

**NASDAQ ISE, LLC
NOTICE OF ACCEPTANCE OF AWC**

Certified, Return Receipt Requested

**TO: Citigroup Derivatives Markets Inc.
Mr. Charles Mogilevsky
Managing Director
130 Cheshire Lane
Suite 102
Minnetonka, MN 55305**

**FROM: Nasdaq ISE, LLC (“ISE”) (the “Exchange”)
c/o Financial Industry Regulatory Authority (“FINRA”)
Department of Enforcement
9509 Key West Avenue
Rockville, MD 20850**

DATE: January 25, 2019

RE: Notice of Acceptance of Letter of Acceptance, Waiver and Consent No. 2016051745701

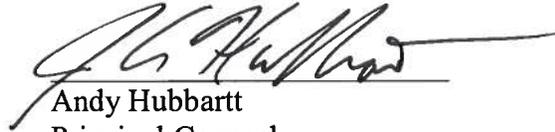
Please be advised that your above-referenced Letter of Acceptance, Waiver and Consent (“AWC”) has been accepted on **January 25, 2019** by the Exchange Review Council’s Review Subcommittee, or by the Office of Disciplinary Affairs on behalf of the Exchange Review Council, pursuant to Nasdaq ISE Rule 9216. A copy of the AWC is enclosed herewith.

You are again reminded of your obligation, if currently registered, immediately to update your Uniform Application for Broker-Dealer Registration (“Form BD”) to reflect the conclusion of this disciplinary action. Additionally, you must also notify FINRA (or the Exchange if you are not a member of FINRA) in writing of any change of address or other changes required to be made to your Form BD.

You will be notified by the Registration and Disclosure Department regarding sanctions if a suspension has been imposed and by the Exchange’s Finance Department regarding the payment of any fine if a fine has been imposed.

Citigroup Derivatives Markets Inc.
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If you have any questions concerning this matter, please contact me at (312) 899-4603.



Andy Hubbartt
Principal Counsel
Department of Enforcement, FINRA

Signed on behalf of Nasdaq ISE, LLC.

Enclosure

FINRA District 4 - Kansas City
Edward Wegener
Senior Vice President and Regional Director
(Via email)

Citigroup Global Markets Inc.
Mr. James Tyne
Associate General Counsel
390 Greenwich Street
New York, NY 10013

NASDAQ ISE, LLC
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2016051745701

TO: Nasdaq ISE, LLC
c/o Department of Enforcement
Financial Industry Regulatory Authority ("FINRA")

RE: Citigroup Derivatives Markets Inc., Respondent
Broker-Dealer
CRD No. 133084

Pursuant to Rule 9216 of the Nasdaq ISE, LLC ("ISE") Code of Procedure, Citigroup Derivatives Markets Inc. ("Respondent" or the "firm") 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, ISE will not bring any future actions against the firm alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. The firm 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 ISE, or to which ISE 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 ISE:

BACKGROUND

The firm has been a member of ISE since December 7, 2004 and its registration remains in effect. The firm is an electronic options specialist and remote market maker in listed options on ISE and other exchanges.

RELEVANT PRIOR DISCIPLINARY HISTORY

The firm has no relevant prior disciplinary history.

SUMMARY

During the period between September 9, 2013 and June 16, 2016 (the "Review Period"), the firm failed to properly close out approximately forty-eight (48) failure-to-deliver ("FTD") positions in nineteen (19) securities allocated to the firm by its clearing firm, within the required time frame, in violation of Regulation SHO Rule 204(a). Additionally, the firm continued to effect short sales in securities for which it had not closed out FTD positions without first borrowing, or entering into a bona fide arrangement to borrow, the securities, in violation of Regulation SHO Rule 204(b). The firm also failed to have supervisory systems and controls in place, including written supervisory procedures and separate systems of follow-up and review, reasonably

designed to achieve compliance with Regulation SHO Rule 204 during the Review Period, in violation of ISE Rule 401.

FACTS AND VIOLATIVE CONDUCT

1. ISE Rule 401 requires ISE members to comply with the requirements of Regulation SHO, stating that members shall not engage in conduct in violation of Federal Securities rules and regulations, and that every member must supervise its associated persons to ensure compliance therewith.
2. Regulation SHO establishes a regulatory framework that governs short sales, and requires, via Rule 204(a), that brokers and dealers that are participants of a registered clearing agency buy or borrow shares by no later than the beginning of regular trading hours on the third consecutive settlement day following the settlement date ("T+6"), in order to close out a fail-to-deliver ("FTD") position that is attributable to bona fide market making activities.¹ The broker or dealer must be a net purchaser in the subject security on the close-out date, for not less than the number of shares required to be closed-out.
3. During the Review Period, the firm was allocated FTD positions by its clearing firm prior to the open of regular trading hours on T+6. Although the firm entered orders to purchase quantities of shares sufficient to close out the allocated FTD position on the morning of T+6, the firm failed to be a net purchaser of the required number of shares by the end of the T+6 trading day due to subsequent selling activity, and therefore failed to properly close out approximately forty-eight (48) FTD positions in nineteen (19) securities. The firm's failure to close-out the allocated FTD positions violated Regulation SHO Rule 204(a) and ISE Rule 401.
4. Regulation SHO Rule 204(b) provides that if a broker or dealer's FTD position is not closed out, the broker or dealer may not effect additional short sales in that security without borrowing or entering into a bona fide arrangement to borrow the security, until the broker or dealer purchases shares to close out the position and the purchase clears and settles.
5. During the Review Period, the firm continued to effect short sales in securities for which it had not closed out FTD positions without first borrowing or entering into a bona fide arrangement to borrow the securities. The firm's additional short sale activity therefore violated Regulation SHO Rule 204(b) and ISE Rule 401.
6. During the Review Period, the firm's supervisory systems and controls, including the firm's written supervisory procedures, failed to review or otherwise consider the firm's daily net equity trading activity to ensure that the firm remained a net purchaser of the required number of shares on dates for which it was required to close out an FTD position as required by Regulation SHO Rule 204(a). In addition, the firm did not have a system

¹ On September 5, 2017, the SEC adopted an amendment to the Settlement Cycle Rule (Rule 15c6-1(a)) under the Exchange Act to shorten the standard settlement cycle for most broker-dealer transactions from three business days after the trade date ("T+3") to two business days after the trade date ("T+2").

in place to prevent or detect short selling activity on dates for which it had a FTD position which was required to be closed out, as required by Regulation SHO Rule 204(b). The firm's supervisory systems and controls, including written supervisory procedures and separate systems of follow-up and review, were therefore not reasonably designed to achieve compliance with Regulation SHO Rule 204 during the Review Period, in violation of ISE Rule 401.

OTHER FACTORS

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

Censure and a Fine of \$85,000, of which \$42,500 is payable to ISE.¹

The firm agrees to pay the monetary sanction(s) in accordance with its executed Election of Payment Form.

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

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

- A. To have a Formal Complaint issued specifying the allegations against the firm;
- B. To be notified of the Formal 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 Exchange Review Council and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

¹ The remainder of the fine is payable to Cboe Exchange, Inc.

Further, the firm specifically and voluntarily waives any right to claim bias or prejudice of the Chief Regulatory Officer, the Exchange Review Council, or any member of the Exchange Review Council, 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 firm further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of Rule 9143 or the separation of functions prohibitions of 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 firm 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 FINRA's Department of Enforcement and the Exchange Review Council, the Review Subcommittee, or the Office of Disciplinary Affairs ("ODA"), pursuant to ISE 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 firm; and
- C. If accepted:
 1. This AWC will become part of the firm's permanent disciplinary record and may be considered in any future actions brought by ISE or any other regulator against the firm;
 2. ISE may release this AWC or make a public announcement concerning this agreement and the subject matter thereof in accordance with ISE Rule 8310 and IM-8310-3;¹ and
 3. The firm 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 firm may not take any position in any proceeding brought by or on behalf of ISE, or to which ISE is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects the firm's right

¹ Series 8000 of the Nasdaq BX, Inc. Rules are incorporated by reference into the Nasdaq ISE Rules Chapter 80, and are thus Nasdaq ISE Rules and thereby applicable to Nasdaq ISE Members, Associated Persons, and other persons subject to Nasdaq ISE's jurisdiction.

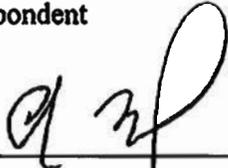
to take legal or factual positions in litigation or other legal proceedings in which ISE is not a party.

- D. The firm may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. The firm 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 ISE, nor does it reflect the views of the Exchange 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 it has agreed to the AWC's 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.

11/27/18
[Date]

Citigroup Derivatives Markets Inc.
Respondent

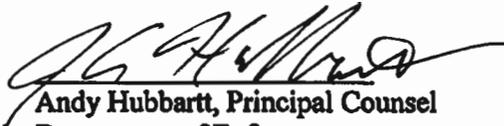
By: 
Name: Charles Mojilowsky
Title: Managing Director

Reviewed by:

[Attorney Name]
Counsel for Respondent
[Firm Name]
[Address]
[City/State/Zip]
[Phone Number]

Accepted by ISE:

1/25/19
Date


Andy Hubbart, Principal Counsel
Department of Enforcement

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

PAYMENT INFORMATION

The fine amount will be reflected on an upcoming invoice and will be direct debited from the account for your firm that Nasdaq currently has on file. **Please DO NOT submit payment at this time.**

Please inform your finance or applicable department of this forthcoming debit.

If you would like to arrange for an alternative method of payment, please enter the billing contact information below and Nasdaq's Billing Department will contact you. **Otherwise, please leave the following information blank.**

Billing Contact Name: _____

Billing Contact Address: _____

Billing Contact Email: _____

Billing Contact Phone Number: _____

Respectfully submitted,

Respondent

Citigroup Derivatives Markets Inc.

11/27/2018
Date

By: [Signature]

Name: James Tynne

Title: Associate General Counsel