009, Smith Barney entered into a joint venture with Morgan Stanley Global Wealth Management Group to become Morgan Stanley Smith Barney, in which Citigroup owned a 49 percent stake in the venture and Morgan Stanley owned the remaining 51 percent. In 2012, Morgan Stanley purchased Citigroup's interest in the joint venture. CGMI has been registered with the Commission since 1960 as both an investment adviser and a broker-dealer.

Background

3. From September 2002 through February 2007, Respondents offered and sold approximately $1.962 billion of investments in ASTA/MAT to approximately 2,700 investors and advisory clients of CGMI. ASTA/MAT was a municipal arbitrage fund that purchased municipal bonds and used a Treasury or LIBOR swap to hedge interest rate risks. The ASTA/MAT fund employed 8-12 times leverage.

4. From October 2004 through October 2007, Respondents offered and sold approximately $936 million of investments in Falcon to approximately 1,300 investors and advisory clients of CGMI. Falcon was a multi-strategy fund that invested in ASTA/MAT and other fixed income strategies, such as CDOs, CLOs, and asset-backed securities. The Falcon fund employed 5-6 times leverage.

5. Falcon and ASTA/MAT were managed in accordance with disclosed investment strategies, including leverage guidelines. Falcon and ASTA/MAT were not offered generally to retail investors, but were limited to "qualified purchasers" as defined by Section 2(a)(51)(A) of the Investment Company Act of 1940 and "accredited investors" within the meaning of Rule 501(a) of Regulation D of the Securities Act of 1933. In addition, Respondents recommended that investors in Falcon invest no more than 10 percent of their assets and that investors in ASTA/MAT invest no more than 5 percent of their assets.

6. Investors in the ASTA/MAT and Falcon funds paid advisory fees for essentially receiving two tiers of investment advice. First, the investors in both ASTA/MAT and Falcon were advisory clients of the financial advisers (who were associated with CGMI) and paid for investment advice, including placement fees relating to their investments. Secondly, CAI, acting primarily through the fund manager and the fund manager's staff, managed both the ASTA/MAT and Falcon funds and received management fees from the investors. Investors in ASTA/MAT and Falcon directly or indirectly paid CAI and CGMI a total of approximately $212.5 million in fees associated with investments in the two funds. Of this amount, the Respondents returned approximately $72.5 million to investors as compensatory payments following the collapse of the funds.

7. Respondents, acting through associated persons—the financial advisers, in the case of CGMI, and the fund manager, in the case of CAI—made material misstatements and omissions to investors in the offer and sale of shares in the ASTA/MAT and Falcon funds.

Respondents' Violations

8. Financial advisers and the fund manager orally represented to investors that Falcon was a "safe," "low-risk" investment, akin to a "bond substitute" or "bond alternative" that had the same risk profile as a municipal bond investment but with a slightly higher return. Internal sales pitches stated that Falcon "walks like a bond, talks like a bond, [has] cashflow like a bond" and described Falcon as a "better version of a bond." Consistent with that marketing theme, Falcon was benchmarked against the Lehman Aggregate Bond Index, which is used to evaluate the performance of bond portfolios. Some investors were encouraged to sell their unleveraged bond portfolios in order to purchase shares in the Falcon fund.

9. Financial advisers, the fund manager and other CAI staff involved in the marketing of the funds also orally represented to investors that ASTA/MAT was a "safe," "low-risk" investment, notwithstanding certain risk disclosures in the ASTA/MAT offering materials. Financial advisers, the fund manager and other CAI staff involved in the marketing of the funds told investors that ASTA/MAT had a very low risk of permanent loss, particularly if investors were willing to hold the investment for at least five years. Financial advisers and the fund manager also told investors that the biggest risk facing the ASTA/MAT fund was the adoption of a flat income tax by the federal government. Some investors were encouraged to sell their bond portfolios in order to purchase shares in the ASTA/MAT fund.

10. Financial advisers, the fund manager and other CAI staff involved in the marketing of the funds made false and misleading statements regarding the risks associated with an investment in the ASTA/MAT and Falcon funds. The funds were not bond substitutes, and an investment in the funds carried significantly greater risk than a bond investment. The funds used significant amounts of leverage that increased the risk of both margin calls and loss in value. In fact, Citigroup Private Bank had an internal risk rating system that rated the funds as having "significant risk to principal." That rating, however, was not shared with the majority of investors and financial advisers.

11. Furthermore, CAI performed back-testing on a hypothetical ASTA/MAT portfolio to evaluate the fund's performance over a period of time. The back-testing analysis showed that an investment in the ASTA/MAT fund carried far greater risk than that described to investors. CAI, however, misrepresented the results of that back-testing analysis. Some financial advisers and investors were told that the hypothetical ASTA/MAT portfolio had been back-tested over a five-year period (1996 to 2001), and that, over such period, the largest decline in the portfolio was approximately 7 percent. That statement was false because the back-testing actually showed that the portfolio, when fluctuations in bond prices over the entire time period were analyzed, declined by up to 32 percent in value. Moreover, CAI actually had back-tested the hypothetical ASTA/MAT portfolio over a six-year period (1995 to 2001), during which time the portfolio declined by approximately 48 percent. Consequently, the risk of loss associated with an investment in the ASTA/MAT fund, which also accounted for approximately 20 percent of Falcon's investments, was significantly higher than conveyed to some financial advisers and investors.

12. CAI and CGMI failed to require any changes in the way in which the funds were described to investors, even as the funds' performance significantly declined and the risk of investor losses increased.

13. In August 2007, the Falcon fund experienced margin calls. Lender or leverage provider valuations for fund assets declined significantly while the amount of collateral demanded by those lenders increased. In order to generate necessary liquidity and to meet increasing margin calls, the fund manager sold approximately $2 billion of fund assets, and made an "urgent request" for a "contingency liquidity plan"—essentially a loan from CAI or Citigroup Inc.—in the amount of $200 million for Falcon, which was denied.

14. As the Falcon fund experienced significant declines in liquidity, the fund manager and some financial advisers misrepresented the fund's performance and liquidity to investors, who were assured that Falcon had low liquidity risks and secure financing terms. The investors were not informed of Falcon's liquidity issues, the sale of $2 billion in fund assets to meet margin calls, or the fund manager's request for a $200 million loan from CAI or Citigroup Inc.

15. In September and October 2007, the financial advisers and CAI, acting through the fund manager and the fund manager's staff, recommended, offered and sold additional shares in the Falcon fund, and raised approximately $110 million from new investors without disclosing

how the declining market conditions of the time were affecting Falcon's liquidity. In fact, CAI and CGMI continued to recommend the funds as safe, low-risk investments.

16. From November 2007 through March 2008, Falcon continued to experience a severe liquidity shortage. Internally, the fund manager stated that the fund's liquidity was "getting close to dangerous territory." The fund manager sold over $6.4 billion of fund assets between November 2007 and January 2008 to generate liquidity, and re-submitted a contingency liquidity plan request to supervisors at CAI for $400 million. This, too, was denied. By January 2008, the fund manager had drawn up potential "liquidation scenarios" for the Falcon fund.

17. During this period, the fund manager and some financial advisers, however, continued to misrepresent Falcon's performance and liquidity to investors by telling them that Falcon had "adequate liquidity" and reassuring investors that the fund was "well capitalized." They failed to disclose the fund's requests for liquidity support—which were denied by CAI and Citigroup Inc. —the increasing margin calls, and the sale of over $8.4 billion in fund assets to meet Falcon's margin calls. CAI lacked policies and procedures that would have ensured that communications with investors were consistent with the funds' actual performance and liquidity position.

18. During this same time period—late 2007 and early 2008—the fund manager also orally misrepresented the condition of the ASTA/MAT fund and its ability to survive a declining market. By the fall of 2007, the fund manager was instructed by supervisors at CAI to begin selling ASTA/MAT assets in order to reduce the fund's leverage. Despite the negative market conditions and instructions to begin reducing leverage, the fund manager continued to tell investors that the biggest risk to the fund was the adoption of a flat income tax by the federal government. The fund manager reassured investors just weeks before the fund collapsed that the risk of loss was minimal.

19. CAI failed to adopt and implement policies and procedures to prevent the misrepresentations made to investors. The fund manager had virtually complete control of the information disseminated to investors without sufficient review to ensure that those communications were accurate. CAI employed its own sales personnel, or wholesalers, who were educated on the funds by the fund manager. The fund manager and the fund manager's staff drafted sales pitches for the wholesalers that were not subject to review or approval by anyone outside of the fund manager's staff, including anyone in the compliance group. Those sales pitches and talking points misrepresented the risks of the funds. The wholesalers, in turn, were responsible for marketing the funds to the financial advisers. The fund manager and the fund manager's staff were also responsible for educating the financial advisers on the risks of the funds, and fielded client and other inquiries from financial advisers concerning the funds. Finally, in many instances, the fund manager and the fund manager's staff also had direct communications with investors, during which they misrepresented the funds' risks. CAI failed to exert reasonable oversight for the sales pitches, talking points, and oral communications made by the fund manager to the financial advisers and investors.

20. In addition, the fund manager and the fund manager's staff played a significant role in drafting and disseminating information regarding the funds to investors and financial advisers without sufficient review or oversight to ensure that the information given to investors was accurate. In particular, the fund manager and the fund manager's staff designed, implemented and analyzed the back-testing for ASTA/MAT. They also drafted the quarterly investor reports and provided investors and financial advisers with performance information orally in meetings and on conference calls that did not fully disclose negative fund performance. CAI failed to exert reasonable oversight over these functions.

21. As a result of the conduct described above, CAI and CGMI willfully violated Sections 17(a)(2) and 17(a)(3) of the Securities Act, which prohibit fraudulent conduct in the offer or sale of securities. In addition, CGMI willfully violated Section 206(2) of the Advisers Act, which prohibits any adviser from engaging in any transaction, practice or course of business which operates as a fraud or deceit upon any client or prospective client, and CAI willfully violated Section 206(4) of the Advisers Act and Rule 206(4)-7 promulgated thereunder, which prohibit an investment adviser from providing investment advice to clients without adopting and implementing written policies and procedures reasonably designed to prevent violation of the Act and the Rules adopted under the Act, and Rule 206(4)-8 promulgated thereunder, which prohibits an investment adviser to a pooled investment vehicle from making any untrue statement of a material fact or omitting to state a material fact necessary to make the statements made, in the light of the circumstances under which they were made, not misleading, to any investor or prospective investor in the pooled investment vehicle.

IV.

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

Accordingly, pursuant to Section 8A of the Securities Act, Section 15(b)(4) of the Exchange Act and Sections 203(e) and 203(k) of the Advisers Act, it is hereby ORDERED that:

A. Respondents CAI and CGMI shall cease and desist from committing or causing any violations and any future violations of Sections 17(a)(2) and 17(a)(3) of the Securities Act. Additionally, CGMI shall cease and desist from committing or causing any violations and any future violations of Section 206(2) of the Advisers Act, and CAI shall cease and desist from committing or causing any violations and any future violations of Section 206(4) of the Advisers Act and Rules 206(4)-7 and 206(4)-8 promulgated thereunder.

B. Respondents CAI and CGMI are censured.

C. Respondents shall, within ten days of the entry of this Order, pay disgorgement of $139,950,239 and prejudgment interest of $39,612,089 to the Securities and Exchange Commission. If timely payment is not made, additional interest shall accrue pursuant to SEC Rule of Practice 600. Payment must be made in one of the following ways:

(1) Respondents may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
(2) Respondents 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 Alternative Investments LLC and Citigroup Global Markets Inc. as Respondents 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 Regional Director, Division of Enforcement, Securities and Exchange Commission, New York Regional Office, Brookfield Place, 200 Vesey Street, Suite 400, New York, NY 10281.

D. A plan of distribution shall be submitted within 120 days of payment in full by Respondents of the disgorgement and prejudgment interest ordered. Commission staff may extend the deadline for plan submission for good cause shown. Respondents shall bear the costs of any administration and distribution of funds to investors in the ASTA/MAT and Falcon funds ordered hereunder, including all fees of professionals that provide related services to the distribution of the fund, including tax administration. A fund administrator shall be entitled to reasonable fees and reimbursement for reasonable costs and expenses in connection with overseeing and administering the fund distribution. Respondents will pay all reasonable costs and expenses associated with the administration of the distribution, including the cost of the fund administrator bond.

By the Commission.

Brent J. Fields
Secretary

Jill M. Peterson
By: Jill M. Peterson
Assistant Secretary

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 75729 / August 19, 2015

INVESTMENT ADVISERS ACT OF 1940
Release No. 4178 / August 19, 2015

ADMINISTRATIVE PROCEEDING
File No. 3-16764

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, AND SECTIONS 203(e) AND 203(k) OF THE INVESTMENT ADVISERS ACT OF 1940, 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"), and Sections 203(e) and 203(k) of the Investment Advisers Act of 1940 ("Advisers Act") against Citigroup Global Markets, Inc. ("Respondent" or "CGMI").

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 Administrative and Cease-and-Desist Proceedings Pursuant to Sections 15(b) and 21C of the

3 of 5

Securities Exchange Act of 1934, and Sections 203(e) and 203(k) of the Investment Advisers Act of 1940, 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:

INTRODUCTION

1. These proceedings arise from compliance and surveillance failures at CGMI involving technological errors that, in some instances, remained undetected for years. As a result of these failures, CGMI violated provisions of the federal securities laws relating to its trade surveillance and its policies and procedures concerning principal transactions.

2. The national market system is characterized by automated trading conducted through advanced computer systems. As market participants continue to rely on automated systems to conduct trading, reliable technology systems enable broker-dealers and investment advisers to fulfill effectively their compliance responsibilities. Technology oversight is a critical part of modern compliance, including management of the technology systems that compliance personnel use. Failure to oversee those systems adequately can lead to compliance failures and securities law violations.

3. As a registered broker-dealer subject to Section 15(g) of the Exchange Act, CGMI is required to establish, maintain, and enforce written policies and procedures reasonably designed, taking into consideration the nature of its business, to prevent the misuse of material, nonpublic information. A key component of CGMI's implementation of compliance policies and procedures is daily surveillance of CGMI's trading, both to prevent and detect possible misuse of material, nonpublic information, and to comply with other legal requirements and firm policies.

4. Over a period of approximately ten years, from 2002 through 2012, CGMI's monitoring of its trading, including proprietary trading, was inadequate because CGMI did not monitor thousands of trades executed by several of its trading desks. The failure occurred because the reports that CGMI personnel used to review trades were missing thousands of trades. These reports were created electronically, and several trading "platforms," or electronic systems, that contained information about relevant trades were omitted from these trade reports that CGMI used for daily surveillance.

5. In addition, as a registered investment adviser, CGMI is required to adopt and implement written policies and procedures reasonably designed to prevent violations of the Advisers Act and its rules as required by Section 206(4) of the Advisers Act and Rule 206(4)-7 thereunder.

6. From approximately October 2007 through February 2010, CGMI inadvertently routed more than 467,000 transactions on behalf of advisory clients to an affiliated market maker, Automated Trading Desk Financial Services LLC ("ATD"), which executed the transactions as

principal at or near prevailing market prices. CGMI attempted to avoid principal transactions[1] executed through ATD by designing policies and procedures to route orders from investment advisory clients ("advisory orders") away from ATD. However, its policies and procedures were not reasonably designed or implemented, and failed to divert certain advisory orders away from ATD. Moreover, CGMI's trade surveillance failed to detect these principal transactions for more than two years because it relied on an exception report that was not reasonably designed to capture principal transactions executed through ATD.

7. CGMI failed to adopt and implement policies and procedures reasonably designed to prevent the routing of certain advisory orders to ATD and the resulting execution of those orders by ATD on a principal basis.

8. These two groups of violations both involved long-term technology problems that led to CGMI's inadequate enforcement of certain compliance policies and procedures. As a result, CGMI willfully violated Exchange Act Section 15(g) and Advisers Act Section 206(4) and Rule 206(4)-7 thereunder.

FACTS

A. Respondent

9. **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. ("Citigroup"). 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 member of Financial Industry Regulatory Authority (FINRA) and is a full service investment banking firm.[2]

10. The Commission previously brought several actions against CGMI and its related corporate entities. In 2003, as a result of a Commission action, the United States District Court for the Southern District of New York permanently enjoined CGMI from violating several provisions of the federal securities laws, including Section 15(f)[3] of the Exchange Act, as part of the global analyst research settlement. SEC vs. Citigroup Global Markets Inc. f/k/a Salomon Smith Barney

---

[1] A principal transaction is one where "an adviser, acting for its own account, buys a security from, or sells a security to, the account of a client." See Interpretation of Section 206(3) of the Investment Advisers Act of 1940, Release No. IA-1732 (July 23, 1998).

[2] CGMI is a subsidiary of Citigroup Financial Products, Inc., which is a subsidiary of Citigroup Global Markets Holdings, Inc., which is a subsidiary of Citigroup, Inc.

[3] Current Section 15(g) of the Exchange Act formerly was Section 15(f) when Congress added it to the Exchange Act under The Insider Trading and Securities Fraud Enforcement Act of 1988 (ITSFEA), Pub. L. No. 100 – 704, 102 Stat. 4677 (1988). The provision was renumbered to Section 15(g) following the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act in July 2010.

Inc., Civil Action No. 03-CV-2945 (S.D.N.Y. Apr. 28, 2003). In that matter, among other violations, CGMI had inadequate policies and procedures to prevent the improper sharing of information between a CGMI analyst covering a particular issuer and a CGMI affiliated person who had become a director of that issuer.

11. Separately, in 2006, CGMI consented to a censure and cease-and-desist order for violations of Section 17(a)(2) of the Securities Act of 1933, in connection with underwriting and managing auctions for auction rate securities. In re Bear, Stearns & Co., Citigroup Global Markets, Inc., et al., Securities Act Rel. No. 53888, 88 SEC Docket 259 (May 31, 2006). In a 2010 settled action, the Commission charged that Citigroup had misled investors about the company's exposure to subprime mortgage-related assets. SEC vs. Citigroup Inc., Civil Action No. 10-cv-01277 (D.D.C. July 29, 2010). In a 2011 settled action, the Commission charged CGMI with misleading investors about a collateralized debt obligation. SEC v. Citigroup Global Markets, Inc., Civil Action No. 11-cv-7387 (S.D.N.Y. Oct. 19, 2011). See also SEC v. Citigroup Global Markets, Inc., No. 11-cv-5227 (L) (2d Cir. June 4, 2014). In 2015, CGMI consented to a cease-and-desist order for willful violations of Section 17(a)(2) of the Securities Exchange Act of 1933, in connection with offering and selling municipal securities on the basis of materially misleading disclosure documents. In the Matter of Citigroup Global Markets, Inc., Securities Act Rel. No. 9819, 2015 WL 3777164 (June 18, 2015).

B. Inadequate Trade Surveillance

Legal Background

12. Congress enacted the Insider Trading and Securities Fraud Enforcement Act of 1988 ("ITSFEA") to prevent, deter, and prosecute insider trading. ITSFEA created a specific affirmative duty for broker-dealers to establish, maintain, and enforce policies and procedures reasonably designed to prevent the misuse of material, nonpublic information. Currently embodied in Section 15(g) of the Exchange Act,[4] this provision requires every registered broker or dealer to "establish, maintain, and enforce written policies and procedures reasonably designed, taking into consideration the nature of such broker's or dealer's business, to prevent the misuse" of "material, nonpublic information by such broker or dealer or any person associated with such broker or dealer" in violation of the Exchange Act or its rules.

13. CGMI's efforts to comply with Section 15(g) include a series of policies and procedures that prohibit trading of certain securities and require CGMI to conduct surveillance to detect any trades in these securities. As a broker-dealer and full-service investment bank, CGMI and certain of its employees routinely possess nonpublic information regarding clients and other issuers of securities, often under circumstances in which a duty of trust and confidence is owed to a client or third party.

CGMI's Trade Surveillance

[4] 15. U.S.C. § 78o(g).

14. Two CGMI departments play critical roles in implementing CGMI's policies and procedures to prevent the misuse of this information – the Control Group and the Information Barriers Surveillance Group.

15. CGMI's Control Group was part of CGMI's General Counsel's office for most of the review period, is currently part of CGMI's Compliance department, and is responsible for, among other things, establishing and maintaining certain of CGMI's policies and procedures to prevent the misuse of material, nonpublic information and other violations of law or policy. The Control Group maintains lists of securities that CGMI may not trade because of CGMI's possible possession of material, nonpublic information, may not trade because of other regulatory requirements, or chooses not to trade for policy reasons. The Control Group may allow trading of a security that is on a watch or restricted list if it concludes that trading the security would not violate any legal or regulatory requirement or CGMI policy. The U.S. Control Group is located in New York, New York.

16. CGMI's Information Barriers Surveillance Group ("IBSG") is part of CGMI's Compliance department and is one of the Compliance departments responsible for establishing trade surveillance procedures and conducting the surveillance. IBSG conducts daily trade surveillance to determine whether CGMI personnel traded securities that are on the lists that the Control Group maintains. If IBSG identifies any such trades, it is responsible for researching the trade and determining whether it violated CGMI policies. In 2007, CGMI relocated IBSG from New York, New York to Buffalo, New York and largely hired new personnel. This move generated cost savings, but also required the hiring of new personnel and resulted in the surveillance personnel being geographically separated from other CGMI departments. In 2013, CGMI relocated certain of its IBSG functions and positions from Buffalo, New York to Jersey City, New Jersey.

17. Two types of IBSG trade surveillance are at issue in this matter: Loan Watch List surveillance and Restricted Trading List surveillance.

Loan Watch List

18. CGMI's Loan Watch List concerns several CGMI trading desks that primarily trade corporate loans. The loan desks conduct trading on behalf of both CGMI and its customers (customer trading can be solicited or unsolicited). The loan desks may sometimes trade products other than loans, including equities and swaps.

19. When CGMI owns a loan, the loan agreement generally permits CGMI (as loan owner) to access information about the borrower through web sites run by third-party vendors. These web sites can include both public and nonpublic information. The web sites typically separate the public information from the nonpublic information so the loan owners can choose to access only public information and avoid limitations on trading. At CGMI, if a loan desk trader wants to access nonpublic information through a vendor web site, CGMI's policies and procedures require the trader to get permission from the Control Group to "go private" (*i.e.*, access nonpublic information). If the Control Group grants permission and the trader also obtains approval from a business supervisor, the trader is permitted to access nonpublic information about the borrower.

The name of the borrower then is added to the Loan Watch List. In addition to relying on traders to indicate whether they need to access nonpublic information, the Control Group also reviews reports provided by third-party vendors that identify traders who have accessed nonpublic information on the vendor websites, and has the ability to review documents the traders have accessed, to ensure that all borrowers for which traders are accessing nonpublic information are included on the Loan Watch List.

20. Once a borrower is on the Loan Watch List, the loan desks may not trade securities of that borrower. Although the desks may not trade the borrower's securities, they are permitted to continue to trade the borrower's loans. A trader may request that a borrower be removed from the Loan Watch List if, for example, a loan desk trader no longer has access to the nonpublic portion of the website for the borrower and the nonpublic information that the trader previously accessed has become stale or the trader has been cleansed of the nonpublic information through a corporate event such as a securities issuance or bankruptcy.

Surveillance Process

21. During the period of the violations, IBSG personnel manually conducted Loan Watch List surveillance as follows: First, an IBSG employee printed daily trade reports that were supposed to identify all trading by the loan desks. Second, the employee manually reviewed the trade reports to identify trades in names that appeared on the Loan Watch List. The employee did so by looking up each issuer in an internal computer system, called "CSS," to determine whether the issuer was on the Loan Watch List. If the issuer was not on the Loan Watch List, the employee placed a checkmark next to the trade on the trade report. If the issuer was on the Loan Watch List, the employee would research the issue further by, for example, calling the Control Group to determine whether the trader had received permission to trade. The employee also could use another internal computer system (called "Infolinx") to determine whether the product traded was a loan, which could be traded, or a security, which could not. The IBSG employee would document any explanations, and elevate to a supervisor any potentially problematic trade that she or he could not resolve. A number of IBSG personnel conducted Loan Watch List surveillance during the period of the violations and were supervised by a number of different supervisors.

Deficiencies with Loan Watch List Surveillance

22. In 2009, as part of an examination by the Commission's Office of Compliance Inspections and Examinations, an issue was discovered with the trade reports that IBSG staff used to review trading by the loan desks: trade reports were populated by a data feed — called "LoansQT"— that contained only loan trades. Because the data feed was limited to loan trades, the reports did not contain the loan desks' securities trades, swap trades, etc. —trades that could have been prohibited by CGMI's policies. Instead, for certain issuers,[5] the reports only contained

[5] CGMI's Loan Watch List contains every company (both public and private) for which public side desks at CGMI have been approved to access syndicate information. Accordingly, the Loan Watch List includes a number of privately held companies that are not public issuers.

trades in loans that were *not* subject to Loan Watch List trading prohibition. Upon review, it was determined that the problem had existed since 2002. As a result, for a period of seven years, IBSG did not monitor a portion of the trading by a majority of the loan desks.

23. IBSG personnel never noticed that the reports did not include transactions in public securities and swaps. The employees who performed surveillance primarily were focused on the issuer names, not on the types of products traded. In addition, the reports were not clear in identifying the type of transactions executed. Although some products contained the notation "TL," indicating a term loan, and the prices generally reflected a debt instrument, the reports did not expressly state the type of product being traded.

24. The majority of securities trades that CGMI did not review were trades on behalf of CGMI. Of the loan desks' 3 million securities and swap (not loans) trades over a 42-month sample (January 2008 through June 2011), there were approximately 12,000 trades in the securities of 16 different issuers that were on the Loan Watch List at the time of the trades but were not subjected to surveillance at the time.[6] IBSG should have flagged and researched these trades at the time, but did not do so because the trades did not appear on the trade reports that IBSG used. Certain of CGMI's traders also did not pre-clear these trades with the Control Group, as required by procedures.

Restricted List

25. CGMI's Restricted Trading List ("RTL") applies to all CGMI trading firm-wide, including personal trading by employees and trading on behalf of CGMI. The RTL's primary purpose is to restrict firm and employee trading for regulatory and business policy reasons. During the period of violations, the Control Group maintained the RTL, which imposed different levels of restrictions based on different categories. The RTL prohibited or limited trading for reasons that include the following examples: Regulation M restrictions when CGMI was acting as an underwriter; Rule 14e-5 restrictions when CGMI was an adviser in a tender offer; and a business policy restriction when CGMI's holdings reached a certain level and CGMI wanted to limit additional purchases. When an issuer was added to the RTL, or its category restriction changed, an automated email was sent to various trading desks. Employees not on the distribution list could access the RTL on CGMI's internal website.

26. IBSG conducted firm-wide surveillance to monitor compliance with the RTL. IBSG had separate RTL surveillance reports assigned to its analysts, including separate reports for the loan desks, employee personal trading, and other trading. For the loan desks, the RTL process was similar to the one used to monitor the Loan Watch List and used the same trade reports.

---

[6] In some of the instances, the Loan Watch List was overly-inclusive because the traders did not update the Control Group to advise that they were no longer in possession of nonpublic syndicate information, and the issuer should have been removed from the Loan Watch List.

Deficiencies with the Restricted Trading List Surveillance

27. RTL surveillance suffered from two problems. First, RTL surveillance for the loan desks had the same problem discussed above — the loan desk trade reports did not include non-loan trades. Of the loan desks' 3 million non-loan trades during the 42-month sample period (January 2008 through June 2011), almost 190,000 were trades that were not reviewed for RTL compliance even though the issuers of the securities were on the Restricted Trading List at the time of the trades.

28. A second problem concerned one of two reports used to conduct CGMI's firm-wide RTL surveillance (all firm trading, not just the loan desks). IBSG personnel used two reports, the "002" and "282" reports, to monitor firm-wide compliance with the RTL. The 002 and 282 reports were exception reports — identifying, respectively, trades and position changes for issuer names that were on the RTL. IBSG personnel manually reviewed transactions in the 002 report and position changes in the 282 report. IBSG personnel would then review details concerning each issuer listed on the reports in the CSS computer system to determine the nature of the RTL restriction. IBSG personnel conducted follow-up research to determine, among other things, whether the Control Group pre-cleared a trade or whether the trade otherwise was permissible.

29. Both of these reports had limitations. The 002 report included trades placed through one of two legacy platforms that CGMI inherited following a series of corporate mergers and transactions. The 282 report was intended to include trades from both legacy platforms, but it was a position-based report that only captured daily changes in positions. This report, while comprehensive in that it included information from both platforms, did not capture situations in which a position was traded during the day but the end-of-day position remained unchanged.

30. However, from June 2009 through March 2012, the 282 report contained only data from one of the legacy platforms and omitted data from the other legacy platform. The problem resulted from a coding error that occurred as changes were being made in 2009 as a result of CGMI's joint venture with Morgan Stanley. The 002 report was not impacted by this coding error and continued to function as intended.

31. An IBSG analyst noticed the issue in mid-2009 and alerted her IBSG supervisors. The IBSG analyst and two of her supervisors had a series of communications with CGMI's IT staff in a different office, which in turn communicated with IT staff overseas. The IBSG staff informed IT staff of the issue, and documents reflect IBSG staff sending revised documents to IT that indicated the need to include the missing legacy data in the 282 report. Communication between the groups was not effective, however. By late 2009, IBSG staff believed the report was fixed but, in fact, it was not. The issue resurfaced in 2012 during the Commission investigation that gave rise to this Order and was fixed. In 2012, the 002 report also was changed to include trades placed through both legacy platforms instead of the previously used version containing only one platform. Today, the 002 report is CGMI's primary surveillance for monitoring trades against the RTL.

C. Failure to Adopt and Implement Reasonably Designed Policies and Procedures Concerning the Routing of Advisory Orders

Legal Background

32. Section 206(3) of the Advisers Act prohibits an investment adviser from, directly or indirectly, "acting as principal for his own account, knowingly to sell any security to or purchase any security from a client . . . without disclosing to such client in writing before the completion of such transaction the capacity in which he is acting and obtaining the consent of the client to such transaction." Section 206(4) of the Advisers Act and Rule 206(4)-7 thereunder also require investment advisers to adopt and implement written policies and procedures reasonably designed to prevent violations of the Advisers Act and its rules, including violations of Section 206(3).

Principal Transactions Executed Through Affiliated Market Maker ATD

33. In October 2007, Citigroup purchased OTC market maker[7] ATD. Prior to the acquisition, CGMI routinely routed advisory orders to ATD for execution. However, when ATD became a Citigroup affiliate, any CGMI advisory orders executed by ATD for its own account resulted in principal transactions. Accordingly, CGMI either had to prevent ATD from executing CGMI advisory orders or comply with the disclosure and consent requirements of Advisers Act Section 206(3). CGMI attempted to prevent advisory orders from being routed to ATD, but its policies and procedures for doing so – and its implementation thereof – failed. As a result, CGMI routed more than 467,000 advisory orders to ATD, which executed them on a principal basis.

34. CGMI adopted two procedures to attempt to identify advisory orders and route them away from ATD: 1) manual advisory account coding; and 2) database cross-referencing. Neither of these procedures was reasonably designed or implemented to prevent principal transactions executed through ATD. Moreover, CGMI's trade surveillance was not reasonably designed to detect these principal transactions.

Manual Advisory Account Coding

35. CGMI instructed its employees that all advisory orders entered into a certain front-end order-entry system should be designated as such by manually typing the code "MMA" (meaning "money managed account"). The manual coding of advisory orders was one of two methods employed to identify advisory orders and route them away from ATD. However, employees often failed to input the MMA code, leaving the affected orders subject to then-undetected system problems described below. By July 2008, CGMI realized that not all advisory orders were being manually coded as required and it automated the coding process, which proved to be more effective. However, despite its knowledge that some advisory orders had not been

[7] See Rule 600(b)(52) (defining OTC market maker as a "dealer that holds itself out as being willing to buy from and sell to its customers, or others, in the United States, an NMS stock for its own account on a regular or continuous basis otherwise than on a national securities exchange in amounts less than block size"). 17 C.F.R. § 242.600(b)(52).

coded correctly, CGMI failed to search for unauthorized principal transactions arising before the automation of the MMA coding.

Database Cross-Referencing

36. CGMI maintained a database of advisory accounts. When an order was entered, CGMI's order management system ("OMS") checked to determine if there was a match between the account information on the order and the account information in the advisory account database. If there was a match, the system concluded that the order came from an advisory account and electronically marked the order "DNC," meaning "Do Not Cross." DNC orders were routed away from ATD for execution. If there was no match, the system assumed that the order came from a non-advisory brokerage account and allowed it to be routed to ATD. This process was ineffective because the database did not contain all of the advisory accounts. For example, recently opened advisory accounts were often missing because CGMI did not regularly update the database. Although CGMI learned in or around March 2008 that the advisory account database was not being updated properly, it failed to conduct a review of previous transactions to determine whether any of them were executed on a principal basis with ATD. Had CGMI done so, it would have discovered that it had effected more than 100,000 unauthorized principal transactions since the ATD acquisition.

37. CGMI compounded the problem when it implemented new programming in OMS that was designed to permit more efficient use of CGMI's router for wholesale order flow. When this programming change was introduced in March 2008, it inadvertently caused the system to remove the DNC tags associated with advisory orders. Without the DNC tag, advisory account orders could be routed improperly to ATD for execution. From March through July 2008, the ineffective manual MMA coding was the only procedure in place for identifying advisory orders. The majority of principal transactions occurred during this period but some continued until March 2010, when CGMI first detected OMS' removal of the DNC tags.

Testing and Principal Trading Surveillance

38. CGMI did not test compliance with its manual MMA coding policy and did not ensure that its advisory account database was updated regularly. CGMI also failed adequately to test how new programming of OMS in March 2008 affected advisory orders. As a result of these compliance failures, CGMI inadvertently routed advisory orders to ATD, resulting in more than 467,000 principal transactions. Moreover, CGMI's trade surveillance failed to detect these principal transactions for more than two years because it relied on an exception report that was not designed to capture transactions resulting from orders that CGMI handled as agent but then routed to an affiliated broker – such as ATD – that then executed the orders on a principal basis.

Post-Detection Steps

39. During the course of the Commission's investigation into CGMI's inadequate trade surveillance, CGMI voluntarily retained a consultant to conduct a comprehensive review of CGMI's IBSG trade surveillance practices and to recommend improvements regarding CGMI's policies and procedures and its technology used to enforce those policies and procedures. As a result of this ongoing work, CGMI has identified and corrected additional issues involving trade surveillance. For example, CGMI determined that certain reports do not include some foreign employees operating in the United States and some employees' personal accounts held at brokerage firms other than CGMI.

40. In addition to working to resolve the problems leading to the principal transactions, CGMI also voluntarily paid $2.5 million – representing ATD's total profits from the principal transactions – to the affected advisory client accounts.

VIOLATIONS

A. Exchange Act Section 15(g)

41. Section 15(g) of the Exchange Act requires registered brokers and dealers to establish, maintain, and enforce written policies and procedures reasonably designed, taking into consideration the nature of their business, to prevent misuse of material, nonpublic information by the brokers and dealers, or their associated persons.[8]

42. The Commission has brought a number of enforcement proceedings that demonstrate the importance of complying with Section 15(g) to prevent the misuse of material, nonpublic information. See, e.g., In re Janney Montgomery Scott LLC, Exchange Act Rel. No. 64855, 2011 SEC LEXIS 3166 (July 11, 2011); In re Goldman, Sachs & Co., Exchange Act Rel. No. 66791, 2012 SEC LEXIS 1189 (Apr. 12, 2012). The Commission has brought several proceedings against firms that did not satisfy their obligations under Section 15(g), including a proceeding that arose from technological failures in connection with surveillance similar to those at issue here. See In the Matter of Morgan Stanley & Co. Incorporated, et al., Exchange Act Rel. No. 54047, 2006 WL 1749842 (June 27, 2006) (in a settled proceeding, imposing $10 million penalty for, among other things, failing to conduct surveillance of a large number of trades due to computer coding issues and other problems).

43. As described above, CGMI did not adequately enforce certain of its written policies and procedures reasonably designed to prevent and detect transactions that could involve the misuse of material, nonpublic information. Although CGMI's written policies and procedures

---

[8] There is no requirement under Section 15(g) that there be an underlying insider trading violation or any other violation of the Exchange Act or the rules thereunder. In the Matter of New York Stock Exchange LLC, et al., Exchange Act Rel. No. 72065, 2014 SEC LEXIS 1526 (May 1, 2014); In the Matter of Certain Market Making Activities on NASDAQ, Exchange Act Rel. No. 40910, 1999 SEC LEXIS 59 (Jan. 11, 1999).

required CGMI to review securities trading for issuers listed on the Loan Watch List and the Restricted Trading List, from 2002 through 2012 CGMI did not conduct trade surveillance for thousands of trades in issuers listed on the Loan Watch List and the Restricted Trading List. These failures went undetected for years, until the Loan Watch List issue was identified as part of a Commission examination in 2009 and remediated in 2010, and the Restricted Trading List issue was identified during an Enforcement investigation and fixed in 2012. As a result, CGMI willfully[9] violated Section 15(g) of the Exchange Act.

B. Advisers Act Section 206(4) and Rule 206(4)-7 Thereunder

44. Section 206(4) of the Advisers Act and Rule 206(4)-7 thereunder require registered investment advisers to adopt and implement written policies and procedures reasonably designed to prevent violations of the Advisers Act and its rules. CGMI willfully violated these provisions by failing to adopt and implement policies and procedures reasonably designed to prevent and detect the principal transactions executed through its affiliate ATD. As a result of these failures, CGMI could not detect, and thus prevent, the routing of certain advisory orders to ATD and the resulting execution of those orders by ATD on a principal basis.

REMEDIAL EFFORTS

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

UNDERTAKINGS

Respondent has undertaken to do the following:

A. Retain, at its own expense, one or more consultants (each a "Consultant"), including the current consultant that is conducting an assessment of CGMI's current IBSG surveillance program (the "Current Consultant"), or one or more new consultants not unacceptable to the Commission staff ("New Consultants"). The Consultant's review will include, but is not limited to:

i. Respondent's implementation and enforcement of its trade surveillance policies and procedures to prevent violations of law as required by Section 15(g) of the Exchange Act;

ii. Respondent's surveillance report development, process of applications, and change management process and procedures –

[9] 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)).

including testing methods and protocols related to internally generated surveillance reports – to prevent violations of law as required by Section 15(g) of the Exchange Act; and

iii. Respondent's use of its Loan Watch List, Restricted Trading List, and other lists of securities relating to trading limitations to prevent violations of law as required by Section 15(g) of the Exchange Act.

B. Such Consultant also will review:

Respondent's policies and procedures concerning the handling and routing of advisory orders ("advisory account order handling and routing policies and procedures"), and implementation of those policies and procedures, designed to detect and prevent violations of Section 206(3) of the Advisers Act.

C. Such Consultant shall prepare a written report (the "Report") that:

i. evaluates the adequacy of Respondent's implementation and enforcement of its trade surveillance policies and procedures to prevent violations of law as required by Section 15(g) of the Exchange Act;

ii. evaluates the effectiveness of Respondent's advisory account order handling and routing policies and procedures to prevent violations of Section 206(3) of the Advisers Act;

iii. as may be needed, makes recommendations about how Respondent should modify or supplement and the implementation and enforcement of its policies and procedures to prevent violations of law as required by Section 15(g) of the Exchange Act; and

iv. as may be needed, makes recommendations about how Respondent should modify or supplement its advisory account order handling and routing policies and procedures, and implementation of those policies and procedures, designed to detect and prevent violations of Section 206(3) of the Advisers Act.

D. Cooperate fully with the Consultant, including providing the Consultant with access to Respondent's files, books, records, and personnel (and Respondent's affiliated entities' files, books, records, and personnel, in each case to the extent they relate to Respondent), as reasonably requested for the above-mentioned reviews, and obtaining the cooperation of respective employees or other persons under Respondent's control. Respondent shall require the Consultant to report to Commission staff on the Consultant's activities as the staff may request.

E. Permit the Consultant to engage such assistance, clerical, legal, or expert, as necessary and at a reasonable cost, to carry out its activities, and the cost, if any, of such assistance shall be borne exclusively by Respondent.

F. Require the Consultant within thirty (30) days of the date of this Order, unless otherwise extended by Commission staff for good cause, to provide Respondent and Commission staff with an estimate of the time needed to complete the review and prepare the Report and provide a proposed deadline for the Report, subject to the approval of Commission staff.

G. Require the Consultant to issue the Report by the approved deadline and provide a final version of the Report simultaneously to both Commission staff and Respondent. The Consultant may provide interim findings to Respondent as necessary to facilitate information gathering and the factual accuracy of the final report.

H. Submit to Commission staff and the Consultant, within sixty (60) days of the Consultant's issuance of the Report, the date by which Respondent will adopt and implement any recommendations in the Report, subject to Sections H(i.)-(iii.) below and subject to the approval of Commission staff.

i. As to any recommendation that Respondent considers to be, in whole or in part, unduly burdensome or impractical, Respondent may submit in writing to the Consultant and Commission staff a proposed alternative reasonably designed to accomplish the same objectives, within sixty (60) days of receiving the Report. Respondent shall then attempt in good faith to reach an agreement with the Consultant relating to each disputed recommendation and request that the Consultant reasonably evaluate any alternative proposed by Respondent. If, upon evaluating Respondent's proposal, the Consultant determines that the suggested alternative is reasonably designed to accomplish the same objectives as the recommendations in question, then the Consultant shall approve the suggested alternative and make the recommendations. If the Consultant determines that the suggested alternative is not reasonably designed to accomplish the same objectives, the Consultant shall reject Respondent's proposal. The Consultant shall inform Respondent of the Consultant's final determination concerning any recommendation that Respondent considers to be unduly burdensome or impractical within fourteen (14) days after the conclusion of the discussion and evaluation by Respondent and the Consultant.

ii. In the event that Respondent and the Consultant are unable to agree on an alternative proposal, Respondent shall accept the Consultant's recommendations.

iii. Within thirty (30) days after final agreement is reached on any disputed recommendation, Respondent shall submit to the Consultant and Commission staff the date by which Respondent will adopt and implement the agreed-upon recommendation, subject to the approval of Commission staff.

I. Adopt and implement, on the timetable set forth by Respondent in accordance with Item H, the recommendations in the Report. Respondent shall notify the Consultant and Commission staff when the recommendations have been implemented.

J. Require the Consultant to certify, in writing, to Respondent and Commission staff, that Respondent has implemented the agreed-upon recommendations for which the Consultant was responsible and that:

i. Respondent's implementation and enforcement of its trade surveillance policies and procedures are reasonably designed to prevent violations of law as required by Section 15(g) of the Exchange Act; and

ii. Respondent's advisory account order handling and routing policies and procedures, and implementation of those policies and procedures, are reasonably designed to detect and prevent violations of Section 206(3) of the Advisers Act.

K. Within one hundred and eighty (180) days from the date of the applicable certification described in paragraph J above, require the Consultant to:

i. Have completed a review of (1) Respondent's implementation and enforcement of its trade surveillance policies and procedures to prevent violations of law as required by Section 15(g) of the Exchange Act; and (2) Respondent's revised advisory account order handling and routing policies and procedures, and implementation of those policies and procedures, designed to detect and prevent violations of Section 206(3) of the Advisers Act; and

ii. Submit a final written report ("Final Report") to Respondent and Commission staff. The Final Report shall describe the review made of Respondent's implementation and enforcement of its trade surveillance policies and procedures to prevent violations of law as required by Section 15(g) of the Exchange Act, and describe how Respondent is implementing, enforcing, and auditing those policies and procedures; and the review made of Respondent's advisory account order handling and routing policies and procedures, and implementation of those policies and procedures, designed to detect and prevent violations of Section 206(3) of the Advisers Act. The

Final Report shall include the Consultant's findings as to whether Respondent's implementation, enforcement, and auditing of those policies and procedures are reasonably designed, taking into consideration the nature of Respondent's business, to prevent violations of law in compliance with Section 15(g) and to detect and prevent violations of Section 206(3) of the Advisers Act.

L. Respondent shall not have the authority to terminate the Consultant without prior written approval of Commission staff and shall compensate the Consultant and persons engaged to assist the Consultant for services rendered pursuant to this Order at their reasonable and customary rates.

M. Respondent may apply to Commission staff for an extension of the deadlines described above before their expiration and, upon a showing of good cause by Respondent, Commission staff may, in its sole discretion, grant such extensions for whatever time period it deems appropriate.

N. Respondent shall require any New Consultants to enter into an agreement that provides that for the period of engagement and for a period of two years from completion of the engagement, any New Consultants shall not enter into any employment, consultant, attorney-client, auditing or other professional relationship with CGMI, or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity. The agreement will also provide that the New Consultants will require that any firm with which he/she/it is affiliated or of which he/she/it is a member, and any person engaged to assist any New Consultants in performance of his/her/its duties under this Order shall not, without prior written consent of the Commission staff, enter into any employment, consultant, attorney-client, auditing or other professional relationship with CGMI, or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity as such for the period of the engagement and for a period of two years after the engagement.

O. Certification of Compliance by Respondent: Respondent shall certify, in writing, compliance with the undertakings set forth above. The certification shall identify the undertakings, provide written evidence of compliance in the form of a narrative, and be supported by exhibits sufficient to demonstrate compliance. The Commission staff may make reasonable requests for further evidence of compliance, and Respondent agrees to provide such evidence. The certification and supporting material shall be submitted to Robert A. Cohen, co-Deputy Chief, Market Abuse Unit, Division of Enforcement, with a copy to the Office of Chief Counsel of the Enforcement Division, no later than sixty (60) days from the date of the completion of the undertakings.

PRIOR PROCEEDINGS

The Commission considered Respondent's prior injunction, discussed above in paragraph 10, as a factor in determining an appropriate civil money penalty in this proceeding.

IV.

In view of the foregoing, the Commission deems it appropriate, 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 and Sections 203(e) and 203(k) of the Advisers Act, it is hereby ORDERED that:

A. Respondent CGMI cease and desist from committing or causing any violations and any future violations of Section 15(g) of the Exchange Act, and Section 206(4) of the Advisers Act and Rule 206(4)-7 promulgated thereunder.

B. Respondent CGMI is censured.

C. Pursuant to Section 21B(a)(1) and (2) of the Exchange Act and Section 203(i) of the Advisers Act, Respondent CGMI shall, within ten (10) days of the entry of this Order, pay a civil money penalty in the amount of $15,000,000 ($15 million) to the United States Securities and Exchange Commission. 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 Daniel M. Hawke, Chief, Market Abuse Unit, Division of Enforcement, Securities and Exchange Commission One Penn Center, 1617 JFK Boulevard, Suite 520, Philadelphia, PA 19103.

D. Respondent CGMI shall comply with the undertakings enumerated above.

By the Commission.

Brent J. Fields
Secretary

Jill M. Peterson

By: Jill M. Peterson
Assistant Secretary

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 9895 \ August 19, 2015

ADMINISTRATIVE PROCEEDING
File No. 3-16764

In the Matter of Citigroup Global Markets, Inc. Respondent.	ORDER UNDER RULE 506(d) OF THE SECURITIES ACT OF 1933 GRANTING A WAIVER OF THE RULE 506(d)(1)(iv)(B) DISQUALIFICATION PROVISION

I.

Citigroup Global Markets, Inc. ("CGMI") submitted a letter dated July 21, 2015, requesting that the Securities and Exchange Commission (the "Commission") grant a waiver of disqualification under Rule 506(d)(1)(iv)(B) of Regulation D under the Securities Act of 1933 (the "Securities Act").

II.

The Commission issued an order instituting administrative and cease-and-desist proceedings against CGMI (the "Order") pursuant to Sections 15(b) and 21C of the Securities Exchange Act of 1934 (the "Exchange Act") and Sections 203(e) and 203(k) of the Investment Advisers Act of 1940 (the "Advisers Act") relating to CGMI's compliance and surveillance failures involving technological errors, and resulting in violations of Section 15(g) of the Exchange Act and Section 206(4) of the Advisers Act and Rule 206(4)-7 thereunder.

III.

The exemptions under Rule 506 of Regulation D would be unavailable to CGMI upon entry of the Commission's Order. Rule 506(d)(2) of Regulation D provides, however, that disqualification "shall not apply. . . upon a showing of good cause and without prejudice to any other action by the Commission, if the Commission determines that it is not necessary under the circumstances that an exemption be denied."

IV.

Based upon the representations set forth in CGMI's waiver request, the Commission has determined that, pursuant to Rule 506(d)(2)(ii) of Regulation D under the Securities Act, a showing of good cause has been made that it is not necessary under the circumstances that the exemptions be denied.

Accordingly, **IT IS ORDERED**, pursuant to Rule 506(d) of Regulation D under the Securities Act, that a waiver from the application of the disqualification provision of Rule 506(d)(1)(iv)(B) under the Securities Act resulting from the entry of the Order is hereby granted to CGMI.

By the Commission.

Brent J. Fields
Secretary

Jill M. Peterson

By: Jill M. Peterson
Assistant Secretary

Commissioner Stein
Commissioner Piwowar
Disapproved

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 9896 / August 19, 2015

ADMINISTRATIVE PROCEEDING
File No. 3-16764

In the Matter of **CITIGROUP INC.**	**ORDER UNDER RULE 405 OF THE SECURITIES ACT OF 1933, GRANTING A WAIVER FROM BEING AN INELIGIBLE ISSUER**

Citigroup Inc. ("Company") has submitted a letter, dated July 21, 2015, constituting an application for relief from the Company being considered an "ineligible issuer" under Clause (1)(vi) of the definition of ineligible issuer in Rule 405 of the Securities Act of 1933 ("Securities Act"). The Company requests relief from being considered an "ineligible issuer" under Rule 405, due to the entry on August 19, 2015, of an order instituting administrative and cease-and-desist proceedings against Citigroup Global Markets Inc. ("CGMI") (the "Cease-and-Desist Order"). The Cease-and-Desist Order requires, among other things, CGMI to cease and desist from committing or causing any violations and any future violations of Section 206(4) of the Advisers Act of 1940 ("Advisers Act") and Rule 206(4)-7 thereunder.

Under Clause (1)(vi) of the definition of ineligible issuer in Rule 405 of the Securities Act, an issuer becomes an ineligible issuer and thus unable to avail itself of well-known seasoned issuer status, if "Within the past three years (but in the case of a decree or order agreed to in a settlement, not before December 1, 2005), the issuer or any entity that at the time was a subsidiary of the issuer was made the subject of any judicial or administrative decree or order arising out of a governmental action that: (A) Prohibits certain conduct or activities regarding, including future violations of, the anti-fraud provisions of the federal securities laws…." Under Clause (2) of the definition of ineligible issuer in Rule 405 of the Securities Act, an issuer shall not be an ineligible issuer if the Commission determines, upon a showing of good cause, that it is not necessary under the circumstances that the issuer be considered an ineligible issuer.

Based on the facts and representations in the Company's July 21, 2015 request, and assuming CGMI complies with the terms of the Cease-and-Desist Order, the Commission has determined that the Company has made a showing of good cause under Clause (2) of the definition of ineligible issuer in Rule 405 of the Securities Act and that the Company should not be considered an ineligible issuer by reason of the entry of the Cease-and-Desist Order. Accordingly, the relief requested in the Waiver Letter regarding the Company being an ineligible issuer under Rule 405 by reason of the entry of the Cease-and-Desist Order is granted, on the condition that that CGMI fully complies with the terms of the Cease-and-Desist Order. Any different facts from those represented or failure to comply with the terms of the Cease-and-Desist Order would require us to revisit our determination that good cause has been shown and could constitute grounds to revoke or further condition the waiver. The Commission reserves the right, in its sole discretion, to revoke or further condition the waiver under those circumstances.

Accordingly, IT IS ORDERED, pursuant to Clause (2) of the definition of ineligible issuer in Rule 405 of the Securities Act, that a waiver from the Company being an ineligible issuer under Rule 405 of the Securities Act is hereby granted.

By the Commission.

Brent J. Fields
Secretary

Lynn M. Powalski

By: Lynn M. Powalski
Deputy Secretary