

COMMONWEALTH OF VIRGINIA  
STATE CORPORATION COMMISSION

AT RICHMOND, NOVEMBER 7, 2014

SEC-CLERK'S OFFICE  
REGISTRATION CONTROL CENTER

2014 NOV -7 P 3: 58

COMMONWEALTH OF VIRGINIA, *ex rel.*

STATE CORPORATION COMMISSION

v.

CASE NO. SEC-2014-00034

CITIGROUP GLOBAL MARKETS, INC.,  
Defendant

SETTLEMENT ORDER

The State Corporation Commission's ("Commission") Division of Securities and Retail Franchising ("Division") conducted an investigation of Citigroup Global Markets, Inc.<sup>1</sup> ("Defendant") pursuant to § 13.1-518 of the Virginia Securities Act ("Act"), § 13.1-501 *et seq.* of the Code of Virginia ("Code") and alleges as follows:

A Virginia complainant ("Complainant") alleged to the Division that he contacted Smith Barney, LLC in September 2007 to sell securities in his account so that he could withdraw \$160,000 to purchase a home. The Complainant further alleged that instead of following the investor's request, the majority of the withdrawal was taken as a loan and placed on margin. As a result, the Complainant's monthly withdrawals of \$1,000 also were taken from margin over an extended period of time. At the time the Complainant was placed on margin, he was 73 years old. While the Complainant had a brokerage account for a number of years, he never had a margin account until this withdrawal. The Complainant did not check the opt-out box to decline margin on the new account agreement; therefore, his account became eligible for margin

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<sup>1</sup> The Complainant's allegations as described to the Division occurred between September 1, 2007 and May 13, 2009. The Complainant opened his account at issue with Smith Barney and closed said account on May 13, 2009, prior to the creation of Morgan Stanley Smith Barney. On June 1, 2009, Morgan Stanley and Citigroup Global Markets Inc. ("CGMI") contributed the Global Wealth Management Group of Morgan Stanley & Co. Incorporated and the Smith Barney division of Citigroup Global Markets Inc., respectively, into Morgan Stanley Smith Barney Holdings LLC, a new joint venture.

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privileges. In November 2008 when margin calls were issued against the account, the firm contacted the Complainant regarding selling securities to cover the calls. The Complainant insisted that he did not have a margin account and did not owe the firm any money. The account was eventually liquidated and closed in early 2009. However, the firm failed to provide to the Division any information that indicated they had followed proper firm-established written procedures to notify the Complainant that he had a margin loan in his account or that it was accumulating interest at a substantial rate.

Based on the investigation, the Division alleges the Defendant violated: (i) 21 VAC 5-20-260 B of the Commission's Rules Governing Broker-Dealers, Broker-Dealer Agents and Agents of the Issuer ("Rules") pertaining to Supervision of Agents by (1) allowing its agent to recommend a margin loan to a 73-year-old client with a risk tolerance of moderate and investment objectives of growth and income, and (2) by failing to ensure the agent monitored the Complainant's account activity and kept in contact with the client regarding the increasing margin balance in his account; (ii) Rule 21 VAC 5-20-260 D by failing to enforce its own written supervisory procedures relative to margin accounts and suitability reviews; (iii) Rule 21 VAC 5-20-260 D 2 (1) by failing to monitor and conduct frequent examinations of the Complainant's account activity, including but not limited to recording and maintaining notes between the time the margin loan was withdrawn in September 2007 and the time the Complainant contacted the branch in November 2008 claiming he did not have a margin loan with the firm, (2) by allowing the Complainant's monthly ACH withdrawal to be issued from margin beginning October 2007, and (3) by failing to alert the Complainant of his declining account balance, the increasing margin balance, and the fact that no deposits were made to the account in an attempt to pay off the large margin loan; (iv) Rule 21 VAC 5-20-280 A (12) (a) by charging the Complainant

compounded margin interest on the \$1,000 monthly ACH withdrawals from his account and by charging a higher margin interest rate than was originally offered by the branch manager; (v) Rule 21 VAC 5-20-280 A (3) by allowing the 73-year-old Complainant to withdraw a margin loan against the securities in his brokerage account; and (vi) Rule 21 VAC 5-20-280 A (24) by marketing services to the Complainant that were confusing by providing only an opt-out box for margin privileges on the firm's new account form.

If the provisions of the Act are violated, the Commission is authorized by § 13.1-506 of the Act to revoke a defendant's registration, by § 13.1-519 of the Act to issue temporary or permanent injunctions, by § 13.1-518 A of the Act to impose costs of investigation, by § 13.1-521 A of the Act to impose certain monetary penalties, by § 13.1-521 C of the Act to order a defendant to make rescission and restitution, and by § 12.1-15 of the Code to settle matters within its jurisdiction.

The Defendant neither admits nor denies these allegations but admits to the Commission's jurisdiction and authority to enter this Settlement Order ("Order").

As a proposal to settle all matters arising from these allegations, the Defendant has made an offer of settlement to the Commission wherein the Defendant will abide by and comply with the following terms and undertakings:

(1) The Defendant will reimburse to the Complainant, contemporaneously with the entry of this Order, the amount of Eight Thousand Dollars (\$8,000) in margin account interest charges and will provide a copy of the check issued to the Complainant to the Division for its records.

(2) The Defendant will pay to the Treasurer of the Commonwealth of Virginia, contemporaneously with the entry of this Order, the amount of One Thousand Five Hundred Dollars (\$1,500) to defray the costs of investigation.

(3) The Defendant will not violate the Act or Rules in the future.

The Division has recommended that the Commission accept the offer of settlement of the Defendant.

NOW THE COMMISSION, having considered the record herein, the offer of settlement of the Defendant, and the recommendation of the Division, is of the opinion that the Defendant's offer should be accepted.

Accordingly, *IT IS ORDERED THAT:*

(1) The offer of the Defendant in settlement of the matter set forth herein is hereby accepted.

(2) The Defendant shall fully comply with the aforesaid terms and undertakings of this settlement.

(3) This case is dismissed and the papers herein shall be placed in the file for ended causes.

Dismissal of this case does not relieve the Defendant from its reporting obligations to any regulatory authority.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to:

Raul Sanchez, Executive Director, Morgan Stanley Wealth Management, Legal and Compliance, 485 Lexington Avenue, 11<sup>th</sup> Floor, New York, New York 10017; Joshua E. Levine, Managing Director, Citigroup, Inc., Office of the General Counsel, 388 Greenwich Street, 17<sup>th</sup> Floor New York, New York 10013; and a copy shall be delivered to the Commission's Office of General Counsel and Division of Securities and Retail Franchising.

COMMONWEALTH OF VIRGINIA  
STATE CORPORATION COMMISSION

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COMMONWEALTH OF VIRGINIA, *ex rel.*

STATE CORPORATION COMMISSION

v.

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CITIGROUP GLOBAL MARKETS, INC.,

Defendant

ADMISSION AND CONSENT

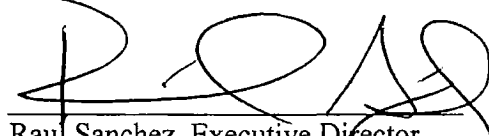
Citigroup Global Markets, Inc. ("Defendant"), admits to the jurisdiction of the State Corporation Commission ("Commission") as to the party and subject matter hereof and, neither admitting nor denying the allegations made herein by the Division of Securities and Retail Franchising, hereby consents to the form, substance and entry of the foregoing Settlement Order ("Order").

The Defendant further states that no offer, tender, threat or promise of any kind whatsoever has been made by the Commission or any member, subordinate, employee, agent or representative thereof in consideration of the foregoing Order.

Citigroup Global Markets, Inc.

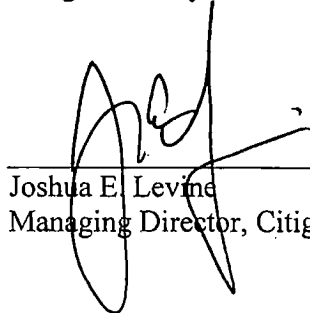
Date: 10/27/2014

By:

  
Raul Sanchez, Executive Director  
Morgan Stanley Wealth Management

Date: 10/16/14

By:

  
Joshua E. Levine  
Managing Director, Citigroup, Inc.