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COMMONWEALTH OF PENNSYLVANIA  
DEPARTMENT OF BANKING AND SECURITIES

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PA DEPARTMENT OF  
BANKING AND SECURITIES

COMMONWEALTH OF PENNSYLVANIA  
DEPARTMENT OF BANKING AND  
SECURITIES, BUREAU OF SECURITIES  
LICENSING, COMPLIANCE AND  
EXAMINATIONS

Docket No. : 150048 (SEC-CAO)

v.

CITIGROUP GLOBAL MARKETS INC.

**CONSENT AGREEMENT AND ORDER**

The Commonwealth of Pennsylvania, acting through the Department of Banking and Securities ("Department"), Bureau of Securities Licensing, Compliance and Enforcement ("Bureau") has conducted an investigation of the registration of Citigroup Global Markets Inc. ("CGMI") Sales Assistants ("SAs") and Registered Sales Assistants ("RSAs") and CGMI's supervisory system with respect to the registration of SAs and RSAs through a coordinated investigation by state securities regulators. Solely for the purpose of terminating the multi-state coordinated investigation, and in settlement of the issues contained herein, without admitting or denying the facts or conclusions contained herein, and in lieu of an administrative hearing, CGMI, intending to be legally bound, hereby agrees to the terms of this Consent Agreement and Order ("Order").

**BACKGROUND**

1. The Department is the Commonwealth of Pennsylvania's administrative agency authorized and empowered to administer and enforce the 1972 Act.

2. The Bureau is primarily responsible for administering and enforcing the 1972 Act for the Department.

3. CGMI, CRD #7059, was, at all times material herein a registered broker-dealer pursuant to Section 301 of the 1972 Act, 70 P.S. §1-301, with offices in the Commonwealth of Pennsylvania.

### **FINDINGS OF FACTS**

#### **Relevant CGMI Business Units**

4. 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.

5. 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").

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

7. 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**

8. CGMI's primary customer-facing retail broker-dealer agents were known as Financial Advisors ("FAs").

9. CGMI also employed SAs using various job titles. SAs were generally tasked with assisting FAs and customers with administrative and operational support. SAs 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.

10. **RSAs are SAs registered with CGMI.** 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.

11. 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."

12. During a portion of the Relevant Period (see paragraph 14, below), CGMI personnel used a computerized order entry system known as "NextGen" to enter orders on behalf of customers.

13. 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 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 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.

14. 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.

15. 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.

### **Regulatory Investigations and Findings**

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

17. 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.

18. 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.

19. 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 Pennsylvania at times when the RSAs were not appropriately licensed in Pennsylvania.

### **Remedial Efforts**

20. 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.

21. 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.

22. 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.

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

### VIOLATIONS

24. The Bureau has jurisdiction over CGMI because it regulates the offer and sale of securities in the Commonwealth of Pennsylvania pursuant to the 1972 Act, 70 P.S. § 1-101 et. seq.

25. Pursuant to Section 301(b) of the 1972 Act, 70 P.S. § 1-301(b), CGMI's acceptance of orders in Pennsylvania through SAs and RSAs who were not properly registered in Pennsylvania constitutes a violation of Section 301(b) of the 1972 Act, 70 P.S. § 1-301(b), for the use of unregistered agents in the Commonwealth.

26. CGMI's failure to establish an adequate system to monitor the registration status of persons accepting client orders constitutes a failure to reasonably supervise its agents pursuant to Section 305(a)(vii) of the 1972 Act, 70 P.S. § 1-305(a)(vii) and Regulation § 305.011(a), 10 Pa. Code § 1-305.011(a), which provides the Department with the authority to deny, suspend, revoke or condition the registration of CGMI or censure CGMI .

27. CGMI's failure to ensure it's SAs and RSAs were registered in the appropriate jurisdictions constitutes a failure to enforce its established written procedures and a failure to

reasonably supervise its agents pursuant to Section 305(a)(vii) of the 1972 Act, 70 P.S. 1-305(a)(vii) and Regulation § 305.011(a), 10 Pa. Code § 1-305.011(a), which provides the Department with the authority to deny, suspend, revoke or condition the registration of CGMI or censure CGMI.

#### **AUTHORITY**

28. Because CGMI employed SAs and RSAs who were not properly registered in Pennsylvania and failed to reasonably supervise its agents, the Department has the authority to impose an administrative assessment against CGMI.

29. The Department finds the following relief appropriate and in the public interest.

#### **UNDERTAKINGS**

30. 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.

#### **RELIEF**

31. This Order concludes the investigation by the Department and any other action that the Department could commence against CGMI under applicable Pennsylvania 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.

32. 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.

33. CGMI is ordered to pay the sum of thirty-five thousand dollars (\$35,000) to the Department within ten days of the date of this Order. Payment shall be made by certified check or money order made payable to the "Department of Banking and Securities" and shall be mailed or delivered in person, to the Bureau of Securities Licensing, Compliance and Examinations located at 17 N. Second Street, Suite 1300, Harrisburg, PA 17101. (See Section 602.1(c) of the 1972 Act, 70 P.S. § 1-602.1(c), regarding the Department's authority to impose an administrative assessment for a failure to reasonably supervise its agents.)

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

35. This Order is not intended by the Department 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).

36. 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 Commonwealth of Pennsylvania and any disqualifications from relying upon this state's registration exemptions or safe harbor provisions that arise from the Orders are hereby waived.

37. 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.

#### FURTHER PROVISIONS

38. Consent. CGMI hereby knowingly, willingly, voluntarily and irrevocably consents to the entry of this Order pursuant to the Bureau's authority under the 1972 Act and agrees that it understands all of the terms and conditions contained herein. CGMI, by voluntarily entering into this Order, waives any right to a hearing or appeal concerning the terms, conditions and/or penalties set forth in this Order.

39. Cooperation. 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 is in agreement to resolve the investigations pursuant to the terms of this Order.

40. Tax claims. CGMI agrees that it shall not claim, assert, or apply for a tax deduction or tax credit with regard to any state, federal or local tax for any administrative monetary assessment, cost or penalty it is paying pursuant to this Order.

41. Entire Agreement. This Order contains the entire agreement between the Department and CGMI. There are no other terms, obligations, covenants, representations, statements, conditions, or otherwise, of any kind whatsoever concerning this Order. This Order may be amended in writing by mutual agreement by the Department and CGMI.

42. Counsel. This Order is entered into by the parties upon full opportunity for legal advice from legal counsel.

43. Effectiveness. CGMI hereby stipulates and agrees that the Order shall become effective on the date that the Bureau executes the Order ("Effective Date").

44. Other Enforcement Action.

(a) The Department reserves all of its rights, duties, and authority to enforce all statutes, rules and regulations under its jurisdiction against CGMI in the future regarding all matters not resolved by this Order.

(b) CGMI acknowledges and agrees that this Order is only binding upon the Department and not any other local, state or federal agency, department or office that has separate, independent jurisdiction over the issues described herein.

45. Authorization. The parties below are authorized to execute this Order and legally bind their respective parties.

46. Counterparts. This Order may be executed in separate counterparts, by facsimile and by PDF.

47. Titles. The titles used to identify the paragraphs of this document are for the convenience of reference only and do not control the interpretation of this document.

48. Finding. The Department finds that it is necessary and appropriate in the public interest and for the protection of investors, and consistent with the purposes fairly intended by the policy and provisions of the 1972 Act to issue this Order.

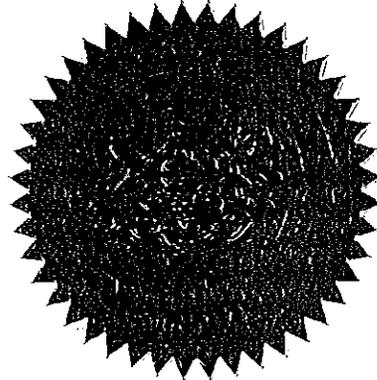
**WHEREFORE**, in consideration of the foregoing, including the recital paragraphs, the Commonwealth of Pennsylvania, Department of Banking and Securities, Bureau of Securities Licensing, Compliance and Examinations and Citigroup Global Markets Inc., intending to be legally bound, do hereby execute this Consent Agreement and Order.

FOR THE COMMONWEALTH OF PENNSYLVANIA  
DEPARTMENT OF BANKING AND SECURITIES  
BUREAU OF SECURITIES LICENSING, COMPLIANCE AND EXAMINATIONS

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James A. Klutinoty  
Chief, Western Region  
Department of Banking and Securities

Date: 12/7/2015



CITIGROUP GLOBAL MARKETS INC.

Redacted \_\_\_\_\_

(Signature & Title)

Joshua E. Levine

(Print Name)

Date: 12/2/2015

On December 2, 2015, before me, Rodd Corner, personally  
appeared, Joshua E. Levine, personally known to me.

Witness my hand and official seal

Redacted \_\_\_\_\_

**RODD CORNER**  
Notary Public - State of New York  
No. 01CO6169041  
Qualified in New York County  
My Commission Expires June 18, 2019