UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA

SECURITIES AND EXCHANGE COMMISSION, **100 F Street, N.E.** **Washington, D.C. 20549,** **Plaintiff,** **v.** **CITIGROUP INC.,** **Defendant.**	Case: 1:10-cv-01277 Assigned To : Huvelle, Ellen S. Assign. Date : 7/29/2010 Description: General Civil

COMPLAINT

Plaintiff Securities and Exchange Commission ("Commission") alleges as follows:

SUMMARY

1. During the summer and fall of 2007, Defendant Citigroup Inc. ("Citigroup") made a series of material misstatements about its investment bank's exposure to sub-prime mortgages. Citigroup made these misstatements at a time of heightened investor and analyst interest in public company exposure to sub-prime mortgages. Citigroup represented that it had reduced its investment bank's sub-prime exposure from $24 billion at the end of 2006 to $13 billion or slightly less than that amount. In fact, however, in addition to the approximately $13 billion in disclosed sub-prime exposure, the investment bank's sub-prime exposure included more than $39 billion of "super senior" tranches of sub-prime collateralized debt obligations and related instruments called "liquidity puts" and thus exceeded $50 billion. Notwithstanding

certain internal investment bank documents from April and July 2007 reflecting a view that the risk of default on the super senior tranches and the liquidity puts was low, Citigroup knew or should have known that (a) the super senior tranches and the liquidity puts were part of the investment bank's total sub-prime exposure, (b) with the super senior tranches and the liquidity puts, the investment bank's total sub-prime exposure exceeded $50 billion, and (c) the company's disclosures materially understated that exposure. The company, however, did not acknowledge that the investment bank's sub-prime exposure exceeded $50 billion until November 4, 2007, when the company announced that the investment bank then had approximately $55 billion of sub-prime exposure.

2. Citigroup made its misstatements at times when it was offering and selling securities. As a result of its conduct, Citigroup violated Section 17(a)(2) of the Securities Act of 1933 ("Securities Act") [15 U.S.C. §77q(a)(2)], Section 13(a) of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. §78m(a)], and Exchange Act Rules 12b-20 and 13a-11 [17 C.F.R. §§240.12b-20 and 240.13a-11]. The Commission accordingly seeks a final judgment (a) permanently enjoining Citigroup from violating Section 17(a)(2) of the Securities Act [15 U.S.C. §77q(a)(2)], Section 13(a) of the Exchange Act [15 U.S.C. §78m(a)], and Exchange Act Rules 12b-20 and 13a-11 [17 C.F.R. §§240.12b-20 and 240.13a-11], (b) ordering Citigroup to pay civil money penalties pursuant to Section 20(d) of the Securities Act [15 U.S.C. §77t(d)] and Section 21(d)(3) of the Exchange Act [15 U.S.C. §78u(d)(3)], and (c) granting such other relief as the Court deems just and appropriate.

JURISDICTION AND VENUE

3. This Court has jurisdiction pursuant to Sections 20(b) and 22(a) of the Securities Act [15 U.S.C. §§ 77t(a) and 77v(a)] and Sections 21(d)(1) and 27 of the Exchange Act [15 U.S.C. §§78u(d)(1) and 78aa]. Defendant Citigroup, directly or indirectly, made use of the means or instruments of transportation or communication in interstate commerce, or of the mails, in connection with the transactions, acts, practices and courses of business alleged in this Complaint.

4. Venue in this Court is proper under Section 22(a) of the Securities Act [15 U.S.C. §77v(a)] and Section 27 of the Exchange Act [15 U.S.C. §78aa] because certain of the acts, practices, and courses of business alleged in this Complaint took place in this District.

DEFENDANT

5. Defendant Citigroup is a Delaware corporation with its principal place of business in New York, New York. Citigroup is a global financial services company that provides a broad range of financial services to consumer and corporate clients. During the time relevant to this Complaint, the company was organized into the following five divisions: Global Consumer Group; Markets & Banking; Global Wealth Management; Alternative Investments; and Corporate/Other. Citigroup's United States residential mortgage-related assets were held primarily within the Consumer Lending division, which was part of the Global Consumer Group, and within the investment bank, which was part of the Securities and Banking business, which in turn was part of Markets & Banking. Citigroup's securities are registered with the Commission under Section 12(b) of the Exchange Act [15 U.S.C. §78l(b)], and the company's common stock is listed on

the New York Stock Exchange, the Tokyo Stock Exchange, and the Mexico Stock Exchange. Citigroup reports its results on a calendar-year basis.

FACTS

Background

6. During 2006 and continuing into 2007, the price of homes in the United States stopped rising and began to decline; new housing starts and existing home sales declined; and defaults on mortgages, particularly sub-prime mortgages, increased. As a result of these developments, there was increasing investor and analyst interest in the amount of residential mortgage-related assets that Citigroup held and, in particular, Citigroup's exposure to what were known as sub-prime mortgage-related assets.

7. During the time in 2007 relevant to this Complaint, Citigroup held residential mortgage-related assets primarily in its investment bank and its Consumer Lending business. Within the Consumer Lending business, these assets included prime and sub-prime mortgages that the Consumer Lending business originated or purchased from third parties and then securitized or held. Within the investment bank, these assets included sub-prime mortgages that Citigroup purchased for securitization or trading, sub-prime mortgage-related assets held as collateral for financing provided by Citigroup, sub-prime mortgage-backed securities that Citigroup "warehoused" for future inclusion in collateralized debt obligations, and tranches of previously structured collateralized debt obligations.

8. A collateralized debt obligation ("CDO") is a type of asset-backed security collateralized by a pool of fixed income assets, such as sub-prime mortgage-backed securities, and issued by a bankruptcy-remote special purpose vehicle ("SPV"). A CDO

is structured into tranches with each tranche representing a different level of risk and return. The most senior tranche generally is known as the "super senior" tranche and typically represents between sixty and eighty percent of the capital structure of the CDO. Below the super senior tranche are one or more senior tranches, one or more mezzanine tranches, and an equity tranche. All of the tranches have the same underlying collateral. The super senior tranche has the highest priority claim on the cash flows from that collateral. The equity tranche has the lowest priority claim and receives payments only after all of the higher tranches have been paid in full. The senior and mezzanine tranches are rated by rating agencies; the equity tranche is not rated. Due to its first priority claim to the cash flows from the CDO's collateral, as well as other structural features, the super senior tranche historically was considered the safest tranche from a credit risk perspective. Because the super senior tranche was considered safer than the most senior of the senior tranches and because that senior tranche was rated AAA, the highest available rating from the rating agencies, the super senior tranche typically was not rated. Due primarily to the large size and relatively low yield of the super senior tranche, a limited number of potential purchasers for that tranche existed, and the super senior tranche typically did not trade in the secondary market.

9. Citigroup's CDO structuring business included advising asset managers on collateral selection and CDO structuring, providing CDO warehouses, underwriting CDO offerings, and placing CDOs with investors, as well as trading CDOs in the secondary market. Prior to a CDO closing, the assets purchased for the CDO are held in what is referred to as a CDO warehouse. Upon closing of the CDO, the assets are transferred

from the warehouse to an SPV in exchange for the proceeds of the sale of the CDO tranches. Citigroup earned fees in connection with its CDO structuring business.

10. Certain of the CDOs that Citigroup structured and underwrote as part of its CDO business included a feature known as a "liquidity put." The liquidity put was an instrument that obligated Citigroup under certain circumstances to purchase commercial paper backed by the super senior tranche of a CDO. Under the terms of the liquidity put arrangement, Citigroup's obligation to purchase that commercial paper would be triggered if there was a dramatic drop in demand for the commercial paper such that the commercial paper issuer, i.e., the CDO, was unable to re-issue the commercial paper below a certain interest rate. For Citigroup, owning the commercial paper essentially would be the economic equivalent of holding the super senior tranche that backed the commercial paper.

11. During the time relevant to this Complaint, the CDOs that Citigroup structured and underwrote frequently exceeded $1 billion in size and in some cases exceeded $2 billion. By no later than mid-2006, Citigroup's investment bank began retaining the super senior tranches of most of the sub-prime CDOs that the company underwrote.

12. As a result of its various mortgage-related activities, including the retention of super senior tranches of CDOs and the issuance of the liquidity puts, Citigroup's investment bank had exposure to sub-prime mortgage-related assets that exceeded $50 billion throughout the relevant time.

Citigroup Gathers Sub-Prime Exposure Information for the Company's First Quarter 2007 Earnings Announcement

13. As Citigroup prepared to announce its earnings for the first quarter of 2007, the company gathered information in order to be able to respond to questions about the investment bank's sub-prime exposure that it anticipated receiving from analysts and others. Senior management and senior personnel in the company's Investor Relations department ("IR") requested information from the investment bank and, in response, were provided with documents and other information detailing the investment bank's sub-prime exposure.

14. The sub-prime assets of Citigroup's investment bank were located primarily in two of the investment bank's business units: Global Securitized Markets ("GSM"), which did not hold CDOs, and Global Structured Credit Products ("GSCP"), which did hold CDOs. In responding to the request for information on sub-prime exposure described in paragraph 13 of this Complaint, in April 2007, the investment bank provided senior management and IR personnel with documents that showed that GSM and GSCP had approximately $10.1 billion of sub-prime exposure and that, excluding certain sub-prime assets related to secondary trading and market making activities ("trading exposure"), GSCP had approximately $7 billion of sub-prime exposure. One of the documents provided, entitled "Overview of Subprime Exposure in the Global Structured Credit Product Business," also showed that GSCP had an additional $37.8 billion in sub-prime exposure from super senior tranches of CDOs ($14.6 billion) and liquidity puts ($23.2 billion). The document, however, included an explanation that the investment bank considered the risk of default on the super senior tranches and the

liquidity puts to be "extremely small" and that it therefore "excluded" the $37.8 billion amount from its internal analysis of GSCP's sub-prime exposure.

15. Citigroup did not disclose the amount of the investment bank's sub-prime exposure in connection with announcing the company's results for the first quarter of 2007. The issue was not raised during the company's earnings call with investors and analysts, and there was no disclosure of the amount in the Quarterly Report on Form 10-Q that the company subsequently filed with the Commission.

Citigroup's Misleading Disclosures About the Investment Bank's Sub-Prime Exposure for the Second Quarter of 2007

16. As the second quarter of 2007 ended, Citigroup again considered making disclosures about the investment bank's sub-prime exposure. Senior management and IR personnel again sought and received information about that exposure.

17. On July 10, 2007, senior management and IR personnel reviewed the company's results for the second quarter of 2007 in what was known as a "Flash Call." During the Flash Call process in 2007, representatives of each of Citigroup's businesses typically met with senior management and representatives of IR and provided the attendees with a document ("Flash Deck") setting forth significant developments and the results of the business for the quarter.

18. During the July 10, 2007 Flash Call process, Citigroup senior management and IR personnel received a Flash Deck from the investment bank. The Flash Deck included a table prepared by the company's Risk Management organization that showed the investment bank's total sub-prime exposure as of the end of the second quarter of 2007. That table showed, among other things, that the investment bank's sub-prime

exposure included more than $33 billion of exposure from super senior tranches of CDOs and liquidity puts.

19. Also on July 10, 2007, at Citigroup senior management's request, representatives of the investment bank had a separate meeting with senior management and IR personnel to discuss GSCP's sub-prime exposure. During this meeting, the investment bank representatives provided senior management and IR personnel with a document entitled "Overview of Subprime Exposure in the Global Structured Credit Products Business" that was an updated version of the document provided in April 2007 and described in paragraph 14 of this Complaint. The updated document showed that, excluding trading exposure, GSCP had approximately $4.4 billion of sub-prime exposure plus approximately $39 billion in additional sub-prime exposure from super senior tranches of CDOs ($14.7 billion) and liquidity puts ($24.5 billion). The document again showed that the investment bank was excluding the $39 billion in exposure from the super senior tranches and the liquidity puts from its internal analysis of GSCP's sub-prime exposure because the investment bank considered the risk of default on those items to be "extremely small."

20. On July 20, 2007, Citigroup issued a press release announcing the company's earnings for the second quarter of 2007.

21. Also on July 20, 2007, Citigroup conducted a telephone conference call with investors and analysts to discuss the company's results for the second quarter ("July 20 Earnings Call"). During that call, senior management discussed the investment bank's sub-prime exposure and made the following prepared statement:

> Our subprime exposure in Markets and Banking can be divided into two categories, which together account for 2%

> of the Securities and Banking revenues in 2006. The first is secured lending and the second is trading. With regards to secured lending, we have been actively managing down our exposure for some time. We had $24 billion in assets here at the end of 2006. It was $20 billion at the end of the first quarter [of 2007] and $13 billion at the end of the second quarter while adjusting at the same time collateral and margin requirements.

The $13 billion of "secured lending" sub-prime exposure that Citigroup disclosed included the sub-prime exposure in the investment bank's GSM and GSCP business units, as well as from investment bank financing arrangements collateralized with sub-prime assets ("financing exposure"). The $13 billion, however, excluded the amounts for trading exposure, as well as the super senior tranches of CDOs and the liquidity puts held by the investment bank. Although Citigroup's statement disclosed that the company was excluding the amount of the investment bank's trading exposure from the $13 billion figure, the statement did not disclose the super senior tranches and the liquidity puts held by the investment bank.

22. In response to a question asked during the July 20 Earnings Call about what the $13 billion figure for sub-prime exposure represented, senior management responded as follows:

> [T]hink about this as the CDOs, the CLOs [collateralized loan obligations], and the securitized assets that we hold on our balance sheet. I think our risk team did a nice job of anticipating that this was going to be a difficult environment and so set about in a pretty concentrated effort to reduce our exposure over the last 6 months. So it was $26 billion as we ended the last year and we stand at about $13 billion today. . . .
>
> This is something obviously we have our eye on and we're watching very closely and over time, we have

> brought down to a lower level to reduce our exposure there. And as I mentioned, this exposure has come down . . . .

23. Citigroup materially understated the investment bank's sub-prime exposure during the July 20 Earnings Call, described in paragraphs 21 and 22 of this Complaint, because, with the super senior tranches of CDOs and the liquidity puts, the investment bank's sub-prime exposure exceeded $50 billion. In addition, the statements that the investment bank had reduced its exposure from the $24 billion (or $26 billion) held at the end of 2006 to $13 billion were misleading because a portion of the stated reduction resulted from the fact that Citigroup had taken unsold lower-rated tranches of previously underwritten CDOs, as well as warehoused sub-prime residential mortgage-related assets, used those assets in the creation of new CDOs, and then had retained the super senior tranches of these new CDOs. As such, a portion of the stated reduction in (or "managing down" of) sub-prime exposure resulted from moving warehouse and unsold lower tranche inventory into new super senior tranches. As noted, Citigroup excluded the super senior tranches from the company's disclosures about the amount of the investment bank's sub-prime exposure.

24. On July 27, 2007, seven days after the July 20 Earnings Call, Citigroup conducted its semi-annual Fixed Income Investor Review conference call ("July 27 Fixed Income Call") with investors and analysts. Similar to the July 20 Earnings Call, senior management discussed the investment bank's sub-prime exposure and reiterated that that exposure was $13 billion at the end of the second quarter of 2007. In a prepared statement, senior management said the following:

> Understandably the market is very sensitive to the issues of the subprime market. . . . Our subprime exposure in the [M]arkets and [B]anking accounted for 2% of the

> [S]ecurities and [B]anking revenues in 2006. Since our last fixed income investor review we've reduced our exposure to subprime secured lending by roughly 45% to $13 billion at the end of the second quarter while adjusting collateral and margin requirements.

25. In response to questions asked during the July 27 Fixed Income Call about Citigroup's risk systems and CDO business, senior management made the following additional statements:

> [F]or the securitized assets that we hold as part of our corporate book, as I had mentioned briefly a few minutes ago, the **total amount** that we hold there in subprime has been reduced from about $26 billion at the end of last year to about $13 billion today. So again our teams have been actively managing the risk associated with that over time. And then obviously we have risk in our trading portfolios and that is actively managed day-to-day. . . .
>
> . . . .
>
> We do CDO warehousing. We are in the CDO structuring business. We do CDO warehousing, and we obviously ensure that those exposures are marked as accurately as we can possibly mark them. . . . And as I mentioned, subprime exposure of CDOs has actually gone down over the course of the last six months or so.

[Emphasis added.]

26. The statements that Citigroup made during the July 27 Fixed Income Call about the investment bank's sub-prime exposure, described in paragraphs 24 and 25 of this Complaint, again understated the investment bank's sub-prime exposure because the disclosed $13 billion amount did not include the more than $40 billion of additional sub-prime exposure attributable to the investment bank's portfolio of super senior tranches of CDOs and liquidity puts. In addition, the statements that the company had been reducing that exposure from the $26 billion held at the end of 2006 to $13 billion were misleading

for the same reasons that the statements about reducing sub-prime exposure made during the July 20 Earnings Call were misleading, as set forth in paragraph 23 of this Complaint.

<u>Citigroup Records Third Quarter 2007 Losses on Super Senior Tranches of CDOs and Excludes Super Senior Tranches and Liquidity Puts from Sub-Prime Disclosures</u>

27. During the third quarter of 2007, the housing market in the United States continued to deteriorate, and defaults on sub-prime mortgages increased. Due at least in part to investor concerns over a lack of transparency about the potential sub-prime exposure of commercial paper issuers, the demand for asset-backed commercial paper fell dramatically. As a result, Citigroup believed that the issuers of the commercial paper that was backed by the super senior tranches of CDOs would exercise the liquidity puts and require Citigroup to purchase the commercial paper. In anticipation of the exercise of the liquidity puts, Citigroup, beginning in August 2007, purchased the commercial paper that had the liquidity put feature described in paragraph 10 of this Complaint. By mid-September 2007, Citigroup had purchased approximately $25 billion, substantially all, of the commercial paper backed by super senior tranches of sub-prime CDOs.

28. Also during the third quarter of 2007, Citigroup re-examined its method of valuing the super senior tranches of sub-prime CDOs. By the end of August 2007, the valuation methods the company was considering showed potential losses ranging from approximately $15 million to over $2 billion. Citigroup continued to work on its valuation methods, including through consultation by the investment bank and Risk Management organization with senior management. By the middle of September 2007, senior management was anticipating that the company would have to record losses in the range of $300 million to $500 million on the super senior tranches of CDOs. By the end

of September 2007, after further refinement, the company concluded that expected losses from write-downs in the value of the super senior tranches for the third quarter of 2007 would be approximately $100 million.

29. In addition to the anticipated third quarter 2007 losses on the super senior tranches of CDOs, Citigroup expected that it would have to record other losses resulting from what it characterized as "dislocations in the mortgage-backed securities and credit markets and a deterioration in the consumer credit environment." Because Citigroup concluded that these losses would cause a substantial decline in the company's anticipated net income for the third quarter of 2007, the company decided to issue a pre-announcement of its third quarter financial results.

30. In the process of drafting a recorded call script and an accompanying press release for the earnings pre-announcement, Citigroup personnel considered what, if anything, the company should disclose about the investment bank's super senior tranches of CDOs and the liquidity puts. A decision was made that the pre-announcement script should reflect that Citigroup typically kept "most of the highest rated tranches" of CDOs and that CDOs experienced declines in value during the third quarter of 2007.

31. Pursuant to that decision, the following draft language for the pre-announcement script was circulated:

> We typically have sold the lowest rated tranches of the CDOs and held onto most of the highest rated tranches, which historically have enjoyed more stable valuations. As the subprime problem spread across various security types, we started to see valuation declines even in the highest rated tranches.

The proposed draft continued:

> Starting in January of this year, we began to lower our exposure to these sub-prime assets as we saw the market changing. At the beginning of this year we had $24 billion of secured sub-prime exposure in our lending and structuring business. That number was $13 billion at the end of June, and declined slightly this quarter. Despite our aggressive efforts this year to work these positions down and to put in place appropriate hedges, we were still holding mortgage assets in our warehouse, or holding undistributed tranches of CDOs, when the market dislocated. And although we had hedged, this only partially offset our losses, which netted to a write-down of approximately $1.0 billion.

32. In reviewing that draft pre-announcement script, an investment bank officer noted the potential for a listener to the announcement to conclude that the investment bank's total sub-prime exposure was only the $13 billion referenced in the draft and in the company's prior disclosures. A member of the IR team responded that, because the super senior tranches of CDOs previously had not been discussed and because of a request by the investment bank that the IR member understood to be a request not to discuss those tranches, there was no choice other than to let listeners conclude that the investment bank's total sub-prime exposure was $13 billion. In response to that assessment, the investment bank officer suggested removing the discussion about the highest rated tranches so as to avoid eliciting questions about super seniors. Another investment bank executive agreed with that suggestion, and noted that the write-down in the value of the super senior tranches had declined. Following further communications, the script was finalized. As finalized, the pre-announcement script included a statement that the company held on to "most of the highest rated tranches" but then did not include disclosure of the amount of the investment bank's sub-prime exposure from the super senior tranches and the liquidity puts.

33. On October 1, 2007, Citigroup issued a press release and a recorded telephone announcement in which the company pre-announced expected financial results for the third quarter of 2007. In the press release, the company announced that its Securities and Banking business, which included the investment bank, had experienced pre-tax losses of approximately $1.3 billion, net of hedges, on its sub-prime exposure from CDOs and related securities and from leveraged loans warehoused for future securitizations. Citigroup did not provide a breakdown of the approximately $1.3 billion in losses, but the amount included approximately $300 million in losses from leveraged loans warehoused for future collateralized loan obligation securitizations and approximately $1 billion in losses on sub-prime exposure. The approximately $1 billion in losses on the sub-prime exposure, in turn, included approximately $100 million in losses on the super senior tranches of CDOs. Citigroup was aware that the losses that the company disclosed included approximately $100 million in losses on the super senior tranches.

34. In the October 1, 2007 recorded telephone announcement ("October 1 Pre-Announcement Call"), Citigroup made the following prepared statements about the investment bank's sub-prime exposure:

> [W]e took significant write-downs in the value of mortgage-backed securities in the 'warehouses' and CDOs.
>
> This is a business where we accumulate pools of mortgages or mortgage backed securities (mostly sub-prime) and hold them in a warehouse until we have sufficient assets to create a CDO for sale in the market.
>
> We typically have sold the lowest rated tranches of the CDOs and held onto most of the highest rated tranches, where historically values have been stable. In July, however, actions by the rating agencies which involved

methodology changes and downgrades of certain CDO tranches caused investors to suddenly pull back from the entire CDO market, resulting in a rapid decline in CDO values.

> Starting in January of this year, we began to lower our exposure to these sub-prime assets as we saw the market changing. At the beginning of the year we had $24 billion of secured sub-prime exposure in our lending and structuring business. That number was $13 billion at the end of June, and declined slightly this quarter. Despite our aggressive efforts this year to work these positions down, and to put in place appropriate hedges, we were still holding mortgage assets in our warehouse, or holding undistributed tranches of CDOs, when the market dislocated. Although hedging activity produced gains, they only partially offset our losses, which netted to a write-down of approximately $1.0 billion.

35. Citigroup included the October 1 press release and a transcript of the October 1 Pre-Announcement Call in a Current Report on Form 8-K that the company filed with the Commission on October 1, 2007 ("October 1 Form 8-K"). In addition, Citigroup incorporated by reference the October 1 Form 8-K into certain registration statements that the company filed, including shelf registration statements on Form S-3ASR filed on March 2, 2006, March 13, 2006, and June 20, 2006, and a registration statement on Form S-8 filed on May 4, 2005.

36. The statements that Citigroup made during the October 1 Pre-Announcement Call about the investment bank's sub-prime exposure, described in paragraph 34 of this Complaint, did not disclose what was then approximately $43 billion of sub-prime exposure from the super senior tranches of CDOs ($18 billion) and the liquidity puts ($25 billion). By referencing the retention of the highest rated tranches of CDOs, Citigroup suggested that the investment bank's entire sub-prime exposure was slightly less than $13 billion. By October 1, 2007, however, the investment bank's sub-

prime exposure was not slightly less than $13 billion but was approximately $55 billion, including the super senior tranches and the liquidity puts. As such, Citigroup materially understated the investment bank's sub-prime exposure.

37. Following the earnings pre-announcements and the filing of the October 1 Form 8-K, Citigroup worked on finalizing its results for the third quarter of 2007. On October 4, 2007, senior management and IR personnel participated in a Flash Call to review the company's results for the third quarter of 2007. The investment bank provided each participant with a Flash Deck that addressed the investment bank's total sub-prime exposure as of the end of the third quarter of 2007. The Flash Deck included a box called "Sub-Prime Exposure" that showed that the investment bank's total sub-prime exposure was $55.7 billion. As shown in the Sub-Prime Exposure box, $3.7 billion of the exposure was in GSM and $2.8 billion was financing exposure. In addition, the box showed that the investment bank had $6.1 billion in sub-prime exposure in "Structured Credit" and more than $41 billion in exposure from the super senior tranches of CDOs and the liquidity puts.

38. Also during the process of finalizing the company's results for the third quarter of 2007, Citigroup continued to refine its method of calculating the amount of losses on the super senior tranches of CDOs that it would record for the quarter. The company determined that, rather than the approximately $100 million that it had used in connection with its October 1, 2007 earnings pre-announcements, the amount of third quarter 2007 losses from write-downs in the value of the super senior tranches was approximately $300 million.

39. On October 15, 2007, Citigroup issued a press release and held a conference call with investors and analysts to announce and then discuss the company's results for the third quarter of 2007.

40. In its October 15, 2007 press release, the company announced that its Securities and Banking business, which included the investment bank, had had pre-tax losses of $1.56 billion, net of hedges, on sub-prime exposure from CDOs and related securities and from leveraged loans warehoused for future securitizations. Although not discussed in the release, these losses included approximately $300 million of losses on the super senior tranches of CDOs, including the approximately $100 million previously included in the October 1 press release and the October 1 Pre-Announcement Call. The $260 million increase in Securities and Banking losses from the $1.3 billion in losses announced on October 1, 2007, described in paragraph 33 of this Complaint, was attributable primarily to additional losses on the super senior tranches of CDOs. Citigroup was aware that the Securities and Banking business losses included losses on the super senior tranches and that the $260 million increase in the Securities and Banking losses was due primarily to increased losses on the super senior tranches.

41. During the October 15, 2007 conference call ("October 15 Earnings Call"), Citigroup made the following prepared statement about the losses in the Securities and Banking business and the investment bank's sub-prime exposure:

> 1.6 billion [dollars came] from write-downs in mortgage-backed securities which were warehoused for future CDO or CLO [collateralized loan obligation] securitizations as well as on CDO positions. Our subprime exposure related to these positions was $24 billion at the beginning of the year, $13 billion at the end of the second quarter, and declined slightly during the third quarter.

In response to a question about write-downs on structured sub-prime mortgage-backed securities products, Citigroup further stated that

> [T]he 1.6 billion [dollar] number . . . was net of our hedges. We didn't disclose the hedge number again, but I guess the way I would think about it is we cut the exposure that we had as I mentioned from 24 or so billion [dollars] at the beginning of the year down to 13 [billion dollars].

42. The statements that Citigroup made during the October 15 Earnings Call about the investment bank's sub-prime exposure, described in paragraph 41 of this Complaint, again did not include the approximately $43 billion of exposure from the super senior tranches of CDOs and the liquidity puts. With that approximately $43 billion of exposure, the investment bank's sub-prime exposure was approximately $55 billion rather than the slightly less than $13 billion amount represented during the October 15 Earnings Call.

43. As alleged in paragraph 38 of this Complaint, during the period between the October 1 Pre-Announcement Call and the October 15 Earnings Call, Citigroup determined that the amount of losses on the super senior tranches of CDOs would be approximately $300 million rather than approximately $100 million. Senior management was aware that the super senior tranches were the source of the increased losses. The company nevertheless continued to exclude the approximately $43 billion in sub-prime exposure from the super senior tranches and the liquidity puts when representing the investment bank's sub-prime exposure. In doing so, Citigroup materially understated the investment bank's sub-prime exposure.

Citigroup Discloses that the Investment Bank Has $55 Billion in Sub-Prime Exposure

44. Following the October 15, 2007 press release and the October 15 Earnings Call, certain rating agencies downgraded tranches of sub-prime-backed CDOs. These downgrades followed earlier rating agency downgrades of certain mortgage-backed securities. Particularly due to the rating agency downgrades that took place after October 15, 2007, Citigroup determined that the downgrades would have a negative effect on the value of the super senior and other CDO tranches and the liquidity puts. The company estimated that the losses would be in the range of $8 billion to $11 billion for the fourth quarter of 2007. The company then decided to disclose the range of loss and the amount of the investment bank's sub-prime exposure, including the super senior tranches and the liquidity puts.

45. On November 4, 2007, Citigroup issued a press release in which, for the first time, the company disclosed an amount for the investment bank's sub-prime exposure that included the amount of the exposure from the super senior tranches and the liquidity puts. The company announced that it had experienced

> significant declines since September 30, 2007 in the fair value of the approximately $55 billion in U.S. sub-prime related direct exposures in its Securities and Banking (S&B) business. Citi estimates that, at the present time, the reduction in revenues attributable to these declines ranges from approximately $8 billion to $11 billion (representing a decline of approximately $5 billion to $7 billion in net income on an after-tax basis).

The company also specifically disclosed that the $55 billion included $43 billion in exposure from the super senior tranches of CDOs and the liquidity puts. In addition, the company disclosed that, due to a correction of its earlier valuation, the losses on the super senior tranches and the liquidity puts for the third quarter of 2007 had increased by $270 million. As a result, the total losses attributable to the super senior tranches and the liquidity puts for the third quarter of 2007 were over $500 million.

Throughout the Period When It Was Making Misleading Disclosures, Citigroup Was Offering and Selling Securities

46. Throughout the period relevant to this Complaint, Citigroup had registered and was offering and selling billions of dollars of stock, bonds, and other securities. In addition, certain of the registration statements for these offerings incorporated by reference the October 1 Form 8-K that included the transcript of the October 1 Pre-Announcement Call. Through these filings with the Commission, information posted on the company's web site, transcripts of conference calls, and otherwise, Citigroup's statements about the investment bank's sub-prime exposure, described in this Complaint, were available to persons who were considering purchasing Citigroup securities.

CLAIM ONE

Violation of Section 17(a)(2) of the Securities Act [15 U.S.C. §77q(a)(2)]

47. Paragraphs 1 through 46 of this Complaint are hereby restated and incorporated herein by reference.

48. Defendant Citigroup, directly or indirectly, by use of the means or instruments of transportation in interstate commerce or of the mails, in the offer or sale of securities, obtained money or property by means of untrue statements of material fact or omissions to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading. A violation of Section 17(a)(2) of the Securities Act may be established by a showing of negligence. See Aaron v. SEC, 448 U.S. 680, 697 (1980).

49. Information about the sub-prime exposure of Citigroup's investment bank was material information. As set forth more fully in paragraphs 23, 26, 36, 42, and 43 of this Complaint, in its July 20 Earnings Call, July 27 Fixed Income Call, October 1 Pre-Announcement Call, October 1 Form 8-K, and October 15 Earnings Call, Defendant Citigroup misstated, and omitted to state, material information about the investment bank's sub-prime exposure. Defendant Citigroup knew or should have known that it was misstating, and omitting to state, material information about the investment bank's sub-prime exposure.

50. By reason of the foregoing, Defendant Citigroup violated Section 17(a)(2) of the Securities Act [15 U.S.C. §77q(a)(2)].

CLAIM TWO

Violation of Section 13(a) of the Exchange Act [15 U.S.C. §78m(a)] and Exchange Act Rules 12b-20 and 13a-11 [17 C.F.R. §§ 240.12b-20 and 240.13a-11]

51. Paragraphs 1 through 46 of this Complaint ~~are~~ hereby restated and incorporated herein by reference.

52. Defendant Citigroup, an issuer of securities registered pursuant to Section 12 of the Exchange Act [15 U.S.C. §78l], filed current and quarterly reports that were materially false and misleading.

53. As set forth more fully in paragraphs 35 and 36 of this Complaint, in its October 1 Form 8-K, Defendant Citigroup misstated, and omitted to state, material information about the investment bank's sub-prime exposure.

54. By reason of the foregoing, Defendant Citigroup violated Section 13(a) of the Exchange Act [15 U.S.C. §78m(a)] and Exchange Act Rules 12b-20 and 13a-11 [17 C.F.R. §§ 240.12b-20 and 240.13a-11].

PRAYER FOR RELIEF

WHEREFORE, the Commission respectfully requests that this Court enter a final judgment

A. permanently enjoining Defendant Citigroup from violating Section 17(a)(2) of the Securities Act [15 U.S.C. §77q(a)(2)], Section 13(a) of the Exchange Act [15 U.S.C. §78m(a)], and Exchange Act Rules 12b-20 and 13a-11 [17 C.F.R. §§240.12b-20 and 240.13a-11];

B. ordering Defendant Citigroup to pay civil penalties pursuant to Section 20(d) of the Securities Act [15 U.S.C. §77t(d)] and Section 21(d)(3) of the Exchange Act [15 U.S.C. §78u(d)(3)]; and

C. granting such other relief as the Court deems just and appropriate.

Respectfully submitted,

Erica Y. Williams

Robert S. Khuzami
Lorin L. Reisner
Scott W. Friestad
Erica Y. Williams (464518)
Laura B. Josephs (414519)
Thomas D. Silverstein (256362)
Andrew H. Feller (485316)

Attorneys for Plaintiff
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549
Telephone: (202) 551-4450 (Williams)
Facsimile: (202) 772-9246 (Williams)

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