UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

DIVISION OF
CORPORATION FINANCE

January 26, 2017

Elizabeth A. Marino
Sidley Austin LLP
60 State Street, 36th Floor
Boston, MA 02109

Re: In the Matter of Citigroup Global Markets Inc.
Waiver of Disqualification under Rule 506(d)(2)(ii) of Regulation D
Exchange Act Release No. 79882, January 26, 2017
Investment Advisers Act Release No. 4626, January 26, 2017
Administrative Proceeding File No. 3-17817

Dear Ms. Marino:

This letter responds to your letter dated January 19, 2017 ("Waiver Letter"), written on behalf of Citigroup Global Markets Inc. ("CGMI"), and constituting an application for waiver of disqualification under Rule 506(d)(2)(ii) of Regulation D under the Securities Act of 1933. In the Waiver Letter, you requested relief from any disqualification that will arise as to CGMI under Rule 506 of Regulation D under the Securities Act by virtue of the Commission's order entered January 26, 2017 in the Matter of Citigroup Global Markets Inc., pursuant to Section 15(b) of the Securities Exchange Act of 1934 ("Exchange Act") and Sections 203(e) and 203(k) of the Investment Advisers Act of 1940 ("Advisers Act"), Release No. 79882 (the "Order").

Based on the facts and representations in the Waiver Letter and assuming CGMI complies with the Order, the Division of Corporation Finance, acting for the Commission pursuant to delegated authority, has determined that CGMI has made a showing of good cause under Rule 506(d)(2)(ii) of Regulation D that it is not necessary under the circumstances to deny reliance on Rule 506 of Regulation D by reason of the entry of the Order. Accordingly, the relief requested in the Waiver Letter regarding any disqualification that may arise as to CGMI under Rule 506 of Regulation D by reason of the entry of the Order is granted on the condition that it fully complies with the terms of the Order. Any different facts from those represented or failure to comply with the terms of the Order would require us to revisit our determination that good cause has been shown and could constitute grounds to revoke or further condition the waiver. The Commission reserves the right, in its sole discretion, to revoke or further condition the waiver under those circumstances.

Very truly yours,

Elizabeth Murphy
Associate Director
Division of Corporation Finance

SIDLEY AUSTIN LLP
SIDLEY

SIDLEY AUSTIN LLP
60 STATE STREET
36TH FLOOR
BOSTON, MA 02109
+1 617 223 0300
+1 617 223 0301 FAX

emarino@sidley.com
(617) 223 0362

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January 19, 2017

By E-mail and Overnight Courier

Sebastian Gomez Abero, Esq.
Chief, Office of Small Business Policy
Division of Corporation Finance
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549

Re: In the Matter of Citigroup Global Markets Inc.

Dear Mr. Gomez Abero:

We are writing on behalf of our client Citigroup Global Markets Inc. ("CGMI") in connection with the anticipated settlement of the above-captioned administrative proceeding ("Proceeding") with the U.S. Securities and Exchange Commission ("SEC" or "Commission"). The settlement would result in an Order Instituting Proceedings Pursuant to Section 15(b) of the Securities Exchange Act of 1934 ("Exchange Act"), and Sections 203(e) and 203(k) of the Investment Advisers Act of 1940 ("Advisers Act") against CGMI.

On behalf of CGMI, we hereby respectfully request a waiver of any disqualification that will arise pursuant to Rule 506 of Regulation D under the Securities Act of 1933, as amended (the "Securities Act") with respect to CGMI or any of its affiliates as a result of the Commission order arising from the Proceeding (the "Order").

BACKGROUND

CGMI and the staff of the Division of Enforcement have agreed to a settlement that includes an offer of settlement in which, solely for the purpose of proceedings brought by or on behalf of the Commission or to which the Commission is a party, CGMI has consented to the entry of an Order.

CGMI is a registered broker-dealer and investment adviser with the Commission. CGMI is a wholly-owned indirect subsidiary of Citigroup, Inc. ("Citigroup"). Until 2009, CGMI had advisory accounts both inside and outside Smith Barney, a former business unit of CGMI. In 2009, hundreds of thousands of CGMI's advisory accounts within Smith Barney were transferred to Morgan Stanley Smith Barney ("MSSB") as part of a combination of the advisory businesses of

the Global Wealth Management Group, a business segment of Morgan Stanley & Co. ("Morgan Stanley"), and the Smith Barney division of CGMI.

The Order will find violations of the Investment Advisers Act of 1940 ("Advisers Act") by CGMI in connection with CGMI's advisory accounts. The Order will find that CGMI overcharged or caused to be overcharged certain advisory client accounts and violated the books and records provisions of the Advisers Act with respect to maintenance of client contracts. The advisory fee overcharges primarily occurred in connection with the TRAK Fund Solutions Program ("TRAK"), which was a wrap fee investment advisory program offered and sold to advisory clients from 1991 through 2011 by CGMI and its predecessor, Salomon Smith Barney. A much smaller number of advisory fee overcharges occurred in frozen advisory accounts and certain advisory accounts that were not migrated to the MSSB joint venture. The Order will find that CGMI did not have adequate policies and procedures in place to prevent the violations of the Advisers Act or failed to implement the policies and procedures that were in place.

Under the terms of the Order, the Commission will require CGMI to:

(i) cease and desist from committing or causing any violations or any future violations of Sections 204(a), 206(2) and 206(4) of the Advisers Act and Rules 204-2(a)(10), 204-2(e)(1) and 206(4)-7 promulgated thereunder;

(ii) be censured;

(iii) pay disgorgement and pre-judgment interest in the amount of $4,000,000 and pay a civil money penalty in the amount of $14,300,000; and

(iv) comply with certain undertakings related to fee billing, books and records and notice to advisory clients.

DISCUSSION

CGMI understands that the entry of the Order will disqualify it, affiliated entities, and certain other issuers from relying on Rule 506 of Regulation D under the Securities Act. CGMI is concerned that if it or its affiliates are deemed to be an issuer, predecessor of an issuer, affiliated issuer, general partner or managing member of an issuer, or promoter of securities, or if it is deemed to be acting in any other capacity described in Rule 506 for purposes of Rule 506(d)(1), then CGMI, its affiliates, and third parties that engage CGMI and its affiliates to act in (or otherwise involve CGMI in) one of the listed capacities in connection with their securities offerings would be prohibited from relying on Rule 506, absent a waiver.

The Commission, or the Division of Corporation Finance ("Division"), acting pursuant to its delegated authority, has the authority to waive this disqualification upon a showing of good cause that such disqualification is not necessary under the circumstances.[1] CGMI requests that the Commission waive any disqualifying effects that the Order will have under Rule 506 as a result of its entry as to CGMI, on the following grounds:

1. *Nature of the Violations in the Order and Whether They Involve the Offer or Sale of Securities*

The conduct described in the Order arises solely out of the duties of a registered investment adviser, not the offer or sale of securities. As discussed herein, the conduct described in the Order arises out of errors by CGMI in advisory client fee billing and the maintenance of certain client contracts, which violate provisions of the Advisers Act. The Order will find that CGMI overcharged or caused to be overcharged certain advisory clients primarily due to flaws in the procedures by which negotiated advisory fee rates were entered into CGMI's computer systems or by which CGMI determined in which circumstances rebates were warranted. The advisory fee overcharges primarily occurred in the TRAK program. The Order finds that CGMI (either individually or through its participation in MSSB) charged approximately 43,000 TRAK advisory clients in excess of what had been negotiated by its clients. A much smaller number of advisory fee overcharges occurred in frozen advisory accounts and certain advisory accounts that were not migrated to the MSSB joint venture. The Order finds that over 15,000 advisory fee overcharges occurred in frozen advisory accounts and under 950 advisory fee overcharges occurred in accounts that were not migrated to the MSSB joint venture.

The Order will also find that CGMI violated the books and records provisions of the Advisers Act with respect to the maintenance of client contracts by losing or being unable to locate certain advisory contracts. The Order will find that CGMI either did not have adequate policies and procedures in place to prevent the violations of the Advisers Act or failed to implement the policies and procedures that were in place.

2. *The Order is Not Criminal in Nature and Does Not Involve Scienter-Based Fraud*

In its policy statement on *Waivers of Disqualification under Regulation A and Rules 505 and 506 of Regulation D* (the "Rule 506 Policy Statement"),[2] the Division states that it will

[1] *See* Rule 506(d)(2)(ii).

[2] *See* Division of Corporation Finance, *Waivers of Disqualification under Regulation A and Rules 505 and 506 of Regulation D*, available at: https://www.sec.gov/divisions/corpfin/guidance/disqualification-waivers.shtml.

consider "whether the conduct involved a criminal conviction or scienter based violation, as opposed to a civil or administrative non-scienter based violation. Where there is a criminal conviction or a scienter based violation involving the offer and sale of securities, the burden on the party seeking the waiver to show good cause that a waiver is justified would be significantly greater." The Order does not involve a criminal conviction and does not state that CGMI acted with scienter or intent to defraud.

3. Who was Responsible for the Misconduct in the Order

The Commission has not charged any individuals associated with CGMI with violations in connection with the conduct underlying the Order, and we understand that no such charges are forthcoming.

4. Duration of the Misconduct

As discussed above, the advisory fee overcharges primarily occurred in the TRAK program and most of the impacted accounts were opened by Smith Barney, a former operating division of CGMI. In 2009, Citigroup entered into a joint venture with Morgan Stanley to form a new entity – MSSB.[3] As part of the joint venture, hundreds of thousands of CGMI's advisory accounts within Smith Barney, including the majority of the advisory accounts in the TRAK program, were transferred to MSSB as part of the joint venture.

The Order will find that the errors by CGMI in advisory client fee billing occurred from at least 2000 until 2015. To the extent that the overcharges have been identified, they have been reimbursed with interest. Furthermore, CGMI stopped offering the TRAK program in 2011.

The Order will also find that CGMI was unable to locate certain advisory contracts for advisory accounts opened between 1990 and 2012. The majority of the advisory accounts not contributed to the MSSB joint venture were closed between 1994 and 2014. All but approximately 600 missing contracts related to the TRAK program. The lack of readily accessible TRAK documentation is almost entirely attributable to procedures that existed prior to September 2007 and are no longer used.

[3] In 2009, MSSB was owned 51% by Morgan Stanley and 49% by Citigroup. In 2012, Morgan Stanley increased its ownership stake in MSSB by 14% and on June 28, 2013, Morgan Stanley purchased Citigroup's remaining interest in the joint venture. MSSB is now 100% owned by Morgan Stanley.

5. CGMI Has Taken and Will Take Remedial Steps

CGMI has taken substantial remedial steps to address the conduct at issue in the Order and prevent recurrence of the conduct described in the Order. CGMI's remedial steps include the following:

- In May 2013, CGMI retained a consultant to review the scope of the advisory fee billing issue and test for other advisory fee billing discrepancies. In late 2013, CGMI expanded the scope of its review. In total, CGMI voluntarily undertook a review of over 400,000 managed accounts and any identified potential overcharges were remediated in full, including interest.

- CGMI self-reported the fee billing issue to the SEC staff.

- CGMI implemented numerous enhancements to its account opening procedures, including the following:

  - Since June 2013, supervisors of Citi Personal Wealth Management ("CPWM") financial advisors undergo regular retraining regarding advisory fee schedules.

  - More broadly, beginning in August 2013, a centralized, specially trained support team has been in place to assist CPWM financial advisors with converting brokerage accounts into managed accounts. The support team follows a checklist to ensure the accuracy of the opening process, including a confirmation that the fee schedule on the paperwork matches the fee schedule on the service order and in the system.

  - Beginning in December 2013, it became mandatory to use the centralized support team to convert an account.

  - Similarly, Citi Private Bank ("CPB") uses control individuals or fiduciary oversight officers to supervise the onboarding process of a new managed account. In April 2014, these individuals were trained on an enhanced process to verify the accuracy of the onboarding process using an enhanced, uniform checklist. This checklist also requires that the fees on the paperwork match the fees on the client agreement.

In connection with the Order, CGMI has also agreed to the following undertakings related to fee billing:

- For a period of three (3) years from the date of the Order (the "Undertaking Period"), CGMI has agreed to:
  - Research and remediate the full scope and impact of all advisory fee overbilling errors discovered in the United States-based advisory business conducted through or by CGMI within six (6) months from the date of discovery; if CGMI is unable to remediate the error within six (6) months, CGMI shall make a report to the staff pursuant to the Order, and shall remediate those issues as promptly as possible;
  - Provide a quarterly written report to the staff concerning advisory fee overbilling errors that have been discovered in the United States-based advisory business conducted through or by CGMI and reported pursuant to the Order that affect more than one unrelated advisory account, which report shall include or describe: (i) the nature and cause of the fee overbilling; (ii) the amounts overbilled; (iii) the number of accounts overbilled; (iv) how the error was discovered; (v) the date of discovery; (vi) the status and/or date of remediation; and (viii) the amount of the remediation with interest;
- To the extent not already implemented, CGMI has agreed within three (3) months of the Order to adopt and implement enhancements to periodic fee testing reasonably designed to prevent violation by CGMI and Access Persons and other persons subject to the CGMI Code of Ethics; and
- At the end of the Undertaking Period, CGMI has agreed to provide a certification to the staff that all advisory fee billing errors discovered during the Undertaking Period in the United States-based advisory business conducted through or by CGMI that affect more than one unrelated advisory account have been fully investigated and remediated.

In connection with the Order, CGMI has also agreed to the following undertakings related to books and records:

- Within six (6) months of the Order, CGMI has agreed to review any open advisory accounts not already reviewed by CGMI or a consultant on behalf of CGMI in order to determine whether CGMI has a copy of a signed advisory agreement for those accounts;

- To the extent not already implemented, CGMI has agreed within 12 months of the Order, for open advisory accounts for the United States-based advisory business conducted through or by CGMI which CGMI cannot locate a signed advisory agreement, to: (i) disclose such fact to the client in writing; and (ii) if the client has not retained a copy of the signed advisory agreement, follow the process outlined in the Order;

- To the extent not already implemented, to enter into a new advisory agreement with a client, CGMI has agreed: (i) to use all reasonable means (which shall include, without limitation, telephone calls) to contact the client and have the client enter into a new advisory agreement; and (ii) for any client who has not entered into a new advisory agreement after CGMI has complied with the provisions of the Order, to send final notice to that client of the need for the client to enter into a new advisory agreement, terminate management of the account, or be subject to the terms of the current standard advisory agreement, and after 30 additional days notify the client that the account is now subject to the terms of the current standard advisory agreement or that the management of the account has been terminated. For all clients who enter into a new advisory agreement consistent with the Order, the entry into a new advisory agreement will have no impact on the advisory fee rate charged to the account, unless it is to lower the advisory fee rate;

- To the extent prior to the date of the Order, CGMI has entered into a new advisory agreement with a client as a result of the review undertaken by CGMI or a consultant, CGMI has agreed within 12 months of the Order to: (i) determine whether it had unilaterally amended any client advisory agreement that provided for amendment through mutual assent; (ii) provide the results of such study to the staff; and (iii) in the event CGMI determines that it has unilaterally amended any client advisory agreement that provided for amendment through mutual assent, notify clients who have been impacted; and

- CGMI has agreed within 14 months of the Order to report to the staff all remedial efforts it has made with respect to the matters set forth in the Order.

In connection with the Order, CGMI has also agreed to the following undertakings related to notices to advisory clients:

- Within ten (10) days of the Order, CGMI has agreed to prominently disclose on its website a summary of the Order, provide a hyperlink to the Order, and maintain such posts for 12 months; and

- For a period of one (1) year from the date of the Order, to the extent that CGMI is required to deliver a brochure or a summary of material changes to existing or prospective clients pursuant to Rule 204-3 under the Advisers Act, CGMI has agreed to include in the brochure or summary of material changes, notice of the entry of the Order and a website address where the Order can be viewed, and provide the client or prospective client the opportunity to request a copy of the Order, which CGMI will provide upon such request.

If this requested waiver is granted, until CGMI provides to the Commission the certifications described above and as detailed in the Order, CGMI agrees to furnish written disclosure to investors describing the nature of the Order in any offering relying on an exemption under Rule 506 of Regulation D.

6. Impact on CGMI and its Clients if the Waiver Is Denied

By impairing CGMI's ability to participate in the issuance of securities pursuant to Rule 506 of Regulation D, the disqualification of CGMI and any related entities would have an adverse impact on third parties that have retained or may retain CGMI and its affiliates in connection with transactions that rely on the exemptions available under Rule 506 of Regulation D.

Over the past three years, CGMI has acted as placement agent and/or solicitor for at least 36 hedge fund pooled investment vehicles constituting Funds sponsored by third parties, Funds sponsored by CGMI affiliates (including Citi Private Advisory LLC), and certain non-discretionary custom accounts that use the offering exemptions under Rule 506 for numerous transactions. Such Funds have current assets under management of approximately $900 million and raised approximately $148.8 million in assets in 2016.

CGMI also acted as placement agent for 12 private equity and real estate funds that completed fund raising in 2016 and nine private equity and real estate funds scheduled for fund raising completion in 2017. Together, these 21 funds have current actual and projected assets under management of approximately $5.07 billion.

Rule 506 provides CGMI, certain of its affiliates, and other third party issuers that use CGMI and its affiliates the benefit of a safe harbor for an exempt offering. Absent a waiver, these entities will not be able to participate in certain offerings and related transactions now and in the future, creating a disadvantage to the business opportunities of CGMI, certain of its affiliates, and the third party issuers that rely on CGMI in certain offerings.

Market practice favors (and in some cases requires) the use, or at least availability, of Rule 506 because it provides issuers and market participants with the benefit of a safe harbor and is much less restrictive than Section 4(a)(2) of the Securities Act. Whether an offering will rely on Rule 506 or Section 4(a)(2) of the Securities Act is a determination made by the issuer and is based on the individual characteristics of a offering. Even when feeder fund vehicles are advised by CGMI affiliates, the feeder fund vehicles typically invest in non-CGMI advised vehicles. The third party fund managers will often not accept subscriptions from the feeder funds advised by CGMI affiliates if they are not relying on Rule 506 and require the CGMI affiliate-advised feeder fund vehicles to make representations related to Rule 506 in their engagement letters.

Fees to CGMI from Fund sales, including placement agent fees, are approximately $38 million from 2014 through 2016 and CGMI expects to earn revenues of approximately $17.7 million from Fund sales, including placement agent fees, in 2017.

* * *

CGMI will pay $18.3 million in civil penalties, disgorgement and pre-judgment interest, as required by the Order. In light of the nature and of the violations in the Order, the enforcement remedies already obtained by the entry of the Order, the remedial measures CGMI has taken and will take, and the material impact of a Rule 506 disqualification on CGMI and its clients, we respectfully submit that CGMI's disqualification from relying on Rule 506 is not necessary. Under the circumstances, CGMI respectfully submits that it has shown good cause that relief should be granted.

Accordingly, we respectfully urge the Division, on behalf of the Commission, or the Commission, pursuant to Rule 506(d)(2)(ii), to waive the disqualification provisions in Rule 506 under the Securities Act to the extent they may be applicable to CGMI and its affiliates as a result of the entry of the Order.[4]

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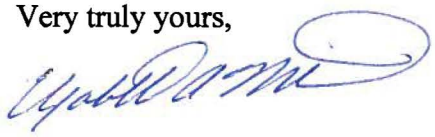
[4] The Commission has granted relief under Rule 506 of Regulation D for similar reasons or in similar circumstances: *See In the Matter of Pacific Investment Management Company LLC* (Dec. 1, 2016); *In the Matter of Moloney Securities Co., Inc., et al.* (Sept. 30, 2016); *In the Mater of Feltl & Company, Inc.* (June 21, 2016); *In the Matter of Royal Alliance Associates, Inc., et al.* (Mar. 14, 2016); *In the Matter of Barclays Capital Inc.*, Rel. No. 10011 (Jan. 31,

We appreciate your consideration of this request. Please do not hesitate to contact me at (617) 223-0362 with any questions.

Very truly yours,



Elizabeth A. Marino

cc: Joshua E. Levine Esq.

2016); *In the Matter of National Asset Management, Inc.* (Oct. 26, 2015); *In the Matter of Citigroup Global Markets, Inc.*, Rel. No. 9895 (Aug. 19, 2015); *Guggenheim Partners Investment Management, LLC* (Aug. 5, 2015); *Merrill Lynch, Pierce, Fenner & Smith and Merrill Lynch Professional Clearing Corp.* (June 1, 2015); *BlackRock Advisors, LLC* (Apr. 20, 2015); *H.D. Vest Investment Securities, Inc.* (Mar. 4. 2015); *Barclays Capital Inc.*, Rel. No. 33-9651 (Sept. 23, 2014); *Wells Fargo Advisers, LLC*, Rel. No. 33-9649 (Sept. 22, 2014); *Dominick & Dominick LLC*, Release No. 33-9619 (July 28, 2014); *Jefferies LLC*, (Mar. 12, 2014); *Credit Suisse Group AG* (Feb. 21, 2014); *Instinet, LLC* (Dec. 26, 2013). CGMI is not requesting waivers of the disqualifications from relying on Regulation A or Rule 505 of Regulation D at this time because it does not now use or participate in transactions under such offering exemptions. CGMI understands that it may request such waivers in a separate request if circumstances change.