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STATE OF ALASKA
DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT
DIVISION OF BANKING AND SECURITIES

In the matter of:)
Citigroup Global Markets, Inc.) ORDER NO: 15-950-S
Respondent.) ADMINISTRATIVE CONSENT ORDER

WHEREAS, Citigroup Global Markets Inc. ("CGMI") is a broker-dealer registered in the state of Alaska, 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 Alaska Statute (AS) 45.55.920(d) with respect to this Order; and

1 CGMI admits the jurisdiction of the Department of Commerce, Community, and
2 Economic Development, Division of Banking and Securities, in this matter; and

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

6 NOW, THEREFORE, the Department of Commerce, Community, and Economic
7 Development, Division of Banking and Securities (the Division), through its Director,
8 Administrator of the Alaska Securities Act, hereby enters this Order:

9 **I. FINDINGS OF FACTS**

10 **Relevant CGMI Business Units**

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

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

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

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

1 Background on CGMI Personnel

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

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

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

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

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

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

23 10. The NextGen order entry process was intended to generally work as follows:
24 NextGen automatically populated the order-entry screen with the logon ID of the person

1 entering the order, the name of that person, and the date and time the order was entered. The
2 person entering the order verified that she was the person who received the order at the time
3 the order was entered by checking the box stating: "Check to confirm client receipt
4 information." If the person entering the order was not the person who received the order,
5 then the person entering the order entered the NextGen logon ID for the person who received
6 the order into the "Received by ID/Name Box." The person entering the order was prompted
7 to provide her password. At that point, a variety of validations were conducted including a
8 check to ensure that the FA of record for the account was duly registered in the applicable
9 state(s). However, NextGen did not check to ensure that the person accepting the client
10 order, if different from the FA assigned to the account, was registered in the applicable
11 state(s). Once the validation checks were completed, the order was either blocked or moved
12 forward to the verification screen. If a trade was blocked due to a registration gap, an error
13 message appeared on the NextGen screen stating: "FC REGISTRATION VIOLATION-
14 CALL YOUR REG REPRESENTATIVE." If the trade was not blocked, the person entering
15 the trade was prompted to verify and submit the order. Upon submission, the order entry
16 process was complete, and the order was sent to the market for execution.

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

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

1 currently employs fewer than 100 RSAs nationwide.

2 Registration Required

3 13. Under AS 45.55.030(a), a person may not transact business in Alaska as a
4 broker-dealer or agent unless the person is registered under the Alaska Securities Act.

5 14. Pursuant to the general prohibition under AS 45.55.030(a), a person cannot
6 accept unsolicited orders in Alaska without being registered in Alaska.

7 15. Pursuant to AS 45.55.030(b) and AS 45.55.920(c), a broker-dealer may be
8 assessed a civil penalty for selling securities in Alaska through agents other than agents
9 registered in the State.

10 Regulatory Investigations and Findings

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

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

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

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

1 licensed in Alaska.

2 Remedial Efforts

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

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

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

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

14 **II. CONCLUSIONS OF LAW**

15 24. The Administrator has jurisdiction over this matter pursuant to the Alaska
16 Securities Act.

17 25. CGMI's failure to establish an adequate system to monitor the registration
18 status of persons accepting client orders constitutes a violation of 45.55.060(b)(1).

19 26. CGMI's failure to ensure its registered Sales Assistants were registered in the
20 appropriate jurisdictions constitutes a failure to enforce its established written procedures,
21 and is a basis for the issuance of an Order against CGMI.

22 27. Pursuant to AS 45.55.030(a), CGMI's acceptance of orders in Alaska through
23 SAs who were not properly registered in Alaska constitutes a violation of AS 45.55.030(a)
24 for the use of unregistered agents in the State.

1 Administrator within ten days of the date of this Order.

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

3 5. This order is not intended by the Administrator to subject any Covered Person
4 to any disqualifications under the laws of the United States, any state, the District of
5 Columbia, Puerto Rico, or the U.S. Virgin Islands, or under the rules or regulations of any
6 securities or commodities regulator or self-regulatory organization, including, without
7 limitation, any disqualification from relying upon the state or federal registration exemptions
8 or safe harbor provisions. "Covered Person," means CGMI or any of its affiliates and their
9 current or former officers or former officers, directors, employees, or other persons that
10 would otherwise be disqualified as a result of the Orders (as defined below).

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

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STATE OF ALASKA
DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT
DIVISION OF BANKING AND SECURITIES
550 WEST SEVENTH AVENUE, SUITE 1850
ANCHORAGE, ALASKA 99501
PHONE: (907) 269-8140

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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 6th day of November, 2015.

BY ORDER OF

Chris Hladick, Commissioner
Department of Commerce, Community
and Economic Development

/s/ Kevin Anselm

Kevin Anselm, Director
Division of Banking and Securities

STATE OF ALASKA
DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT
DIVISION OF BANKING AND SECURITIES
550 WEST SEVENTH AVENUE, SUITE 1850
ANCHORAGE, ALASKA 99501
PHONE: (907) 269-8140

1 Contact Person:
2 Kristy Naylor
3 Chief of Enforcement
4 (907) 269-7675
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CITI BUSINESS SERVICES
PAYMENT SERVICES
3800 CITIBANK CENTER DR. G-3-4
TAMPA, FL 33610
CUSTOMER SERVICE (813) 604-1234

No. 5120161161

Date: 29-OCT-2015

Vendor No. 842677

STATE OF ALASKA DEPARTMENT OF
ADMINISTRATION
PO BOX 110204
JUNEAU AK 99811 0204

INVOICE NO / DESCRIPTION	INV DATE	GROSS AMT	DISCOUNT	W/H Tax	NET AMOUNT
Invoice #: 3500000101915 201005368 FINRA - Sales Assistants Delaware	19-OCT-2015	35,000.00	0.00	0.00	35,000.00
DETACH AND RETAIN THIS STUB FOR YOUR RECORDS, CHECK# 5120161161 ATTACHED BELOW		35,000.00	0.00	0.00	35,000.00



CITI BUSINESS SERVICES
PAYMENT SERVICES
3800 CITIBANK CENTER DR. G-3-4
TAMPA, FL 33610
CUSTOMER SERVICE (813) 604-1234

62-20
311

No. 5120161161

Date: 29-OCT-2015

Vendor No. 842677

PAY TO THE
ORDER OF

STATE OF ALASKA DEPARTMENT OF
ADMINISTRATION
PO BOX 110204
JUNEAU AK 99811 0204

*****35,000.00

NOT VALID AFTER 180 DAYS

THIRTY-FIVE THOUSAND AND 00/100 DOLLARS*****

Andrew Harwood

CITIBANK DELAWARE, A SUBSIDIARY OF CITIBANK N.A.
ONE PENNS WAY, NEW CASTLE, DE 19720



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