

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20100218231**

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

RE: Citigroup Global Markets Inc., Respondent
CRD No. 7059

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, the Respondent submits this Letter of Acceptance, Waiver and Consent ("AWC") for the purpose of proposing a settlement of the alleged rule violations described below. This AWC is submitted on the condition that, if accepted, FINRA will not bring any future actions against the Respondent alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. The Respondent hereby accepts and consents, without admitting or denying the findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of FINRA, or to which FINRA is a party, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by FINRA:

BACKGROUND

Citigroup Global Markets Inc. ("CGMI" or the "Firm"), a FINRA member since October 1936, is the brokerage and securities arm of Citigroup Inc., the global diversified financial services holding company with more than 250,000 employees worldwide. CGMI provides investment banking, research, sales and trading services to corporate, institutional, government and retail clients.

RELEVANT DISCIPLINARY HISTORY

In *Salomon Smith Barney Inc.*, Decision 02-226 (NYSE Hearing Board November 15, 2002), the Firm (then known as Salomon Smith Barney Inc.), along with four other firms, was disciplined for violations regarding its failure to preserve electronic communications as required by NYSE and NASD Rules and the federal securities laws. The Firm consented to a sanction issued by the NYSE, the NASD and the United States Securities and Exchange Commission ("SEC") of a censure,

a fine in the amount of \$1,650,000, and an undertaking to certify that it had established systems and procedures reasonably designed to comply with the federal securities laws and the rules of the NYSE and NASD concerning the preservation of electronic mail communications. The Firm certified on June 3, 2003 that it had complied with the undertaking.

OVERVIEW

During the period October 21, 2008 to December 26, 2009 (the “Relevant Period”), the Firm failed to retain millions of emails, including emails not retained that potentially impacted the Firm’s ability to respond to email requests in FINRA investigations and other matters. Also, during the Relevant Period, the Firm failed to establish and maintain appropriate systems and procedures reasonably designed to: (i) achieve compliance with the applicable recordkeeping rules; and (ii) detect and remedy deficiencies in its email retention systems.

FACTS AND VIOLATIVE CONDUCT

Background

Upgrades to Email Archiving Systems

In fall 2008, CGMI, through Citigroup Inc., began to implement an upgrade of its email archiving system from a backup tape-based system to a new journaling-based system. Journaling is an email retention technology that electronically captures copies of all emails sent and received on a firm’s mail servers and ultimately transmits those emails electronically to an email archive for storage. Journaling is a faster, more secure and less error-prone method of email archiving than backup tapes, provided the necessary servers are configured properly.

The journaling system was designed to function through the use of three component servers: a mail server, a hub transport server, and a journaling server. Under the journaling method, when an individual email user sent or received an email, the mail server sent a copy of that email to the hub transport server. The hub transport server then routed that email to the journaling server by utilizing a distribution list populated with the addresses of mailboxes on the journaling server. The journaled email was then electronically transferred by a third-party vendor from the journaling server into the email archive.

Archiving Problems with Three Mail Servers

In all, the upgraded email archiving system utilized 58 mail servers in North America. However, as described below, three of these 58 mail servers did not function as expected and failed to properly transmit emails to the archive for any of the individuals assigned to those mail servers during parts or all of the Relevant

Period (the three mail servers during the time periods they were affected are hereinafter collectively referred to as the “Affected Servers”).

Specifically, on one of the Affected Servers, the Firm, through Citigroup Inc., failed to re-activate the journaling function after populating the mail server with live email users. Emails from this Affected Server were therefore not sent to the hub transport and journaling servers, and as a result, never reached the archive. On the other two Affected Servers, the Firm, through Citigroup Inc., failed to populate the distribution lists that the hub transport servers used to send emails to the journaling server with any mailbox addresses. Thus, emails from these two Affected Servers were never sent to any destination for archiving.

As a result of the problems associated with these three Affected Servers, the Firm failed to retain emails sent or received by approximately 2,800 associated persons¹ that resided on the three Affected Servers (the “Affected Associated Persons”) during parts or all of the Relevant Period.² Not all of the Affected Associated Persons were on an Affected Server for the entire fourteen-month Relevant Period, because two of the Affected Servers were not placed into use until months after the beginning of the Relevant Period, and because some users were migrated onto and off the three Affected Servers at different times during the Relevant Period.

Certain of the emails sent or received by the Affected Associated Persons during the Relevant Period were ultimately retained by the Firm because the emails themselves may have included other email users that were not on one of the three Affected Servers. Emails that CGMI was required to retain were not archived if they were exclusively between an Affected Associated Person and: (i) other Affected Associated Persons; (ii) other Citigroup Inc. employees within North America who also resided on an Affected Server; (iii) other Citigroup Inc. employees on email servers outside North America whose emails were not being archived; and/or (iv) individuals external to Citigroup Inc..

Quantification of the Number of Emails Lost

It was not possible to determine with certainty the number of emails that were not retained by the Firm because emails from the three Affected Servers may have been copied to unaffected servers and thereby been archived. However, a review of information provided by the Firm reflecting email usage rates of the Affected Associated Persons for a three-month sample period from July 1, 2010 to October

¹ An associated person is any person engaged in the investment banking or securities business who is directly or indirectly controlled by a FINRA member, whether or not they are registered or exempt from registration with FINRA. An associated person includes, but is not limited to, every sole proprietor, partner, officer, director, or branch manager of any FINRA member.

² It should be noted that a total of approximately 9,000 individuals were on the three Affected Servers during parts or all of the Relevant Period. However, only approximately 2,800 of the 9,000 individuals were CGMI associated persons.

1, 2010 indicates that the Firm failed to retain millions of emails during the Relevant Period.

The Firm's Insufficient Testing and Quality Assurance Efforts Both Before and After the Exchange 2007 Upgrade

The Firm, through Citigroup Inc., failed to perform sufficient quality assurance ("QA") tests prior to migrating live users onto its upgraded email archiving system. During the initial stages of the email archiving upgrade process, the QA testing was a manual process that was insufficiently designed in that it failed to detect the unpopulated distribution lists on the hub servers and the fact that the journaling function was never turned back on. Though an automated QA process was subsequently developed that would have discovered these email archiving problems, the Firm, through Citigroup Inc., failed to apply this automated QA process to each of its 58 mail servers, including the three Affected Servers.

Furthermore, after the Firm, through Citigroup Inc., had completed the entire email archiving upgrade process for all 58 servers, the monitoring software that was used to check whether the journaling process was functioning properly was not sufficiently designed to flag reasonably foreseeable errors. It was not until the fall of 2009, when customized configuration management software that effectively communicated with a central Citigroup Inc. directory was developed, that the Firm, through Citigroup Inc., was able to flag that the three Affected Servers were problematic.

Potential Impact on FINRA Investigations and Other Matters

The Firm's email retention deficiencies potentially impacted at least five FINRA investigations for which email of an Affected Associated Person was requested. Further, the Firm's email retention deficiencies may have impacted its ability to produce emails fully responsive to requests in other matters.

Violative Conduct

1. The Firm Failed to Retain All Required Emails

NASD Rule 3110(a) provides, in pertinent part, "[e]ach member shall make and preserve books, accounts, records, memoranda, and correspondence in conformity with all applicable laws, rules, regulations, and statements of policy promulgated thereunder and...[t]he record keeping format, medium and retention period shall comply with Rule 17a-4 under the Securities Exchange Act of 1934."

Section 17(a) of the Securities Exchange Act of 1934 and Rule 17a-4(b)(4) thereunder, requires that every broker dealer preserve "originals of all communications received and copies of all communications sent by such member,

broker or dealer (including inter-office memoranda and communications) relating to his business as such.”

CGMI’s failure to retain millions of emails during the period October 21, 2008 through December 26, 2009 constitutes a violation of NASD Rule 3110 and SEC Rule 17a-4. This violative conduct also constitutes a violation of NASD Conduct Rule 2110 during the period October 21, 2008 through December 14, 2008, and FINRA Rule 2010 during the period December 15, 2008 through December 26, 2009, both of which require that a firm, in the conduct of its business, observe high standards of commercial honor and just and equitable principles of trade.³

2. The Firm Failed to Reasonably Supervise

NASD Rule 3010 requires that firms establish and maintain a supervisory system, including written supervisory procedures related to their business, that is reasonably designed to achieve compliance with the applicable securities laws and regulations and FINRA and NASD Rules.

The Firm’s supervisory systems and procedures relating to the retention of electronic communications were deficient in that they failed to timely detect the email retention failures in this case and, as a result, did not ensure that emails were being adequately retained.

Accordingly, CGMI violated NASD Rule 3010 during the Relevant Period by failing to establish and maintain a supervisory system, including written supervisory procedures, that was reasonably designed to: (i) achieve compliance with the requirements of Exchange Act Rule 17a-4 and NASD Rule 3110(a); and (ii) timely detect and remedy deficiencies in its email retention systems. This violative conduct also constitutes a violation of NASD Conduct Rule 2110 during the period October 21, 2008 through December 14, 2008, and FINRA Rule 2010 during the period December 15, 2008 through December 26, 2009.

OTHER FACTORS

FINRA acknowledges that the Firm self-reported the email issues described herein and undertook an internal review of its supervisory policies, procedures and systems relating to these issues. The sanctions below reflect the credit that the Firm has been given for self-reporting these issues and providing information obtained as a result of its internal investigation to FINRA.

³ See FINRA Regulatory Notice 08-57, which describes certain changes to FINRA’s rules, including the change of NASD Rule 2110 to FINRA Rule 2010, effective December 15, 2008.

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

Censure; and

Fine in the amount of \$750,000.

The Respondent agrees to pay the monetary sanction(s) upon notice that this AWC has been accepted and that such payment(s) are due and payable. The Respondent has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

The Respondent specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanction(s) imposed in this matter.

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

II.

WAIVER OF PROCEDURAL RIGHTS

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

- A. To have a Complaint issued specifying the allegations against the Respondent;
- B. To be notified of the Complaint and have the opportunity to answer the allegations in writing;
- C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made and to have a written decision issued; and
- D. To appeal any such decision to the National Adjudicatory Council ("NAC") and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, the Respondent specifically and voluntarily waives any right to claim bias or prejudice of the General Counsel, the NAC, or any member of the NAC, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including acceptance or rejection of this AWC.

The Respondent further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of FINRA Rule 9143 or the separation of functions prohibitions of FINRA Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

III.

OTHER MATTERS

The Respondent understands that:

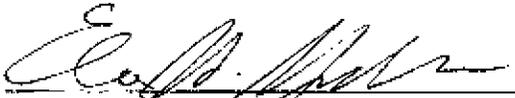
- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against the Respondent; and
- C. If accepted:
 - 1. this AWC will become part of the Respondent's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against the Respondent;
 - 2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about the Respondent's disciplinary record;
 - 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
 - 4. The Respondent may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. The Respondent may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects the Respondent's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

- D. The Respondent may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. The Respondent understands that it may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA or its staff.

The undersigned, on behalf of the Firm, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that the Respondent has agreed to its provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce the Firm to submit it.

11/22/2011
Date (mm/dd/yyyy)

Citigroup Global Markets, Inc.
Citigroup Global Markets Inc.

By: 
Elaine H. Mandelbaum
Managing Director and Deputy General Counsel
Citigroup Global Markets Inc.

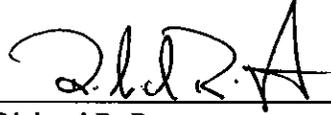
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Accepted by FINRA:

12/2/11
Date

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



Richard R. Best

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FINRA Department of Enforcement

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