

BEFORE THE BUSINESS CONDUCT COMMITTEE
OF THE
CBOE EXCHANGE, INC.

In the Matter of:)	
)	
Citigroup Derivatives Markets Inc.)	File No. 19-0004
130 Cheshire Lane)	STAR No. 20160517457
Suite 102)	
Minnetonka, MN 55305)	
)	
Subject)	

DECISION ACCEPTING LETTER OF CONSENT

This proceeding was instituted by the Business Conduct Committee (the "Committee") of the Cboe Exchange, Inc. (the "Exchange") as a result of an investigation by the staff of the Exchange. In order to resolve this matter, the subject, Citigroup Derivatives Markets Inc. has submitted a Letter of Consent. Such Letter of Consent was submitted solely for the purposes of this proceeding without admitting or denying that a violation of Exchange Rules has been committed. With due regard to the stipulated facts and findings and the proposed sanction contained therein, the Committee believes it is appropriate to accept the Letter of Consent for File No. 19-0004 (STAR No. 20160517457) which is attached to and made a part of this Decision.

**SO ORDERED
FOR THE COMMITTEE**

Dated: January 31, 2019

By: /s/ Richard Bruder
Richard Bruder
Chairman
Business Conduct Committee

BEFORE THE BUSINESS CONDUCT COMMITTEE
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CBOE EXCHANGE, INC.

In the Matter of:)
)
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Citigroup Derivatives Markets Inc.)

130 Cheshire Lane)

Suite 102)

Minnetonka, MN 55305)

Subject)
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STAR No. 20160517457

Letter of Consent

In order to resolve these proceedings pursuant to Cboe Exchange, Inc. (the "Exchange" or "Cboe") Rule 17.3 - Expedited Proceedings, the Subject, Citigroup Derivatives Markets Inc. ("CDMI" or the "Firm"), hereby submits this Letter of Consent in the above captioned matter. Only for purposes of this proceeding, and without admitting or denying that a violation of Cboe Rules or the Securities Exchange Act of 1934, as amended ("Exchange Act") has been committed, CDMI consents to the Stipulation of Facts and Findings and Sanction set forth below.

Stipulation of Facts and Findings

1. During all relevant periods, CDMI was registered to conduct business on the Exchange as a Market-Maker and a proprietary trading firm.
2. During all relevant periods, CDMI was acting as a registered Broker-Dealer.
3. During all relevant periods, Exchange Rules 4.2 - Adherence to Law and 4.24 - Supervision,¹ and Regulation SHO Rule 204 - Close-out Requirement, promulgated under the Exchange Act, were in full force and effect.
4. Regulation SHO Rule 204(a) provides, in relevant part: "If a participant of a registered clearing agency has a fail to deliver position at a registered clearing agency in any equity security that is attributable to *bona fide* market making activities by a registered market maker, options market maker, or other market maker obligated to quote in the over-the-counter market, the participant shall, by no later than the beginning of regular trading hours on the third consecutive settlement day following the settlement date, immediately close

¹ Exchange Rule 4.24 became effective in March 2014. Prior to the implementation of Rule 4.24, failure to implement reasonable supervisory procedures was addressed under Exchange Rule 4.2.

out the fail to deliver position by purchasing or borrowing securities of like kind and quantity.”²

5. Regulation SHO Rule 204(b) provides, in relevant part: “If a participant of a registered clearing agency has a fail to deliver position in any equity security at a registered clearing agency and does not close out such fail to deliver position in accordance with the requirements of paragraph (a) of this section, the participant and any broker or dealer from which it receives trades for clearance and settlement, including any market maker that would otherwise be entitled to rely on the exception provided in §242.203(b)(2)(iii), may not accept a short sale order in the equity security from another person, or effect a short sale in the equity security for its own account, to the extent that the broker or dealer submits its short sales to that participant for clearance and settlement, without first borrowing the security, or entering into a bona fide arrangement to borrow the security, until the participant closes out the fail to deliver position by purchasing securities of like kind and quantity and that purchase has cleared and settled at a registered clearing agency...”
6. During all relevant time periods herein, in accordance with Regulation SHO Rule 204, a participant of a registered clearing agency reasonably allocated portions of fail to deliver (“FTD”) positions to CDMI, placing the responsibility for closing out those allocated positions on CDMI.
7. From on or about September 9, 2013 through on or about June 16, 2016, CDMI failed to close out approximately 48 FTD positions in 19 securities, and 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.
8. From on or about September 9, 2013 through on or about June 16, 2016, CDMI failed to establish, maintain, and enforce written supervisory procedures (“WSPs”) reasonably designed to prevent and detect violations of Regulation SHO Rule 204.
9. From on or about September 9, 2013 through on or about June 16, 2016, CDMI failed to supervise to ensure compliance with Regulation SHO Rule 204.
10. The acts, practices, and conduct described in Paragraph 7 above, constitute violations of Exchange Rule 4.2 and Regulation SHO Rule 204, in that CDMI failed to close-out approximately 48 FTD positions in 19 securities, and 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.
11. The acts, practices, and conduct described in Paragraph 8 above, constitute a violation of Exchange Rules 4.2 and 4.24, in that the Firm failed to establish, maintain, and enforce WSPs reasonably designed to prevent and detect violations of Regulation SHO Rule 204.

² 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”).

12. The acts, practices, and conduct described in Paragraph 9 above, constitute a violation of Exchange Rule 4.2, in that the Firm failed to supervise to ensure compliance with Regulation SHO Rule 204.

Sanction: A \$85,000 fine and a censure, of which \$42,500 shall be paid to Cboe.³

Subject acknowledges that it has read the foregoing Letter of Consent, that no promise or inducement of any kind has been made to it by the Exchange or its staff, and that this Letter of Consent is voluntary on its part.

Subject understands and acknowledges that the Committee's decision in this matter will become part of its disciplinary record and may be considered in any future Exchange proceeding.

Subject understands and acknowledges that the acceptance of this Letter of Consent is conditioned upon acceptance of a parallel settlement between the Subject and the self-regulatory organization referenced in Footnote 2.

Subject also acknowledges that the Committee's decision to accept or reject this Letter of Consent is final, and that it may not seek review thereof in accordance with Exchange Rule 17.3.

11/27/18

Date

Citigroup Derivatives Market Inc.

Print Name
Managing Director

Title

³ The balance of the fine amount will be paid to Nasdaq ISE, LLC.