

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2013036434501**

TO: Department of Enforcement
Financial Industry Regulatory Authority ("FINRA")

RE: Citi International Financial Services, LLC, Respondent
CRD No. 17053

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondent Citi International Financial Services, LLC ("CIFS"), 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, FINRA will not bring any future actions against CIFS alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. CIFS 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 FINRA, or to which FINRA 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 FINRA:

BACKGROUND

CIFS is headquartered in Puerto Rico, has been a FINRA member since 1987, and is an indirect subsidiary of Citigroup, Inc. The firm's brokerage operations serve non-U.S. customers residing primarily in Latin America, all of which are required to establish and maintain bank accounts with a banking affiliate of CIFS. During the period relevant to this AWC, CIFS had more than 250 registered representatives servicing customer accounts with assets exceeding \$7 billion, and the firm processed more than \$50 billion worth of customer securities trades. CIFS has no relevant disciplinary history.

OVERVIEW

From at least as early as January 2011 through July 2013 (the "relevant period"), CIFS's anti-money laundering (AML) program was not reasonably designed to achieve and monitor compliance with the requirements of the Bank Secrecy Act

(and the implementing regulations thereunder), including policies and procedures reasonably designed to achieve compliance with those requirements. Among other things, despite having conducted substantially all of its business in a geographic region generally considered to present elevated AML risk, and despite having handled a number of customer securities transactions of a kind often associated with elevated AML risk, CIFS relied primarily on manual supervisory review of securities transactions that was not sufficiently focused on AML risks and was otherwise insufficient to satisfy the firm's AML compliance obligations. In addition, CIFS did not conduct adequate annual independent testing for AML compliance by its own personnel or by a qualified outside party.

By virtue of the foregoing, CIFS violated FINRA Rule 3310(a) and (c) and FINRA Rule 2010.

FACTS AND VIOLATIVE CONDUCT

1. Inadequate AML Policies, Procedures, and Internal Controls

FINRA Rule 3310 requires each FINRA member to "develop and implement a written anti-money laundering program reasonably designed to achieve and monitor the member's compliance with the requirements of the Bank Secrecy Act...and the implementing regulations promulgated thereunder by the Department of the Treasury." Subsection (a) of Rule 3310 specifically requires firms, at a minimum, to establish and implement policies and procedures that can be reasonably expected to detect and cause the reporting of transactions required under 31 U.S.C. §5318(g) and the implementing regulations thereunder. A violation of FINRA Rule 3310 also constitutes a violation of FINRA Rule 2010.

Broker-dealers are also required to report suspicious activity pursuant to 32 C.F.R. §1023.320. The U.S. Treasury Department has advised broker-dealers to determine whether activity raises suspicions by monitoring for various "red flags," and Notices to Members 02-21 and 02-47 emphasize a member's duty to (a) tailor its AML program to the particular risks of its business model and customer base; (b) monitor for red flags of suspicious activity; and (c) where suspicious activity is detected, perform additional due diligence before proceeding with the transaction.

As described above, CIFS primarily services brokerage customers in Latin America, a geographic region generally considered to present heightened AML risk. Moreover, although most of the customer securities transactions processed by the firm involve trading in mutual funds and other securities presenting relatively low AML risk, the firm has also processed a number of securities transactions that, as explained below, effectively facilitated conversions of foreign currency from or into U.S. dollars, which can present heightened AML risk.

For example, CIFS customers – some of whom were either senior public figures or persons associated with such figures – would at times buy shares of foreign stock on a local exchange using local currency, convert those shares into American Depositary Receipts (“ADRs”), deposit the ADRs into their CIFS brokerage account, and then immediately sell the ADRs for U.S. dollars and transfer the proceeds to their bank account. In other cases, soon after customers bought ADRs in their CIFS account with U.S. dollars, they transferred the ADRs out of the account for conversion into the underlying foreign shares tradeable for local currency on a local exchange. Finally, some customers deposited or transferred into their CIFS brokerage account large volumes of non-U.S. debt securities they had purchased with local currency, soon thereafter liquidated those securities on U.S. markets in exchange for U.S. dollars, and then transferred the proceeds to their bank account. During the relevant period, the firm processed more than a thousand transactions of these various types involving non-U.S. securities (many of which effectuated currency conversions) with an aggregate value of approximately \$380 million.

Given the volume and nature of transactions processed by CIFS, as well as the particular risks associated with its business model, CIFS lacked an adequate system to monitor transactions for purposes of detecting potentially suspicious activity and evaluating whether transactions should be elevated for closer AML scrutiny and potential reporting. Furthermore, the firm did not appropriately tailor its AML program to fit the particular nature of its business. Until at least July 2013, CIFS relied primarily on manual supervisory review of customer securities transactions to identify a range of operational or compliance concerns, but that review was not specifically focused on AML risk and the relevant supervisory personnel were not in all cases adequately educated about their responsibilities in the AML context.

In 2011 the firm developed and implemented new AML-specific written supervisory procedures. Those procedures contemplated enhanced AML scrutiny for accounts and transactions characterized by certain commonly-accepted risk factors, such as an account’s connection to senior public or political figures or activity in high-risk geographic locations. In practice, however, such heightened scrutiny was not consistently applied nor transactions elevated for further review.

CIFS also did not make effective use of automated surveillance to identify potentially suspicious transactions occurring in its customer brokerage accounts. The firm delegated to one of its banking affiliates the responsibility for monitoring – through automated surveillance and otherwise – transfers of money between CIFS customer brokerage accounts and related customer bank accounts held at CIFS banking affiliates. But securities transactions and other activity that occurred entirely within the customer’s CIFS brokerage account were not adequately monitored pursuant to this delegation. And in some cases automated alerts related to securities transactions in customer brokerage accounts were closed based on the erroneous assumption that CIFS was conducting systematic

AML monitoring of the securities transactions and addressing potential AML concerns as appropriate.

2. Inadequate Annual AML Testing

FINRA Rule 3310(c) specifically requires member firms that conduct business with the public to provide for independent testing of their AML programs on an annual basis. During the relevant period CIFS did not conduct adequate annual independent testing of its AML program. Although certain aspects of the firm's AML compliance program were tested, the testing did not adequately focus on the firm's ineffective monitoring of transactions that occurred entirely within customer brokerage accounts at CIFS and, as a result, did not effectively identify the above-described shortcomings in the firm's AML compliance program.

3. Rule Violations

By virtue of the foregoing, CIFS violated FINRA Rule 3310(a) and (c) and FINRA Rule 2010.

B. CIFS also consents to the imposition of the following sanctions:

- (1) A censure; and
- (2) A \$5,750,000 fine.

CIFS further agrees to submit to FINRA's Department of Enforcement, within 180 days of issuance of this AWC, a written certification signed by an officer of CIFS confirming that the firm has developed and implemented written policies, procedures, and internal controls reasonably designed to address the shortcomings identified in this AWC. Department of Enforcement staff may extend this deadline for good cause upon written request from the firm.

The sanctions imposed herein shall be effective on a date set by FINRA staff. CIFS agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable.

CIFS has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed. CIFS specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanction imposed in this matter.

II.

WAIVER OF PROCEDURAL RIGHTS

CIFS specifically and voluntarily waives the following rights granted under FINRA's Code of

Procedure:

- A. To have a Complaint issued specifying the allegations against me;
- B. To be notified of the 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 National Adjudicatory Council ("NAC") and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, CIFS specifically and voluntarily waives any right to claim bias or prejudgment of the Chief Legal Officer, the NAC, or any member of the NAC, 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.

CIFS further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of FINRA Rule 9143 or the separation of functions prohibitions of FINRA 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

CIFS 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 the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against CIFS; and
- C. If accepted:
 - 1. this AWC will become part of CIFS's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other

regulator against CIFS;

2. this AWC will be made available through FINRA's public disclosure program in accordance with FINRA Rule 8313;
3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
4. CIFS 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. CIFS may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects CIFS's: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

- D. CIFS may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. CIFS 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 FINRA, nor does it reflect the views of FINRA or its staff.

The undersigned, on behalf of CIFS, 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 the Firm agrees to its 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.

12/13/2016
Date (mm/dd/yyyy)

Respondent
Citi International Financial Services, LLC

By:

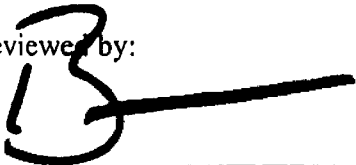
Name:

Reynaldo Polanco

Title:

President, CEO, COO

Reviewed by:



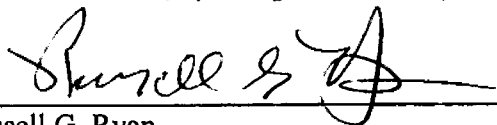
Bryan Wells, Esq.
Shutts & Bowen, LLP
200 South Biscayne Boulevard
Suite 4100
Miami, FL 33131

Accepted by FINRA:

12/20/2016

Date

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



Russell G. Ryan
Senior Vice President
FINRA Department of Enforcement
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Rockville, MD 20850