

SEC Charges Citigroup Global Markets for Compliance and Surveillance Failures

FOR IMMEDIATE RELEASE

2015-171

Washington D.C., Aug. 19, 2015 — The Securities and Exchange Commission today announced that Citigroup Global Markets has agreed to settle charges that it failed to enforce policies and procedures to prevent and detect securities transactions that could involve the misuse of material, nonpublic information. The firm also failed to adopt and implement policies and procedures to prevent and detect principal transactions conducted by an affiliate.

Citigroup agreed to pay a \$15 million penalty.

Because broker-dealer employees routinely have access to material nonpublic information, the federal securities laws require every firm to take reasonable steps to prevent the misuse of that information. An SEC investigation found that Citigroup did not review thousands of trades executed by several of its trading desks during a 10-year period. Personnel used electronically generated reports to review trades on a daily basis, but technological errors caused the reports to omit several sources of information about thousands of relevant trades.

“Today’s high-speed markets require that broker-dealers and investment advisers manage the convergence of technology and compliance,” said Andrew J. Ceresney, Director of the SEC’s Division of Enforcement. “Firms must ensure that they have devoted sufficient attention and resources to trade surveillance and other compliance systems.”

According to the SEC’s order instituting a settled administrative proceeding:

- The compliance and surveillance failures occurred from 2002 to 2012.
- Citigroup also inadvertently routed more than 467,000 transactions on behalf of advisory clients to an affiliated market maker, which then executed the transactions on a principal basis by buying or selling to the clients from its own account.
- Citigroup’s policies and procedures to avoid such occurrences were not reasonably designed or implemented and failed to divert certain advisory orders away from this affiliate.
- Citigroup’s trade surveillance failed to detect these principal transactions for more than two years because the firm relied upon a report that was not reasonably designed to capture the principal transactions executed through this affiliate.
- Citigroup voluntarily paid \$2.5 million (its total profits from the principal transactions) to the affected advisory client accounts.

The SEC’s order finds that Citigroup violated Section 15(g) of the Securities Exchange Act of 1934, which requires brokers and dealers to establish, maintain, and enforce policies and procedures to prevent the misuse of material, nonpublic information. Citigroup also violated Section 206(4) of the

Investment Advisers Act of 1940 and Rule 206(4)-(7), which require registered investment advisers to adopt and implement written policies and procedures reasonably designed to prevent violations of the Advisers Act and its rules.

In addition to the \$15 million penalty, Citigroup agreed to retain a consultant to review and recommend improvements to its trade surveillance and advisory account order handling and routing. Without admitting or denying the findings, Citigroup consented to the SEC's order that censures the firm and requires it to cease and desist from committing or causing these violations.

The SEC's investigation was conducted by Owen A. Granke and Carolyn M. Welshhans in the Market Abuse Unit and Marilyn Ampolsk, Jeremiah Williams, and Anthony Kelly in the Asset Management Unit. The case was supervised by Robert A. Cohen, Acting Co-Chief of the Market Abuse Unit, and Julie M. Riewe, Co-Chief of the Asset Management Unit. The SEC's National Exam Program provided substantial assistance, including Christine Sibille, Juanita Bishop Hamlett, Richard Hannibal, Mavis Kelly, LaTasha Bond, Peter Ciliberti, and Seon Weems.

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Related Materials

- [SEC order](#)