

**Disciplinary Panel
American Stock Exchange LLC**

IN THE MATTER
OF
CITIGROUP GLOBAL MARKETS, INC.
Formerly known as
SALOMON SMITH BARNEY, INC.

:
:
Case Nos. 03-11 and 03-12
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Hearing Officer – RSH
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DECISION
:
September 22, 2005
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In accordance with a Stipulation of Facts and Consent to Penalty, the Disciplinary Panel Chair determined that Respondent violated Exchange Rule 904, Exchange Rule 906, Exchange Rule 324, Exchange Rule 320(b), Exchange Rule 320(c), and SEC Rule 17a-3, as stipulated, and as a penalty imposed a censure and a \$50,000 fine.

I. Introduction

The American Stock Exchange, LLC (“Exchange”) instituted a formal disciplinary proceeding against Citigroup Global Markets, Inc., (“Citigroup” or the “Firm”), a Regular Member Organization of the Exchange. The Disciplinary Panel Chair, (“Chair”), presiding without convening a full Disciplinary Panel, pursuant to Article V, Section 1(b) of the Exchange Constitution, held a hearing on July 8, 2005, pursuant to Article V, Section 2 of the Exchange Constitution, to review a Stipulation of Facts and Consent to Penalty (“Stipulation”), which is attached as Exhibit A. The Exchange and Citigroup entered into the Stipulation for the purposes of settling this proceeding and concluding all disciplinary actions by the Exchange against Citigroup based upon or arising out of the facts set forth in the Stipulation.

II. Facts

Citigroup Group, LLC, without admitting or denying liability, stipulated to the facts set forth in the attached Stipulation. The Chair has determined to accept the facts for purposes of this Decision, and they are incorporated herein.

III. Violations

Based upon the stipulated facts, the Chair concludes that Citigroup:

- (1) violated Exchange Rules 904 and 906 in that during the time period of August 9, 2001, through October 31, 2001, it exceeded the applicable position limits in ABC options for 50 out of 55 trading days during said period;
- (2) violated Exchange Rules 904 and 906 in that on September 3, 2002, it exceeded the applicable position limits in XYZ options;
- (3) violated Exchange Rule 324 and SEC Rule 17a-3 in that it failed to create and maintain accurate books and records, by creating two sets of inconsistent data, one on a trade- date basis and one on a settlement-date basis; and
- (4) violated Exchange Rules 320(b) and 320(c) in that during the relevant time period, and in connection with its exceeding the applicable position limits in ABC and XYZ options, it failed to
 - (i) develop, maintain and enforce reasonable supervisory procedures concerning adherence to position limit requirements, the reporting of positions in excess of position limit requirements and steps the Firm would take to either reduce positions to within appropriate limits or otherwise adequately and promptly demonstrate to the Exchange a valid hedge exemption to any position exceeding the applicable position limit; and, (ii) establish a separate system of follow-up and review sufficient to reasonably ensure that supervisory responsibility and authority in connection

with the Firm's adherence to applicable position limit requirements was being properly exercised.

IV. Penalties and Publicity

The Stipulation proposes that the Chair impose a censure and a fine of \$50,000 on Citigroup. After considering the stipulated facts and the statements of the parties¹, as well as the decisions cited in the Exchange's precedent memorandum, the Chair finds that the proposed penalty is appropriate under the facts and circumstances of this case, and therefore it will be imposed. The Chair further finds that the results of this disciplinary proceeding should be publicly disclosed, as provided in Rule 12 of the Exchange Rules on Disciplinary Proceedings.²

V. Conclusion

The Chair accepts the Stipulation of Facts and Consent to Penalty and hereby imposes upon Citigroup a censure and a fine of \$50,000.

FOR THE DISCIPLINARY PANEL

Rochelle S. Hall, Chair

Copies to: James J. Tyne, Esq. (*via facsimile and first class mail*)
Citigroup Global Markets, Inc. (*via overnight and first class mail*)
David Rosenstein, Esq. (*electronically and via first class mail*)
Arlene Collins-Day (*electronically and via first class mail*)

¹ The parties represented to the Chair that Citigroup has put in place adequate systems of internal supervision and control and is currently in compliance with Exchange Rules 320(b) and 320(c).

² Rule 12 exempts from publicity those cases in which the Panel finds that the offense "related solely to minor administrative requirements of the Exchange and does not materially affect the public interest or the interest of investors." That exemption does not apply to the facts of this case.

Disciplinary Panel
American Stock Exchange LLC

.....	X	
	X	
IN THE MATTER	X	STIPULATION OF FACTS
OF	X	AND
CITIGROUP GLOBAL	X	CONSENT TO PENALTY
MARKETS, INC.	X	Case Nos. 03-11 and 03-12
formerly known as	X	
SALOMON SMITH BARNEY, INC.	X	
.....	X	

This proceeding was instituted by the American Stock Exchange LLC (the “Exchange”) against CITIGROUP GLOBAL MARKETS, INC. (“Citigroup” or the “Firm”) (CRD# 7059), a Regular Member Organization of the Exchange. This Stipulation of Facts and Consent to Penalty is entered into pursuant to Article V, Section 2 of the Exchange Constitution in order to settle and conclude all disciplinary actions by the Exchange against Citigroup based upon or arising out of the facts hereinafter stipulated. Citigroup, without admitting or denying the facts, allegations and conclusions contained in this Stipulation of Facts and Consent to Penalty, hereby consents to the entry of findings of violations of the Exchange Constitution, Rules and Federal securities laws and to the imposition of the penalties hereinafter provided. Citigroup understands that this settlement is subject to approval by an Exchange Disciplinary Panel and by the Amex Adjudicatory Council and that, if so approved, shall constitute a final decision, which may not be appealed by the parties. Citigroup understands and acknowledges that the Disciplinary Panel’s decision in this matter will become part of its disciplinary record and may be considered in any future proceeding brought by the Exchange.

STIPULATED FACTS

1.0 During all relevant periods herein, the Firm was a Regular Member Organization of the Exchange.¹

1.1 During all relevant periods herein, the Firm was subject to Exchange Rule 904, which provided, in pertinent part:

(a) For Option Contracts Dealt In On The Exchange - Except with the prior approval of the Exchange in each instance and to be confirmed in writing, no member or member organization shall effect, for any account in which such member or member organization has an interest or for the account of any partner, officer, director, trustee or employee thereof or for the account of any customer, an opening transaction (whether on the Exchange or on another Participating Exchange) in an option contract of any class of options dealt in on the Exchange if the member or member organization has reason to believe that as a result of such transaction the member or member organization or partner, officer, director, trustee or employee thereof or customer would, acting alone or in concert with others, directly or indirectly, control an aggregate position in option contracts (whether long or short) of the put class and the call class on the same side of the market covering any underlying security in excess of:

(i) 13,500, 22,500, 31,500, 60,000 or 75,000 contracts covering an underlying stock or Exchange-Traded Fund Share, which limit is determined in accordance with Commentaries .07 and .09.

1.2 During all relevant periods herein, Commentary .07 of Rule 904 provided:

[t]he position limit shall be 75,000 contracts for options: (i) on any underlying security that had trading volume of at least 100,000,000 shares during the most recent six-month trading period; or (ii) on an underlying security that had trading volume of at least 75,000,000 shares during the most recent six-month trading period and has at least 300,000,000 shares currently outstanding.

1.3 During all relevant periods herein, Commentary .09 of Rule 904 provided:

¹ The conduct set forth in this Stipulation of Facts and Consent to Penalty solely occurred during the period of time when the Firm was known as Salomon Smith Barney, Inc.

[f]or purposes of position limits for stock and Exchange-Traded Fund Share options only, the following positions, where each option contract is “hedged” by the number of shares underlying the option contract or, in the case of an adjusted option, the same number of shares at option, may be exempted from established position limits: (i) Long Stock and Short Call; (ii) Long Stock and Long Put; (iii) Short Stock and Long Call; and, (iv) Short Stock and Short Put.

1.4 During all relevant periods herein, the Firm was subject to Exchange Rule 906,

which provided, in pertinent part:

(c) In addition to the reports required by paragraph (a) and (b) of this Rule, each member and member organization shall report promptly to the Exchange any instance in which such member or member organization has reason to believe that a person, acting alone or in concert with others, has exceeded or is attempting to exceed the position limits prescribed pursuant to Rule 904 or the exercise limits prescribed pursuant to Rule 905.

(d) Upon the request of the Exchange, a member and member organization shall file with the Exchange a report reflecting the aggregate uncovered short positions in each series of options dealt in on the Exchange in (1) each account in which the member or member organization has an interest, (2) all accounts of partners, principal executive officers, trustees and directors of such member organization and (3) all accounts of customers. Such report shall be made by the second business day following the date the request is made.

1.5 During all relevant periods herein, the Firm was subject to Exchange Rule 324,

which provided:

Members and member organizations shall keep true and complete books of account and records adequately setting forth the transactions of such members and member organizations in accordance with the requirements of the Constitution and rules of the Exchange and the Securities Exchange Act of 1934 and the rules thereunder.

1.6 During all relevant periods herein, the Firm was subject to SEC Rule 17a-3, which provided, in pertinent part:

Every member of a national securities exchange who transacts a business in securities directly with others than members of a national securities exchange, and every broker or dealer who transacts a business in securities through the medium of any such member, and every broker or dealer registered pursuant to section 15 of the Securities Exchange Act of 1934, as amended, shall make and keep current the following books and records relating to his business.

1.7 During all relevant periods herein, the Firm was subject to Exchange Rule 320(b) and (c), which provided:

(b) Each office, department or business activity of a member or member organization (including foreign incorporated branch offices) shall be under the supervision and control of the member or member organization establishing it and of the personnel delegated such authority and responsibility.

The person in charge of a group of employees shall reasonably discharge his duties and obligations in connection with supervision and control of the activities of those employees related to the business of their employer including compliance with securities laws and regulations.

(c) The general partners, directors, trustees of each member organization shall provide for appropriate supervisory control and shall designate a general partner, principal executive officer, trustee to assume overall authority and responsibility for internal supervision and control of the organization and compliance with securities laws and regulations. This person shall:

(1) delegate to qualified principals or employees responsibility and authority for supervision and control of each office, department or business activity, and provide for appropriate procedures of supervision and control; and

(2) establish a separate system of follow-up and review to verify that the delegated authority and responsibility is being properly exercised.

Position Limit Violations: ABC

- 2.0 During all relevant time periods herein, the options for ABC Exchange Traded Fund (“ABC”) were listed for trading on the Exchange.
- 2.1 On August 10, 2001, the Firm notified the Exchange and the Chicago Board Options Exchange (“CBOE”) that it had exceeded the position limit in ABC on August 9, 2001 and requested an exemption to the position limit requirement from both the Exchange and the CBOE. At the time, the contract limit for ABC options was 150,000 on either side of the market.²
- 2.2 In a letter dated August 10, 2001, the Firm stated that it was long 59,740 call options and short 62,282 put options, for a total of 122,022 ABC contracts on the bullish side of the market. The Firm also stated that it was short 151,546 call options and long 13,400 put options, for a total of 164,946 ABC options on the bearish side of the market, exceeding the position limit by 14,946 contracts. The Firm noted that it held 36,200 underlying ABC shares, which hedged 362 of the 14,946 contracts over the position limit under Commentary .09 to Exchange Rule 904. According to the Options Clearing Council (“OCC”) contract sheets, however, the Firm actually exceeded the position limit by 19,988 contracts on the bearish side of the market on August 9, 2001.
- 2.3 On August 13, 2001, the Firm again requested an exemption to the position limit requirement. In a letter dated August 13, 2001, the Firm stated that its position on

² On March 16, 2000, Amex Circular #00-0269, which was distributed to all Exchange members and member organizations, doubled the position limits commencing March 20, 2000 in certain options, including ABC, as a result of a two-for-one split of the underlying instrument. Thus, from March 20, 2000 through January 2002 expiration, ABC options had a position limit of 150,000 contracts.

the bullish side of the market was 165,155 option contracts and its position on the bearish side of the market was 188,168. Although the Firm attempted to claim it had a valid hedge for all options in excess of the position limit, it was actually only hedged on 10,354 option contracts on the bullish side of the market and on 362 option contracts on the bearish side of the market. OCC contract sheets, however, showed that the Firm actually had 149,823 contracts on the bullish side of the market, which was within the position limit and 179,858 option contracts on the bearish side of the market, over by 29,858 option contracts.

- 2.4 On August 14, 2001, the CBOE requested that the Firm provide documentation to substantiate its claimed hedge positions and to demonstrate that the ABC equity shares being used to hedge were being used exclusively to hedge and for no other purpose.³
- 2.5 Between the time period of August 10, 2001 and August 30, 2001, the CBOE contacted the Firm on six separate occasions to request that the Firm provide the requested documentation to substantiate its claimed hedge position.
- 2.6 On September 10, 2001, the day immediately preceding the attacks of September 11, 2001, the CBOE again contacted the Firm and requested that it either provide the requested documentation or provide documentation detailing the measures that the Firm planned to bring itself into compliance with the position limits.

³ Exchange Information Circular #88-105 stated that “stock positions held in connection with any position limit hedge exemption granted by the Exchange may not be used as the basis for any other position limit hedge exemption in equity options, stock index options, stock index futures or options on stock index futures granted by the Exchange or any other options or futures exchange.”

2.7 On September 27, 2001, the Firm provided documentation of its hedged positions, but it did not provide documentation to demonstrate that the ABC equity shares were being used for the sole purpose of hedging the options positions.

2.8 During the period of August 9, 2001 through October 31, 2001, the Firm exceeded the position limits on the bullish and/or the bearish side of the market for ABC options on 50 out of 55 trading days. The Firm reduced its ABC option position below the applicable position limit on November 1, 2001.

2.9 During the period of August 9, 2001 through October 31, 2001, the Firm's position in ABC options was as follows:

□ Bearish side of the market ■ Bullish side of the market

Trade Date	Short Call / Long Put Position	Total Amount Over Limit	Long Call/ Short Put Position	Total Amount Over Limit
August 9, 2001	169,988	19,988	123,973	0
August 10, 2001	179,858	29,858	149,823	0
August 13, 2001	191,408	41,408	151,945	1,945
August 14, 2001	181,108	31,108	138,505	0
August 15, 2001	189,394	39,394	146,505	0
August 16, 2001	196,558	46,558	140,927	0
August 17, 2001	189,051	39,051	136,613	0
August 20, 2001	148,878	0	84,702	0
August 21, 2001	151,383	1,383	93,507	0
August 22, 2001	155,003	5,003	95,731	0
August 23, 2001	147,493	0	84,321	0
August 24, 2001	185,493	35,493	83,379	0
August 27, 2001	186,513	36,513	91,095	0
August 28, 2001	188,713	38,713	98,11	0
August 29, 2001	199,941	49,941	105,924	0
August 30, 2001	188,253	38,253	133,726	0
August 31, 2001	190,566	40,566	112,869	0
September 4, 2001	197,653	47,653	113,156	0
September 5, 2001	232,857	82,857	125,835	0
September 6, 2001	235,357	85,357	125,580	0

Trade Date	Short Call / Long Put Position	Total Amount Over Limit	Long Call / Short Put Position	Total Amount Over Limit
September 7, 2001	255,007	105,007	143,882	0
September 10, 2001	245,478	95,478	144,174	0
September 17, 2001	261,169	111,169	153,743	3,743
September 18, 2001	257,505	107,505	184,828	34,828
September 19, 2001	276,495	126,495	193,129	43,129
September 20, 2001	281,734	131,734	190,741	40,741
September 21, 2001	297,234	147,234	194,833	44,833
September 24, 2001	181,547	31,547	135,934	0
September 25, 2001	185,977	35,977	135,934	0
September 26, 2001	192,777	42,777	134,904	0
September 27, 2001	199,277	49,277	133,542	0
September 28, 2001	210,427	60,427	142,895	0
October 1, 2001	216,664	66,664	145,252	0
October 2, 2001	236,064	86,064	161,169	11,169
October 3, 2001	242,665	92,665	172,435	22,435
October 4, 2001	235,715	85,715	166,085	16,085
October 5, 2001	238,865	88,865	169,460	19,460
October 8, 2001	241,865	91,865	167,360	17,360
October 9, 2001	234,065	93,065	164,889	14,889
October 10, 2001	259,015	109,015	185,793	35,793
October 11, 2001	283,559	133,559	191,856	41,856
October 12, 2001	257,084	107,084	175,831	25,831
October 15, 2001	258,634	108,634	176,012	26,012
October 16, 2001	264,232	114,232	174,360	24,360
October 17, 2001	261,631	111,631	176,560	26,560
October 18, 2001	261,723	111,723	172,595	22,595
October 19, 2001	262,376	112,376	186,909	36,909
October 22, 2001	170,792	20,792	119,148	0
October 23, 2001	150,235	235	98,448	0
October 24, 2001	139,235	0	87,345	0
October 25, 2001	148,725	0	92,048	0
October 26, 2001	149,485	0	95,548	0
October 29, 2001	150,235	235	94,623	0
October 30, 2001	154,976	4,976	95,037	0
October 31, 2001	162,983	12,983	112,544	0

Position Limit Violations: XYZ

3.0 During all relevant time periods herein, the options for XYZ Exchange Traded Fund (“XYZ”) were listed for trading on the Exchange.

3.1 On September 3, 2002, the Firm exceeded the option position limit in XYZ options by 6,500 contracts. The Firm reduced its position in XYZ options on September 4, 2002 after it determined that it did not hold sufficient stock to hedge the position.

Trade Date	Position Limit	Actual Position	Total Amount Over Limit
August 28, 2002	13,500	10,000	0
August 29, 2002	13,500	10,000	0
August 30, 2002	13,500	10,000	0
August 31, 2002	13,500	10,000	0
September 2, 2002	13,500	10,000	0
September 3, 2002	13,500	20,000	6,500
September 4, 2002	13,500	13,500	0

Books & Records Violations

4.0 In a letter dated August 20, 2003, the Firm stated that the discrepancies between its reported options positions in its own internal records and the OCC contract sheets, referred to in paragraphs 2.2 and 2.3 above, were caused by the Firm’s maintenance of records based upon both a trade date and a settlement date basis. This was a result of the merger of the two predecessor firms, the former Salomon Brothers firm, which reported on a settlement date basis, and the former Smith Barney firm, which reported on a trade date basis. Thus, the Firm was reporting its options positions by consolidating data, some of which reflected a settlement date basis and the rest reflected a trade date basis. The Firm discovered the issue

as a result of seeking approval for an exemption. The Firm corrected the problem on November 9, 2001 and it currently reports on a trade date basis.

Supervision

- 5.0 During the relevant period herein, the Firm failed to develop, maintain and enforce reasonable supervisory procedures with regard to the position limit violations within its proprietary accounts to prevent the foregoing violations.
- 5.1 With respect to ABC options, the Firm failed to either liquidate the position sufficiently so as to adhere to the applicable position limit or to provide the requested documentation to the Exchange to substantiate its hedge.

CONCLUSION

By reason of the foregoing Stipulated Facts, a Disciplinary Panel may conclude that:

- 6.0 The Firm violated Exchange Rules 904 and 906 in that, during the time period of August 9, 2001 through October 31, 2001, it exceeded the applicable position limits in ABC options for 50 out of 55 trading days during said period, as set forth in paragraphs 2.0 through 2.9.
- 6.1 The Firm violated Exchange Rules 904 and 906 in that on September 3, 2002 it exceeded the applicable position limits in XYZ options, as set forth in paragraphs 3.0 through 3.1.
- 6.2 The Firm violated Exchange Rule 324 and SEC Rule 17a-3 in that the firm failed to create and maintain accurate books and records, by creating two sets of inconsistent data, one on a trade date basis and one on a settlement date basis, as set forth in paragraph 4.0.
- 6.3 The Firm violated Exchange Rule 320(b) and (c) in that, during the relevant time period and in connection with its exceeding the applicable position limits in ABC and XYZ options, it failed to (i) develop, maintain and enforce reasonable supervisory procedures concerning adherence to position limit requirements, the reporting of positions in excess of position limit requirements and steps the Firm would take to either reduce positions to within appropriate limits or otherwise adequately and promptly demonstrate to the Exchange a valid hedge exemption to any position exceeding the applicable position limit; and, (ii) establish a separate

system of follow-up and review sufficient to reasonably ensure that supervisory responsibility and authority in connection with the Firm's adherence to applicable position limit requirements was being properly exercised, as set forth in paragraphs 5.0 through 5.1.

DISCIPLINARY ACTION:

By reason of the foregoing stipulated facts, a Disciplinary Panel may impose the following penalty upon Citigroup Global Markets, Inc.:

- (a) a censure; and,
- (b) a \$50,000 fine.

On Behalf of the: AMERICAN STOCK EXCHANGE LLC

David Rosenstein
Vice President and Chief Counsel
NASD Amex Regulation Division

Agreed to this _____ day of _____, 2005.

On Behalf of Citigroup Global Markets, Inc.