

STATE OF ALABAMA
ALABAMA SECURITIES COMMISSION

In the matter of)
)
CITIGROUP GLOBAL MARKETS INC.) ADMINISTRATIVE CONSENT ORDER
) NO. CO-2015- 0015
Respondent)
)

CONSENT ORDER

WHEREAS, Citigroup Global Markets Inc. (“CGMI”) is a broker-dealer registered in the state of Alabama, with a Central Registration Depository (“CRD”) number of 7059; and state securities regulators have conducted coordinated investigations into the registrations of CGMI sales assistants and CGMI’s supervisory system with respect to the registration of same; and

CGMI has cooperated with regulators conducting the investigations by responding to inquiries, providing documentary evidence and other materials, and providing regulators with access to facts relating to the investigations; and

CGMI has advised regulators of its agreement to resolve the investigations pursuant to the terms specified in this Administrative Consent Order (the “Order”); and

CGMI has made certain changes to relevant order entry systems, and to CGMI’s supervisory system with respect to the same; and

CGMI agrees to make certain payments in accordance with the terms of this Order; and

CGMI elects to waive permanently any right to a hearing and appeal under Section 8-6-25 Code of Alabama 1975, the Alabama Securities Act (“Act”), with respect to this Order; and

CGMI admits the jurisdiction of the Alabama Securities Commission (“Commission”) in this matter; and

Solely for the purpose of terminating the multi-state investigations and in settlement of the issues contained in this Order, CGMI, without admitting or denying the findings of fact or conclusions of law contained in this Order, consents to the entry of this Order.

NOW, THEREFORE, the Director of the Alabama Securities Commission, as administrator of the Act, hereby enters this Order:

I.

FINDINGS OF FACTS

Relevant CGMI Business Units

1. CGMI is a registered broker-dealer and wholly-owned subsidiary of Citigroup Inc. Prior to June 1, 2009, CGMI primarily operated its U.S.-based retail brokerage business through a business unit under the name Smith Barney. CGMI also operated, and continues to operate other businesses, including a retail brokerage currently operated under the name Citi Personal Wealth Management.

2. On June 1, 2009, Citigroup Inc. sold a majority stake in its primary retail brokerage business to Morgan Stanley & Co., Inc. (“Morgan Stanley”). Morgan Stanley combined that business and its own retail brokerage operations into a joint venture operated by a new broker dealer known as Morgan Stanley Smith Barney LLC (“MSSB”).

3. After the June 1, 2009 transaction, Citigroup Inc. retained control and ownership of the CGMI businesses that had not been sold to Morgan Stanley.

4. The multi-state investigations covered the period from January 1, 2007 through September 30, 2014 (the “Relevant Period”). The factual representations that follow relate to all or some portion of the Relevant Period.

Background on CGMI Personnel

5. CGMI’s primary customer-facing retail broker-dealer agents were known as Financial Advisors (“FAs”).

6. CGMI also employed sales assistants (“SAs”) using various job titles. Sales assistants were generally tasked with assisting FAs and customers with administrative and operational support. Sales assistants were involved in such tasks as:

- a. answering phones, taking messages, and responding to calls when appropriate;
- b. giving clients market quotes;
- c. typing correspondence for FAs within the parameters of CGMI guidelines;
- d. maintaining files for FAs on clients and products;
- e. providing follow-up with clients and operations staff; and
- f. obtaining investment and product information for FAs.

7. Some sales assistants were registered with CGMI (hereafter “RSAs”). RSAs are of particular significance to this Order because on occasion, they could accept unsolicited client orders from clients. Accordingly, RSAs were required to pass the series 7 and 63 and/or 66 qualification exams and to register in the appropriate jurisdictions.

8. During the Relevant Period, a policy relevant to this Order stated, “Registered Sales Assistants need to be registered in every state that the FA(s) for whom they provide coverage is registered.”

9. During a portion of the Relevant Period (see paragraph 11, below), CGMI personnel used a computerized order entry system known as “NextGen” to enter orders on behalf of customers.

10. The NextGen order entry process was intended to generally work as follows: NextGen automatically populated the order-entry screen with the Logon ID of the person entering the order, the name of that person, and the date and time the order was entered. The person entering the order verified that he / she was the person who received the order at the time the order was entered by checking the box stating: “Check to confirm client receipt information.” If the person entering the order was not the person who received the order, then the person entering the order entered the NextGen Logon ID for the person who received the order into the “Received by ID/Name Box.” The person entering the order was prompted to provide his / her password. At that point, a variety of validations were conducted including a check to ensure that the FA of record for the account was duly registered in the applicable state(s). However, NextGen did not check to ensure that the person accepting the client order, if different from the FA assigned to the account, was registered in the applicable state(s). Once the validation checks were completed, the

order was either blocked or moved forward to the verification screen. If a trade was blocked due to a registration gap, an error message appeared on the NextGen screen stating: "FC REGISTRATION VIOLATION-CALL YOUR REG REPRESENTATIVE." If the trade was not blocked, the person entering the trade was prompted to verify and submit the order. Upon submission, the order entry process was complete, and the order was sent to the market for execution.

11. CGMI ceased using NextGen, and implemented a new order entry system during the fourth quarter of 2010 and first quarter of 2011, as part of a conversion to a new clearing firm relationship with Pershing.

12. As of January 1, 2009, CGMI employed approximately 3,500 RSAs on a nationwide basis. In June 2009, CGMI sold a majority stake in its primary retail brokerage business to Morgan Stanley. In connection with the MSSB transaction, the retail brokerage business sales force at CGMI was reduced by approximately 95 percent. The vast majority of the RSAs were contributed to the MSSB joint venture. As of the date of this order, CGMI currently employs fewer than 100 RSAs nationwide.

Registration Required

13. Pursuant to Section 8-6-3(a), Code of Alabama 1975, it is unlawful for any person to effect transactions in securities as a dealer or agent in Alabama without being registered with the Alabama Securities Commission.

14. Pursuant to the general prohibition under Section 8-6-3(a), Code of Alabama 1975, a person cannot accept unsolicited orders in Alabama without being registered in Alabama.

Regulatory Investigations and Findings

15. State securities regulators have initiated investigations into the practices of CGMI and other firms in connection with SA registrations.

16. The multi-state investigations focused on whether SAs were properly registered in the relevant jurisdictions at the time such individuals may have accepted customer orders from those states. In addition, the investigations focused on whether the firms' supervisory systems properly supervised such orders.

17. In CGMI's case, the investigation found that, in certain instances, SAs accepted unsolicited orders from clients residing in states where the SA was not registered. In addition, the investigations found that NextGen did not record the identity of the person receiving the order from the customer for a discreet set of orders that were reviewed.

18. Furthermore, the investigation determined that (a) contrary to applicable policies and procedures RSAs were not registered in every state that the FAs for whom they provided coverage were registered, and as a result, (b) it is highly likely that certain RSAs accepted unsolicited orders in Alabama at times when the RSAs were not appropriately licensed in Alabama.

Remedial Efforts

19. As part of a transition that was finalized in early 2011, CGMI's retail business ceased using the NextGen system and started to use in its place an order entry system licensed and operated by Pershing called NetX360.

20. Orders entered into NetX360 are routed through Pershing's Rules Engine, which has certain checks relating to state registration status, including the registration status of the acceptor.

21. Additionally, quarterly review meetings in which RSAs are involved include a review of the Firm's state registration policy and the prohibition against accepting orders in states in which the RSA is not registered.

22. CGMI provided timely responses and substantial cooperation in connection with the regulatory investigations into this issue.

II.

CONCLUSIONS OF LAW

23. The Commission has jurisdiction over this matter pursuant to the Alabama Securities Act.

24. CGMI's failure to establish an adequate system to monitor the registration status of persons accepting client orders constitutes a violation of Rule 830-X-3-13(1).

25. CGMI's failure to ensure its registered Sales Assistants were registered in the appropriate jurisdictions constitutes a failure to enforce its established written procedures is a violation of Rule 830-X-3-13(3).

26. Pursuant to Section 8-6-3(a), Code of Alabama 1975, it is unlawful for any person to effect transactions in securities as an agent without being registered with the Alabama Securities Commission. CGMI's SAs acceptance of orders in Alabama through SAs who were not properly registered in Alabama constitutes a violation of Section 8-6-3(a), Code of Alabama 1975 for the use of unregistered agents in the State.

27. Pursuant to Section 8-6-19(j)(1), Code of Alabama 1975, the violations described above constitute bases for the assessment of an administrative fine against CGMI.

28. The Commission finds the following relief appropriate and in the public interest.

III.

UNDERTAKINGS

29. CGMI hereby undertakes and agrees to establish and maintain policies, procedures, and systems that reasonably supervise the trade process so that a SA can only accept client orders that originate from jurisdictions where the SA accepting the order is appropriately registered.

IV.

ORDER

On the basis of the Findings of Facts, Conclusions of Law, and CGMI's consent to the

entry of this Order,

IT IS HEREBY ORDERED:

1. This Order concludes the investigation by the Commission and any other action that the Commission could commence against CGMI under applicable Alabama law as it relates to: (a) RSAs who accepted client orders while not registered in the appropriate jurisdiction, and (b) CGMI's supervision of state registrations for RSAs, during the period from January 1, 2007 through September 30, 2014.

2. This Order is entered into solely for the purpose of resolving the referenced multi-state investigation, and is not intended to be used for any other purpose. For any person or entity not a party to the Order, this Order does not limit or create any private rights or remedies against CGMI, limit or create liability of CGMI, or limit or create defenses of CGMI, to any claims.

3. CGMI shall pay the sum of thirty-five thousand dollars (\$35,000) to the Commission within ten days of the date of this Order. Those funds shall be paid in three (3) separate checks as follows: 1.) CGMI shall pay \$10,000.00 to the state of Alabama as a civil monetary penalty pursuant to Section 8-6-19 (j) (1), Code of Alabama 1975; 2.) Respondents shall pay \$20,000.00 to the Alabama Securities Commission as reimbursement of direct and indirect costs and expenses of the Commission's cost for investigating this matter in accordance with Section 8-6-19 (k) (1), Code of Alabama 1975; 3.) Respondents shall pay \$5,000.00 to the Investor Protection Trust, a non-profit corporation and such funds are designated specifically for investor education and investor protection in the state of Alabama as directed by the Alabama Securities Commission in its sole discretion. All checks shall be delivered to the office of the Alabama Securities Commission.

4. CGMI is hereby ordered to comply with the Undertakings contained herein.

5. This Order is not intended by the Commission to subject any Covered Person to any disqualifications under the laws of the United States, any state, the District of Columbia, Puerto Rico, or the U.S. Virgin Islands, or under the rules or regulations of any securities or commodities regulator or self-regulatory organizations, including, without limitation, any disqualification from relying upon the state or federal registration exemptions or safe harbor

provisions. “Covered Person,” means CGMI or any of its affiliates and their current or former officers or former officers, directors, employees, or other persons that would otherwise be disqualified as a result of the Orders (as defined below).

6. This Order, and the order of any other State in any proceeding related to CGMI’s agreement to resolve the above-referenced multi-state investigation (collectively, the “Orders”), shall not disqualify any Covered Person from any business that they otherwise are qualified, licensed, or permitted to perform under applicable securities laws of the State of Alabama. Any disqualifications from relying upon this state’s registration exemptions or safe harbor provisions that arise from the Orders are hereby waived.

7. This Order shall be binding upon CGMI and its successors and assigns as well as to successors and assigns of relevant affiliates with respect to all conduct subject to the provisions above and all future obligations, responsibilities, undertakings, commitments, limitations, restrictions, events, and conditions.

Dated this day of July 28, 2015.

BY ORDER OF THE
ALABAMA SECURITIES COMMISSION

DIRECTOR

