



GEN. LAWS ch. 110A (the “Act”). The Act authorizes the Division to regulate: 1) the offers and/or sales of securities; 2) those individuals offering and/or selling securities within the Commonwealth; and 3) those individuals transacting business as broker-dealer agents and investment advisors within the Commonwealth.

2. The Division brings this action pursuant to the enforcement authority conferred upon it by Section 407A of the Act and MASS. GEN. LAWS ch. 30A, wherein the Division has the authority to conduct adjudicatory proceedings to enforce the provisions of the Act and all regulations and rules promulgated thereunder.

3. This proceeding is brought in accordance with Sections 204 and 407A of the Act and its Regulations.

## **II. RELEVANT TIME PERIOD**

4. Except as otherwise expressly stated, the conduct described herein occurred between December 1, 2011 and May 2, 2012.

## **III. RESPONDENT**

5. CGMI is a Financial Industry Regulatory Authority (“FINRA”) registered broker-dealer with its main address located at 390-388 Greenwich Street, New York, New York 10013-2396 and offices throughout the United States. CGMI’s Central Registration Depository (“CRD”) identification number is 7059. CGMI has been registered to conduct business as a broker-dealer in Massachusetts since July 31, 1981. CGMI is a wholly-owned subsidiary of Citigroup Inc. Citigroup Inc. is a publicly held company and is traded on the New York Stock Exchange (“NYSE”) under the ticker symbol “C.” Citigroup Investment Research (“CIR”) is a business unit of CGMI. CGMI research analysts are employed within CIR.

#### IV. RELATED PARTIES

##### A. Companies

6. Capital Magazine ("Capital") is a monthly French publication dealing with finance and politics and includes articles on other topics such as lifestyle, cars, careers, and retirement.

Capital offers advice on many aspects of personal finance, business finance, and includes articles on political figures and world economic news.

7. Google, Inc. ("Google") was founded in 1998 in California and provides innovative search technologies. Google conducted its initial public offering in 2004 and is traded on Nasdaq under the ticker symbol GOOG. In October 2006, Google acquired YouTube, a "consumer media company for people to watch and share original videos through a Web experience."

8. TechCrunch Inc. ("TechCrunch") is a Delaware corporation incorporated on June 3, 2002. TechCrunch was acquired by AOL Inc. on September 28, 2010. TechCrunch is an internet based, technology focused, media company that publishes analyses and information through several internet platforms. TechCrunch also hosts major technology conferences and events, including various meet-ups worldwide.<sup>2</sup> TechCrunch is widely known among technology startups<sup>3</sup> and is rated the fourth most powerful blog on Technorati and is at the top of TechMeme's Leaderboard as the No. 1 source of breaking tech news. CrunchBase, TechCrunch's open database about start-up companies, people and investors, has become the

<sup>1</sup><http://investor.google.com/financial/analyst.html> (last visited October 25, 2012). YouTube is operated as an independent brand of Google, but is included on Google's financial reports. Senior Analyst is listed on Google's investor relations page as providing research coverage on behalf of CG MI for Google.

<sup>2</sup>On September 11, 2012, TechCrunch hosted Mark Zuckerberg's first interview following the Facebook IPO.

<sup>3</sup>According to Wired positive 400 word write-up on TechCrunch usually means a sudden bump in traffic and a major uptick in credibility among potential investors." (Vogelstein, Fred. TechCrunch Blogger Michael Arrington Can Generate Buzz and Cash." Issue 15.07 June 22, 2007.)

leading statistical resource for technology companies and transactions. TechCrunch is located in San Francisco, California, has over 40 employees and can be found on the internet at [www.TechCrunch.com](http://www.TechCrunch.com). Among its 40 employees are TechCrunch Employees 1 and 2 referred to in more detail in Paragraphs 12 and 13 herein.

9. Facebook (“Facebook”) is a social networking service that is owned and operated by Facebook, Inc. Facebook incorporated in Delaware in July 2004. The principal executive offices of Facebook are located at 1601 Willow Road, Menlo Park, California 94025. The website address is [www.facebook.com](http://www.facebook.com). Facebook held its initial public offering (“IPO”) of securities on May 18, 2012 and its securities trade on the NASDAQ under the ticker symbol “FB.”

**B. Individuals**

10. Senior Research Analyst (“Senior Analyst”) covering the technology sector for CIR has been employed by CGMI since May 9, 2005. During the Relevant Time Period, Senior Analyst held the title of Managing Director, Internet Research, Citi Investment Research within CIR and worked from CGMI’s offices located at One Sansome Street, San Francisco, California 94104. Senior Analyst has passed the following securities examinations: Series 7, Series 63, Series 86, and Series 87. Senior Analyst has been a registered representative of CGMI in Massachusetts since September 2010. Senior Analyst<sup>4</sup> is the lead analyst who performed research on Facebook and covered Facebook following the Facebook IPO. Senior Analyst. also provides research coverage of other equity securities including Google, Inc. Among .others, Senior Analyst supervised Junior Analyst.

<sup>4</sup> For the past four years, Senior Analyst has held the No. ranking among Internet analysts according to Institutional Investor Magazine.

11. Junior Research Analyst (“Junior Analyst”) covering the technology sector for CIR was employed by CGMI from March 28, 2011 until September 27, 2012. During the Relevant Time Period, Junior Analyst worked at CGMI’s offices located at One Sansome Street, San Francisco, California 94104. Junior analyst passed the Series 7 examination on October 12, 2011, the Series 63 examination on October 10, 2011, the Series 86 examination on March 21, 2012 and the Series 87 examination on January 13, 2012. Junior Analyst was supervised by Senior Analyst and provided research support to Senior Analyst. Junior Analyst was a student at Stanford University and graduated in or about 2008. On October 16, 2012, a Form U5 was filed under Junior Analyst’s CRD record stating that his employment was terminated for “distributing written materials, by email, during a securities offering in violation of Firm policies which prohibit the dissemination of any written materials during the course of a securities offering and related quiet periods.”

12. TechCrunch Employee 1 is a writer and Facebook specialist for TechCrunch. TechCrunch Employee 1 previously was the Lead Writer of Inside Facebook, where he covered such subjects as product changes, privacy, advertising APIs, page management, e-commerce, virtual currency, and music technology. Prior to writing for Inside Facebook, TechCrunch Employee 1 graduated from Stanford University in 2007 with a Bachelor of Arts degree and in 2009 with a Master’s degree in Cybersociology.

13. TechCrunch Employee 2 is a writer for TechCrunch and has written numerous articles about Facebook. TechCrunch Employee 2 is an expert in mobile application distribution and monetization and has focused on the interplay of the social graph with smartphones. Before covering social networking at VentureBeat, TechCrunch Employee 2 covered bond markets in London during the financial collapse in 2008. TechCrunch Employee 2 previously worked for

Bloomberg, Inside Network and The Wall Street Journal. TechCrunch Employee 2 attended the University of California at Berkeley.

## V. RELEVANT DISCIPLINARY HISTORY

14. On October 17, 2003, CGMI, formerly known as Salomon Smith Barney, signed an Administrative Consent Order (Docket No. 2003-046) with the Division (“MSD Consent Order”). Section 7 of Addendum A of the MSD Consent Order states in part that:

[E]ach of the SEC, NYSE, the NASD, the New York Attorney General’s Office and any State that incorporates this Addendum into its settlement of related proceedings against Citigroup Global agrees that. . . subject to Court approval, the Sand the firm may agree to amend or modify any term of the settlement set forth in this Addendum, except for Section IV [Investor Education], in each case, without any further action or involvement by any other regulator in any related proceeding. With respect to any term in Section I or II of this Addendum that has not been superseded (as set forth above) within 5 years of the entry of the final judgment, it is the expectation of Citigroup Global, the SEC, NYSE, NASD, New York Attorney General’s Office and the States that the SEC would agree to an amendment or modification of such term, subject to Court approval, unless the SEC believes that the amendment or modification would not be in the public interest.

15. On October 31, 2003, CGMI settled civil and regulatory actions brought by the Division, the U.S. Securities and Exchange Commission (“SEC”), the New York Stock Exchange (“NYSE”), the NASD (now “FINRA”), the Attorney General of New York (“NYAG”) and other state regulators, which alleged violations of certain federal and state securities laws and regulations and certain NASD and NYSE rules by CGMI arising out of business practices concerning: (1) sell-side research during the period of 1999 through 2001, and (2) IPOs during the period of 1996 through 2000. The actions alleged, among other things, that CGMI published certain fraudulent research reports, permitted inappropriate influence by investment bankers over research analysts and failed to adequately supervise employees who engaged in those practices.

It was also alleged that CGMI engaged in improper “spinning” of shares to executives of investment banking clients and failed to maintain policies and procedures reasonably designed to prevent the potential misuse of material, nonpublic information in certain circumstances.

16. Solely for the purpose of settling each proceeding and without admitting or denying the facts or conclusions alleged in the regulators’ documents, CGMI consented to findings that CGMI violated certain federal and state securities laws and regulations and certain NASD and NYSE rules and agreed to the sanctions described below. CGMI consented to the imposition of censures by the NASD and NYSE, the issuance of cease and desist orders in state proceedings prohibiting it from violating certain state laws and regulations, the entry of a final judgment enjoining CGMI from violating certain provisions of the federal securities laws and certain self-regulatory rules and ordering it to make a total repayment of \$400 million.

17. The final judgment also ordered CGMI to comply with its undertakings and implement certain structural reforms relating to the operation of its research and investment banking departments. CGMI also agreed to participate in a voluntary initiative pursuant to which it would no longer make allocations of securities in “hot” IPOs to accounts of executive officers or directors of a U.S. public company or a public company for which a U.S. market is the principal equity trading market.

18. The final judgment also attached an “Addendum A,” which superseded and replaced Addendum A to the MSD Consent Order.

19. Addendum A was modified in a Judgment dated March 15, 2010.

## VI. STATEMENT OF FACTS

### A. Senior Analyst's Prior Misconduct and CGMI's Letter of Education

20. On April 11, 2012, Senior Analyst was issued a CGMI "Letter of Education" from his supervisor, Director of Research, Americas, regarding Senior Analyst's failure to adhere to the CIR "Public Appearance Policy."

21. CGMI's policy concerning "Public Appearances" provides that CIR employees "are required to obtain **pre-approval** for any Public Appearance and any material to be presented at a Public Appearance." (emphasis added). The same policy provides that "participation in a "Media Public Appearance" includes a "web-chat or blog." The policy further provides procedures that CIR employees must follow when communicating with the media, including "[d]o not offer 'off the record' comments, provide any insight of your view or recommendation or conduct a Pre-interview;" and "CIR-employees may not provide any CIR product directly to the Media."

22. CIR's policy regarding "Communication of Research" states that "[a]ny view expressed either in writing or orally, must be consistent with CIR published research" and that this means "[f]or example, if an analyst is asked for his short-term view on a company he/she cannot provide that unless it has been published in a report."

23. Senior Analyst's Letter of Education specifically provides that he:



(1) conducted an interview with Bloomberg on February 2, 2012<sup>5</sup> and “offered comments on a company” that he does “not cover and which [he] did not receive legal approval to discuss;” and

(2) conducted an interview with Business Day on March 1, 2012 and did not get approval from “Research Legal” prior to conducting the interview.

24. Senior Analyst signed acknowledgement of this Letter of Education on April 30, 2012.

1. Senior Analyst’s Prohibited Conduct

25. On April 30, 2012 at 3:15 PM, a reporter (the “French Reporter”) from Capital, a leading French business magazine, emailed Senior Analyst and copied CGMI employees, one from Citi ICG Communications and one from research—ICG-CIRA:

Hi [Senior Analyst]

I’m [sic] reporter for the french business magazine Capital, the leading one in France. I’m writing a long story about YouTube. [Redacted Name] sent me your last report on GOOG but I did’nt [sic] find in this report the specific figures that you released one year ago on YouTube, and quoted here (<http://tcn.ch/GR1IP4>). Did you made [sic] more recent estimates of revenue for YouTube. If yes, I would be of course very interested by [sic] quoting it...

26. On May 1, 2012 at 00:16, Central European Time (“CET”) Senior Analyst replied:

we havent [sic] updated.

27. On April 30, 2012 at 6:23 PM, the French Reporter replied to Senior Analyst and copied two other CGMI employees, one from Citi ICG Communications and one from research--ICG-CIRA:

<sup>5</sup> Senior Analyst spoke with Ken Prewitt on Bloomberg Radio on February 2, 2012 in a piece titled *Citigroup [Senior Analyst] Says Facebook IPO Not New*.

Ok.

In three words:

-Do you think that YouTube has been above your Total Net Revenue estimate 2011 (\$876m)

-Do you think that YouTube will be above your Total Net Revenue estimate 2012 (\$1119m)

-Do you think that they are largely profitable?

(hereinafter referred to as the “Three Questions Email”).

28. On April 30, 2012 at 3:24 PM, Senior Analyst replied to the French Reporter:

Yes

Yes

Yes

29. The information that Senior Analyst gave to the French Reporter had not been previously published. Senior Analyst had published a research report on Google, Inc. on March 21, 2012 and did not publish another research report until his interview with “All Things Digital” on June 21, 2012.

2. Senior Analyst’s Responses to CGMI

30. On April 30, 2012, in response to the Three Questions Email, the Citi-ICG Communications employee emailed Senior Analyst stating:

[Senior Analyst], if you intend to respond, **you will need approval.**

(Emphasis added).

31. Despite the fact that Senior Analyst had already responded to the French Reporter, on April 30, 2012 at 6:42 PM Senior Analyst replied:

**i wont responde** [sic]

(Emphasis added).

32. On April 30, 2012 at 4:05 PM, the Citi ICG Communications employee replied:

Ok.

33. On May 1, 2012 at 1:27 (CET), the Citi ICG Communications employee replied to the

Three Questions Email stating:

[Name Redacted], unfortunately [Senior Analyst] is unavailable to answer your questions.

34. On April 30, 2012 at 8:12 PM, the French Reporter replied to the Citi ICG

Communications employée:

**He did in fact [answer] by a triple yes.**

(Emphasis added).

35. On April 30, 2012 at 8:32 PM, the Citi ICG Communications employee sent an email to

Senior Analyst stating:

[Senior Analyst], per my earlier email, **please submit for approval since you did respond to the reporter.** Thanks.

(Emphasis added).

36. On April 30, 2012 at 8:39 PM, the ICG-CIRA employee emailed Senior Analyst:

[Senior Analyst]. . .I'm confused. **I thought I saw an email from you earlier saying you were NOT going to respond.** Did you? If so, which cos [sic] should I submit for **post-approval?**

(Emphasis added).

37. On April 30, 2012 at 8:31 PM, Senior Analyst replied to the ICG-CIRA Employee:

Submit for goog only. **Say its [sic] for an interv iew [sic] on [T]uesday**

(Emphasis added).

38. In response, on April 30, 2012 at 8:32 PM, the ICG-CIRA employee stated:

Sorry [Senior Analyst]. I just sent the post-interview email request :(

39. On April 30, 2012 at 8:34 PM, Senior Analyst replied:

Shoot

40. On April 30, 2012 at 8:34 PM, Senior Analyst further replied:

**This could get me into trouble.** Shoot.

(Emphasis added).

41. On April 30, 2012 at 8:40 PM, the ICG-CIRA employee wrote to Citi ICG Communications employee:

Would we be submitting for **post-approval** then?

(Emphasis added).

42. On April 30, 2012 at 8:29 PM, the ICG-CIRA employee sent an email to Senior Analyst and the Citi ICG Communications employee stating:

The interviewer, [Name Redacted] of Capital Magazine, requested a copy of our most recent Google note and had follow up questions for [Senior Analyst]. Due to time constraints, we were not able to obtain pre-approvals prior to [Senior Analyst]'s response to the follow up questions. [Senior Analyst] is requesting post-interview approval for GOOG. He was consistent with published reports.

43. On April 30, 2012 at 8:36 PM, the ICG-CIRA employee sent an email to Senior Analyst stating:

[Senior Analyst] – this was the email exchange with the [Citi ICG Communications employee] earlier. She was already aware that you had responded to the reporter because when she emailed the reporter to let him know you were unavailable, the reporter replied by saying you had already answered his questions.

44. During his 2012 Mid-Year review, Senior Analyst received a performance rating concerning, among other things, his “Adherence to Dept. Guidelines,” of between “consistently sets new standards and is truly exemplary” and “consistently strong and at times exemplary.”

45. In addition, among the approximately eleven pages of rules regarding “Public Appearances,” there is no policy or procedure set forth for “post-approval” of media appearances.

**B. Background on Research Analyst Misconduct in Connection With the Facebook IPO**

46. Facebook filed a Form S-1 Registration Statement with the SEC on February 1, 2012. The SEC deemed it effective May 17, 2012.

47. On or about March 5, 2012, Facebook mandated CGMI to serve as a member of the underwriting syndicate for the Facebook IPO. Citigroup's annual report states that the Firm provides “world-class financial products and solutions across a broad range of asset classes through its underwriting, sales and trading, distribution and research capabilities.”

48. At all relevant times, the applicable securities laws and related rules required members of the Facebook IPO underwriting syndicate to refrain from disseminating written research or other written content about Facebook until 40 days after the IPO.

49. On May 18, 2012, Facebook became a public company and its shares began trading on the NASDAQ under the ticker symbol FB.

50. That morning, TechCrunch broadcast Facebook’s CEO Mark Zuckerberg ringing the bell at the NASDAQ before Facebook shares began to trade.

51. On June 27, 2012, Senior Analyst initiated research coverage of Facebook.

**C. Facebook Non-Disclosure Agreement Signed by Senior Analyst**

52. In connection with the Facebook IPO, Facebook required Senior Analyst to sign a Non-Disclosure Agreement (“NDA”).

53. The NOA required Senior Analyst and CGMI to treat as strictly confidential financial information and business plans provided by Facebook to CGMI in connection with the proposed IPO and to take reasonable precautions to protect such information from unauthorized disclosure.

54. The NDA further required Senior Analyst and CGMI to agree that, without prior written consent of Facebook, no information concerning Facebook would be shared by CGMI with anyone other than specified Firm personnel who were working on, or who were required to be consulted in connection with the proposed IPO and persons within the Firm's legal, compliance, and risk management departments.

55. The NDA held CGMI responsible for any breach or failure to comply with the terms of the NDA by each of its personnel, agents and advisors.

56. The NDA authorized Senior Analyst and CGMI to disclose information covered by the

NDA solely:

- (a) for the purpose of preparing and publishing research reports on behalf of CGMI or
- (b) in connection with conveying his views regarding Facebook in oral discussions with CGMI's equity sales force, existing clients and potential clients of CGMI at any time after a preliminary prospectus with an initial offering price range for the IPO is filed with the SEC, in each case, without attributing to Facebook any of the information.

57. Following an analyst due diligence day at Facebook on April 16, 2012, Cipora Herman, Facebook Treasurer and Vice President, Investor Relations, advised Senior Analyst:

Out of an abundance of caution, I want to remind you one more time about your obligations under the NDA that you signed with Facebook. The information we shared today is to be used solely for purposes pertaining to our upcoming IPO. Any information pertaining to our Payments and Other Fees revenue (current or future) should not be used for the purpose of updating any interim research on Zynga or other partners. Please check with your

compliance department, [Redacted Name] at [law firm], or me if you have any other questions.

**D. Relevant Policies and Procedures**

58. At all relevant times, written policies and procedures of CGMI proscribed certain conduct by research analysts in connection with the capital formation process, in connection with media appearances, and concerning the dissemination of material, nonpublic information.

59. CGMI's policy concerning "Client Communications and Simultaneous Distribution," provides that communications concerning a specific company "must not be disseminated when a CIR employee is aware that [the Firm] is involved in a capital formation transaction for that company without first getting approval to do so from Legal." The same policy states that "Research Confidential Information must not be made available to non-CIR personnel or to selected investors," and defines "Research Confidential Information" to include the content of unpublished research.

60. CGMI's policy concerning "Research Independence" provides, "CIR employees are not permitted to communicate to a non-CIR employee (or non-employee) any portions of a Research report prior to the Research report being publically disseminated." The same policy defines "Draft Research" to include "everything produced by CIR, including . . . written product."

61. CGMI's policy concerning "Public Appearances" provides, "CIR employees are required to obtain pre-approval for any public appearance and any material to be presented at a 'Public Appearance.'" The policy defines "Public Appearance" to include any conversation involving the Media (including a blog) in which a CIR employee discusses a company. The same policy cautions CIR employees who receive inquiries from the Media, "Do not offer 'off the record' comments, provide any insight of your view or recommendation or conduct a pre-interview."

62. CGMI's policy concerning "Research Analyst[s] Role in Capital Formation, states, "[y]ou may not distribute any written (which includes e-mail, fax, electronic, and other means) material . . . during the course of any offering and the related quiet period."

63. CGMI's "Global Wall Crossing Policy and Procedures" provide that, with respect to an "over the wall" employee (*i.e.*, one in possession of confidential nonpublic information), he or she, "may not communicate [such information] to anyone who does not have a valid need to know," without obtaining clearance to do so from the Firm's legal and compliance professionals.

**E. Junior Analyst's Prohibited Conduct**

64. Throughout his tenure at CGMI, Junior Analyst received copies of and training on the CGMI policies referenced in Section D above.

65. At all relevant times, Junior Analyst compiled information, drafted documents, provided analysis and performed other support functions for Senior Analyst.

66. On April 17, 2012, Senior Analyst requested Junior Analyst to work on research projects in connection with the Facebook IPO.

67. On May 2, 2012, at 9:29 AM, Junior Analyst sent an email ("Initial Email") through the CGMI email system with extension @citi.com to TechCrunch Employee 1 and TechCrunch Employee 2 @TechCrunch.com stating:

I am ramping up coverage on FB and thought you guys might like to see how the street is thinking about it (and our estimates). Any feedback on the investment positives and risks would be super helpful. I want to make sure I'm thinking about this the right way

**This, of course is confidential[.]**

(Emphasis added).



68. Junior Analyst attached to this Initial Email a document entitled “**Facebook One Pager.doc**” (“FB Attachment”)(Emphasis added).

69. The FB Attachment contained confidential, nonpublic information of CGMI, including Senior Analyst’s analysis of the “Investment Risks” and “Investment Positives,” EBITDA, and Valuation Context of Facebook as a publicly traded company and Senior Analyst’s revenue estimates for the company following the IPO.

70. The FB Attachment was the proprietary work product of the Senior Analyst, which contained confidential, nonpublic information of Facebook, obtained by Senior Analyst in order to enable Senior Analyst to prepare to initiate coverage of Facebook following the IPO.

71. On May 2, 2012 at 10:02 AM, TechCrunch Employee 1 replied to Junior Analyst’s Initial Email: “There’s no way I can publish this doc [sic] from an anonymous source, right?”

72. On May 2, 2012 at 10:03 AM, Junior Analyst responded to TechCrunch Employee 1:  
**My boss would eat me alive.** (Emphasis added).

73. On May 2, 2012 at 11:38 AM, TechCrunch Employee 1 replied to Junior Analyst:  
**Just to be clear this is what Citigroup wrote about FB?**

Overall sounds smart. I think the Open Graph Ad Network (potential to use Facebook targeting ads displayed off-site to users who visit while logged in -- ie The Social Graph Follows You -- is a significant future money maker.

(Emphasis added).

74. On May 2, 2012 at 2:50 PM, Junior Analyst responded to TechCrunch Employee 1:  
That’s just an outline that I put together – **it will eventually become our initiation report at 30-40 pages**

I agree on open graph ad network—that’s why I [sic] think it can close that monetization gap with GOOG on ecpm and uv basis

Has open graph ad network been confirmed or is it speculative?

(Emphasis added).

75. Separately, on May 2, 2012 at 10:33 AM, TechCrunch Employee 2 responded to Junior

Analyst's Initial Email:

To provide a sense of Facebook's scale, for the March Quarter, Facebook reported 901MM worldwide Monthly Active Users, **representing roughly 1/3 of the world's population**

You mean Internet population?

FB's eCMPs are more closely comparable to YHOO than GOOG because it's mostly display, not search.....

(Emphasis in original).

76. On May 2, 2012 at 10:50 AM, Junior Analyst responded to TechCrunch Employee 2's e-mail stating:

Yes internet population thanks

Agree on ecpm disparity but i [sic] think the comp is relevant because i [sic] see FB long term as an ad network providing relevant display ads as you take your FB credentials from site to site.

77. Upon information and belief:

(a) Junior Analyst, TechCrunch Employee 1 and TechCrunch Employee 2 know each other and are friends. They keep in touch using social media and all live in the Bay Area; and

(b) Junior Analyst and TechCrunch Employee 1 attended Stanford University together.

**F. The Division's Investigation**

78. The Initial Email and subsequent responses were produced to the Division on September 14, 2012, pursuant to a subpoena concerning a separate matter in connection with the Facebook IPO.

79. In addition, emails regarding Senior Analyst's conduct referred to in Section A above were produced pursuant to a subpoena dated August 7, 2012 in connection with a separate matter and identified in an email from CGMI outside counsel on October 24, 2012.

80. CGMI failed to report Junior Analyst's prohibited conduct and CGMI's failure to discover the conduct through the maintenance and enforcement of its supervisory policies and procedures.

81. CGMI failed to discover the Initial Email and subsequent responses prior to producing those materials to the Division on September 14, 2012.

82. As a result of the September 14, 2012 production, the Division sent CGMI a second subpoena, dated September 20, 2012, seeking information specifically related to Junior Analyst and TechCrunch and research analyst activities in connection with the Facebook IPO.

83. CGMI informed the Division that on September 25, 2012, Junior Analyst admitted to CGMI and its external counsel that he did not discuss or seek approval from anyone within CGMI before sending the May 2, 2012 e-mails discussed herein. Nor, after sending the e-mails, did he disclose to anyone at CGMI that he had done so, or that he had provided any information concerning Facebook to TechCrunch.

84. CGMI informed the Division that during the same interview, Junior Analyst admitted that, early in his employment with the Firm, he received and was trained on the CGMI policies referenced in Section D herein.

85. On September 27, 2012, CGMI terminated Junior Analyst's employment.

86. As a result of a subpoena issued by the Division to CGMI on September 20, 2012, CGMI identified additional e-mails, dated December 14, 2011 and December 16, 2011, prior to Facebook's mandating CGMI to serve as a syndicate member and prior to the execution of the

NDA, in which Junior Analyst furnished information concerning Facebook to TechCrunch Employee 1.

## **VII. CONCLUSIONS OF LAW**

### **A. Failure to Supervise**

87. CGMI failed to prevent or detect the written disclosure of material, nonpublic research information in a restricted period prior to the Facebook IPO.

88. CGMI failed to detect the prohibited research analyst disclosure in the selected e-mails provided to the Division under a subpoena response dated September 14, 2012.

89. CGMI failed to prevent or detect the written disclosure of material nonpublic research.

## **VIII. VIOLATIONS OF SECURITIES LAWS**

### **A. VIOLATION OF § 204(a)(2)(F)**

90. Section 204 (a)(2)(F) of the Act provides in pertinent part:

(a) The secretary may by order impose an administrative fine or censure or deny, suspend, or revoke any registration or take any other appropriate action if he finds (1) that the order is in the public interest and (2) that the applicant or registrant or, in the case of a broker-dealer or investment adviser, any partner, officer, or director, any person occupying a similar status or performing similar functions, or any person directly or indirectly controlling the broker-dealer or investment adviser:—

(F) is the subject of any of the following orders which are currently effective or which were issued within the last five years;

(iv) a cease and desist order entered after notice and opportunity for hearing by the secretary or the securities agency or administrator of any other state, Canadian province or territory, the Securities and Exchange Commission, or the Commodity Futures Trading Commission[.]

91. The Division herein re-alleges and restates the facts and legal conclusions set forth in

paragraphs I • 89 above.

**B. VIOLATION OF § 204(a)(2)(G)**

92. Section 204 (a)(2)(G) of the Act provides in pertinent part:

(a) The secretary may by order impose an administrative fine or censure or deny, suspend, or revoke any registration or take any other appropriate action if he finds (1) that the order is in the public interest and (2) that the applicant or registrant or, in the case of a broker-dealer or investment adviser, any partner, officer, or director, any person occupying a similar status or performing similar functions, or any person directly or indirectly controlling the broker-dealer or investment adviser:–

(G) has engaged in any unethical or dishonest conduct or practices in the securities, commodities or insurance business.

93. Without limiting the generality of the foregoing, the conduct of

Respondent as set forth above constitutes violations of the following provisions of

the Regulations:

950 CMR § 12.204 (1)(a) provides in pertinent part:

(1) Dishonest and unethical practices in the securities business.

(a) Broker/Dealers: Each broker/dealer shall observe high standards of commercial honor and just and equitable Principles of trade in the conduct of its business.

(28) Failing to comply with any applicable provision of FINRA member conduct rules or any applicable fair practice or ethical standard promulgated by the SEC or by a self-regulatory organization approved by the SEC.

(emphasis in original).

**1. FINRA Rule 2010 and NASD Rules 2711 and 3010**

94. FINRA Rule 2010 states that “[a] member, in the conduct of its business, shall observe high standards of commercial honor and just and equitable principles of trade.”

95. NASD Rule 2711 Section states in pertinent part that a “Public appearance” means “any participation in a conference call, seminar, forum (including an interactive electronic forum) or other public speaking activity before 15 or more persons or before one or more representatives of the media, radio, television or print media interview, or the writing of a print media article, in which a research analyst makes a recommendation or offers an opinion concerning an equity security.”

96. NASD Rule 3010(a) states in part that “[e]ach member shall establish and maintain a system to supervise the activities of each registered representative, registered principal, and other associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable NASD Rules. Final responsibility for proper supervision shall rest with the member.”

97. The Division herein restates and re-alleges the facts and legal conclusions set forth in paragraphs 1-89 above.

98. The conduct of Respondent, as described above, constitutes a violation of MASS. GEN. LAWS ch. 110A, § 204(a)(2)(G) and 950 CMR § 12.204 (1)(a).

**C. VIOLATION OF § 204(a)(2)(J)**

99. Section 204(a)(2)(J) of the Act provides in pertinent part:

The secretary may by order, deny, suspend, or revoke any registration if he finds (1) that the order is in the public interest and (2) that the applicant of registrant (J) has failed reasonably to supervise agents, investment adviser representatives, or other employees to assure compliance with this chapter.

100. The Division herein re-alleges and restates the facts and legal conclusions set forth in paragraphs 1-89 above.

101. The conduct of Respondent, as described above, constitutes a violation of MASS. GEN.

**IX. ORDER**

CGMI consents to the entry of this Order,

**IT IS HEREBY ORDERED:**

Respondent CGMI in full settlement of these matters admits the Division's Statement of Facts set forth in Section VI herein, neither admits nor denies the allegations and conclusions of law set forth in Sections VII and VIII herein, and makes the following representations and agrees to the undertakings herein as part of the Order:

- A. Respondent CGMI agrees to permanently cease and desist from violations of the Act;
- B. Respondent CGMI agrees to be censured by the Division;
- C. Respondent CGMI agrees within 90 days of the signed Order to review its written supervisory policies and procedures with respect to items 1-3 below. To the extent written supervisory policies and procedures do not exist with respect to items 1- 3 below, Respondent must establish such procedures. All written policies and procedures with respect to items 1- 3 below must include methods for enforcement and compliance oversight:
  1. CIR will review its electronic surveillance program for the incoming and outgoing communications of its research analysts with parties external to CGMI for compliance with federal and state securities laws and regulations and compliance with the Global Research Analyst Settlement.
  2. CGMI will enhance the training provided to CIR equity research

analysts, CIR supervisors, and CIR compliance personnel. Such training will include but not be limited to the following topics:

(i) CIR equity research analysts cannot preview in writing unpublished, or disavow in writing published research views to personnel outside of CIR (other than is permitted under federal or states securities laws or regulations);

(ii) in connection with any IPO for which CGMI is acting as manager or co-manager, except as expressly permitted by the federal securities laws and FINRA Rule 2711(c)(2), CIR equity research analysts may not disseminate to parties external to CGMI written material discussing the subject company prior to CGMI's initiating research coverage on the subject company; and

(iii) other than in the form of, or to the extent embedded in published research or financial or other analysis or modeling prepared by a CIR equity research analyst, CIR equity research analysts may not disseminate to any person within CGMI confidential nonpublic information obtained from a covered company or a company with which CGMI has contracted to act as manager or co-manager without affixing to such material a legend clearly stating "CONFIDENTIAL: FOR INTERNAL USE ONLY":

- D. No later than 180 days after the date of entry of the Order, Respondent's Director or Co-Director of Citigroup Research shall certify to the Division, in writing, that Respondent has fully complied in all material respects with the undertakings set forth in Section IX (C);
- E. Respondent CGMI shall pay a civil penalty in the amount of \$2,000,000 (two million). Payment shall be: (1) made by United States postal money order, certified check, bank cashier's check, bank money order, or wire; (2) made payable to The Commonwealth of Massachusetts; and (3) either hand-delivered, mailed to One Ashburton Place, Room 1701, Boston, MA 02108; or wired per Division instructions; and (4) submitted under cover letter or other documentation that identifies

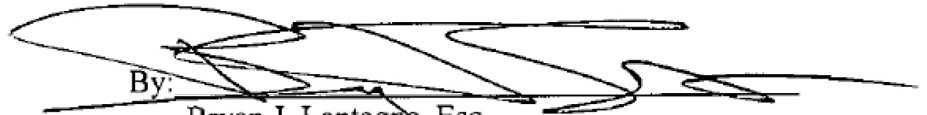


- the Respondent making the payment and the docket number of the proceedings;
- F. At CGMI's request, the Division may extend, for good cause shown, any of the procedural dates set forth above;
- G. The Consent Order as entered into by The Commonwealth of Massachusetts will waive any disqualification contained in the laws of The Commonwealth of Massachusetts, or rules or regulations thereunder, including any disqualifications from relying upon the registration exemptions or safe harbor provisions that CGMI or its affiliates may be subject to as a result of the findings contained in the Order. The Consent Order also is not intended to subject CGMI or its affiliates to any disqualifications contained in the federal securities laws, rules and regulations thereunder, the rules and regulations of self-regulatory organizations or various states' or U.S. Territories' securities laws, including, without limitation, any disqualifications from relying upon the registration exemptions or safe harbor provisions. In addition, the Consent Order is not intended to form the basis for any such disqualifications;
- H. Nothing herein is intended to or shall be construed to replace, supersede or override, with respect to Respondent, federal securities laws, rules and regulations of the rules of any self-regulatory organization;
- I. Respondent CGMI agrees that it shall not seek or accept, directly or indirectly, reimbursement or indemnification, including, but not limited to any payments made pursuant to any insurance policy, with regard to all amounts that Respondent shall pay to the Division pursuant to the Division's Order;
- J. Respondent CGMI further agrees that it shall not claim, assert, or apply for a tax deduction or tax credit with regard to any state, federal or local tax for any amounts

that Respondent shall pay to the Division pursuant to the Division's Order; and

K. Respondent CGMI agrees that, upon issuance of an Order by the Division that contains the terms as set forth above, if it fails to comply with any of the terms set forth in the Division's Order, the Enforcement Section may institute an action to have this agreement declared null and void. Upon issuance of an appropriate order, after a hearing, the Enforcement Section may re-institute the actions and investigations that it had brought against the Respondent.

**WILLIAM FRANCIS GALVIN  
SECRETARY OF THE COMMONWEALTH**

A handwritten signature in black ink, appearing to read "Bryan J. Lantagne", is written over a horizontal line. The signature is somewhat stylized and overlaps the line.

By:

Bryan J. Lantagne, Esq.  
First Deputy-Secretary of State

Bryan J. Lantagne Esq.  
First Deputy Secretary of State  
Director-Massachusetts Securities  
Division  
Massachusetts Securities Division  
One Ashburton Place, Room 1701 Boston,  
Massachusetts 02108-1552

Dated: October 26, 2012