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# FINAL NOTICE

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**To:**                   **Citigroup Global Markets Limited (“CGML”) (FRN 124384)**  
**Citibank N.A. London Branch (“CBNA London”) (FRN 124704)**  
**Citibank Europe Plc UK Branch (“CEP UK”) (FRN 211646)**

**Date:**               **26 November 2019**

## **1. ACTION**

1.1. For the reasons set out in this Notice, the PRA imposes a joint financial penalty on Citigroup Global Markets Limited (“CGML”), Citibank N.A. London branch (“CBNA London”) and Citibank Europe Plc UK branch (“CEP UK”) (the “Firms”) of £43,890,000 for:

- a) CGML and CBNA London’s breaches of PRA Fundamental Rule 6;
- b) CBNA London and CEP UK’s breaches of the Branch Return Rule; and
- c) the Firms’ breaches of Notifications Rule 6.1

between 19 June 2014 and 31 December 2018 (the “Relevant Period”) or parts thereof.

1.2. The Firms agreed to settle during the Discount Stage of the PRA’s investigation. As a result, the Firms qualified for a 30% settlement discount under the PRA Settlement Policy. Were it not for this discount, the PRA would have imposed a financial penalty of £62,700,000 on the Firms.

## **2. SUMMARY OF REASONS FOR ACTION**

### ***The relevant entities***

2.1. Citigroup is a US-domiciled international bank, headquartered in New York. It is designated by the Financial Stability Board, in consultation with the Basel Committee on Banking Standards and national authorities, as a global systemically important bank (“G-SIB”). Citigroup is the

third largest US bank with total assets of approximately \$2 trillion and operations in around 100 countries. The UK is Citigroup's largest jurisdiction outside of the US in balance sheet terms. Citigroup's UK operations report into Citigroup's EMEA management structure and ultimately to Citigroup's head office in the USA.

- 2.2. Citigroup operates in the UK through a broker-dealer subsidiary (CGML), a non-EEA branch from the USA (CBNA London), and a smaller EEA branch from Ireland (CEP UK).<sup>1</sup> Together, these three firms comprise Citigroup's PRA-regulated UK operations.

### ***Regulatory Framework***

- 2.3. A key part of the regulatory response to the global financial crisis has been enhanced prudential standards relating to firms' capital adequacy (maintaining the value of the stake held by shareholders), leverage (the ratio of a bank's debt funding to its funding through equity or capital) and liquidity (maintaining a proportion of liquid assets). These standards are respectively intended to ensure that firms hold sufficient funds to absorb losses in periods of stress, avoid excessive exposures relative to their own funds and hold sufficient assets to meet their short term obligations.

### ***Capital***

- 2.4. Pursuant to the PRA's approach to banking supervision, the PRA determines a minimum regulatory capital level and buffers on top of this, as applicable, expressed in terms of the international standards developed by the Basel Committee on Banking Supervision (the "Basel Committee"), and collectively called Basel III. The UK capital framework comprises four parts: Pillar 1 (requirements to provide protection against credit, market and operational risk), Pillar 2A (PRA requirements reflecting estimates of risks not otherwise fully addressed), buffers imposed under relevant EU legislation and the PRA buffer (to cover risks not addressed elsewhere).
- 2.5. Basel III limits the type of capital that a bank may include in its different capital tiers and structures. A bank's capital structure consists of Tier 2 capital, Tier 1 capital and common equity Tier 1 capital ("CET 1"). CET 1 consists mostly of common stock held by a bank or other financial institution. The CET 1 ratio measures a bank's capital against its assets. Because not all assets have the same risk, the assets acquired by a bank are weighted based on the credit risk and market risk that each asset presents.

### ***Leverage Ratio***

- 2.6. To complement the risk-weighted capital regime, the PRA requires firms to take into account the risk of excessive leverage when assessing the adequacy of capital levels. In particular, firms are required to consider whether their degree of leverage is appropriate against the internationally agreed measure of leverage on a non-risk weighted basis. For those firms

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<sup>1</sup> CEP UK came into being on 1 January 2016.

subject to the UK leverage ratio framework, the PRA requires a minimum leverage ratio at all times.

### ***Liquidity Coverage Ratio***

- 2.7. The PRA requires firms to hold a buffer of high-quality unencumbered assets that can reliably be traded or exchanged in private markets, including in stressed circumstances. As with capital, the PRA reaches its own view on the appropriate size and composition of the liquidity buffer that firms should hold in normal, unstressed conditions. The Liquidity Coverage Ratio (“LCR”) is the starting point for that assessment. The LCR requires firms to hold a stock of high-quality liquid assets which must be at least equivalent to the likely net cash outflows from the firm over thirty days in a specified stress scenario.

### ***Regulatory Returns***

- 2.8. Under relevant European legislation and in accordance with the PRA Rulebook, firms are required to monitor and submit periodically information relating to their capital adequacy, leverage and liquidity in regulatory returns. The purpose of these returns is to provide the PRA with information and data to enable it to supervise firms effectively, to inform its judgments about key risks, to measure individual firms’ compliance and performance and to feed into macro-prudential decisions.

### ***EEA and non-EEA Branch Returns***

- 2.9. Similarly, the PRA requires all branches, whether of an EEA bank or non-EEA bank, to complete a data collection return (known as the Branch Return). The purpose of the twice-yearly Branch Return is to enhance the PRA’s understanding of the potential impact that branches could have on UK financial stability. The Branch Return gathers quantitative information on economic functions being performed by all bank branches in the UK. The Branch Return is also used to provide the PRA with data which will inform its judgment on whether a UK branch of an EEA bank is ‘significant’ and important to UK financial stability.

### ***The Firms’ engagement with the PRA***

- 2.10. The PRA holds an annual firm-specific meeting, known as a Periodic Summary Meeting (“PSM”) to discuss its view of the key risks a firm poses to the PRA’s objectives, as well as the actions the firm is expected to take in light of these key risks. A letter is subsequently sent to the firm summarising the PRA’s view. Following the 2015 PSM, the PRA informed the Firms that it considered their PRA-regulated UK operations to be amongst the most complex legal entity structures across their peer group and that their governance structure needed to reflect the complexities of the operating structure they had chosen in the UK. The PRA emphasised the need for positive engagement on both the letter and spirit of EU and UK regulations. A key part of that engagement is the provision by the Firms of accurate, timely and complete Returns.

- 2.11. During the Relevant Period, the Firms were required to resubmit a significant number of Returns due to errors in the original submissions. Between 2015 and 2017, the Firms resubmitted a significant number of CGML's liquidity and capital returns due to errors in the original submissions; in a number of instances multiple resubmissions were necessary. In addition, in 2016, the PRA identified incorrect data entries in CBNA London and CEP UK's branch returns.
- 2.12. In addition, in October 2016, CGML brought to the PRA's attention that it had been mis-reporting its LCR by up to 47% between October 2015 and June 2016. This meant that during those months the Returns submitted were inaccurate and unreliable and the PRA did not have an accurate understanding of CGML's liquidity position (i.e. its short-term ability to fund outflows with high quality assets in a stressed situation) which in some months was significantly worse than originally reported.
- 2.13. Following the 2016 PSM, the PRA raised these examples with the Firms and considered them symptomatic of the Firms' failing to focus sufficiently on their UK regulatory obligations.
- 2.14. In 2017, the PRA required the Firms to appoint a Skilled Person under s.166 of the Act to assess and report on: (i) the accuracy of the data being submitted to the PRA by the Firms; (ii) the risk management and controls around the processes used to support data collation; and (iii) whether appropriate governance was in place, including in relation to the Firms' application of the Senior Managers and Certification Regime ("SMCR").

#### ***Skilled Person's Report***

- 2.15. CBNA London commissioned the Skilled Persons Report on 1 June 2017 and the Skilled Person issued their report on 31 October 2017 (the "Report"). The Skilled Person was instructed to review four types of regulatory returns: CGML's capital and leverage returns, CGML's liquidity returns and CEP UK and CBNA London's branch returns (together, the "Returns").
- 2.16. The Skilled Person issued qualified Reasonable Assurance opinions in respect of the Firms' capital, leverage and branch returns and an adverse opinion in respect of the Liquidity returns. The Report identified a significant number of findings, including six substantive matters which had a material or potentially material impact on the relevant Returns. 44 findings related to CGML's capital returns (of which 17 impacted on the Skilled Person's Reasonable Assurance opinion) and 27 findings related to CGML's liquidity returns (of which 12 impacted on the Skilled Person's Reasonable Assurance opinion).
- 2.17. Of significant concern to the PRA was that 29 of the 106 findings related to the Firms' governance, systems and controls across its Capital, Liquidity, Leverage and Branch Returns. The 106 findings identified by the Report cumulatively affected the accuracy of all of the Firms'

Returns as at 31 December 2016. This was particularly the case given that overstatements in certain parts of the Returns were being offset by understatements in other parts of the Returns. The potential cumulative impact of the errors identified by the Skilled Person in CGML's capital return resulted in the understatement of its risk-weighted assets by \$15.4bn. This understatement reduced CGML's Common Equity Tier 1 ratio from 11.8% to 10.3%.<sup>2</sup> CGML's liquidity return significantly understated CGML's LCR (resulting in a 36%-41% improvement in the Pillar 1 ratio and a 22%-25% improvement in the Pillar 2 ratio).

- 2.18. These errors meant that cumulatively CGML's capital position was worse than originally reported to the PRA and its liquidity position was better than originally reported. In both instances, however, the errors meant that the Returns submitted were unreliable and the PRA did not have an accurate understanding of CGML's capital or liquidity position.
- 2.19. While the Report identified inaccuracies across all of the Returns reviewed, the Firms remained in surplus to liquidity and capital requirements at all times during the Relevant Period. However, the pervasiveness of the errors and misstatements the Report identified in the Returns raised fundamental concerns as to the effectiveness of the Firms' regulatory reporting control framework, indicated weaknesses in the Firms' ability to manage its business prudently and negatively impacted the PRA's ability to supervise the Firms. The PRA therefore decided to investigate whether the Firms' UK regulatory reporting framework complied with relevant requirements in the PRA Rulebook.

### 3. **BREACHES AND FAILINGS**

- 3.1. The PRA's investigation identified that, although during the Relevant Period the Firms had begun to undertake a significant remediation programme, the systems, controls and governance arrangements that underpinned the Firms' UK regulatory reporting were not in a number of respects designed, implemented or operating effectively during the Relevant Period. They were therefore inadequate to ensure accurate regulatory reporting for organisations of the Firms' size, complexity and systemic importance. This led to the significant number of errors and misstatements identified in the Returns.
- 3.2. As a result, during the Relevant Period, the Firms breached relevant requirements under the PRA Rulebook. Specifically, CGML and CBNA London breached Fundamental Rule 6 of the PRA Rulebook. CBNA London and CEP UK also breached Rule 3.1 of the Incoming Firms and Third Country Firms Part of the PRA Rulebook (the "Branch Return Rule" - which was in effect from 1 July 2015) and the Firms breached Rule 6.1 of the Notifications Part of the PRA Rulebook. Fundamental Rule 6 requires that a firm organise and control its affairs responsibly

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<sup>2</sup> The PRA notes that (i) \$6.1bn of this misstatement related to a technical interpretation issue that was notified to the PRA and in relation to which a subsequent clarifying European Commission Implementing Decision and EBA Q&As have been issued; (ii) and a further \$2bn related to a justifiable approach to the interpretation of CRD IV. Excluding these issues, the impact on CGML's risk weighted assets was \$7.1bn (resulting in a reduction in CGML's Common equity Tier 1 ratio from 11.8 to 11.0%).

and effectively. The Branch Return Rule requires incoming and third country firms to provide the PRA with specified information. Notifications Rule 6.1 requires firms to take reasonable steps to ensure the information they submit to the PRA is complete and accurate.

3.3. During the Relevant Period, CGML and CBNA London branch breached PRA Fundamental Rule 6 because they failed to organise and control their affairs responsibly and effectively to ensure that they complied with their UK regulatory reporting obligations. In particular:

- a) They failed to ensure that systems and controls supporting their regulatory reporting framework were designed, implemented and operating effectively. Key controls did not ensure the completeness and accuracy of data used in the Returns or the accuracy of the Returns themselves and, in a number of instances, do not appear to have been operated in full accordance with the Firms' own internal requirements. A number of system errors were of such a fundamental and / or persistent nature that they were not identified by the on-going validation controls which the Firms had in place;
- b) They failed to allocate adequate human resources to enable them to comply with all of their UK regulatory reporting obligations, particularly to ensure that CGML's liquidity returns were complete and accurate;
- c) Their documentation of multiple aspects of their UK regulatory reporting control framework was inadequate for organisations of the Firms' size, complexity and systemic importance;
- d) CGML's approach to technical interpretations of reporting requirements was insufficiently robust given the complexity of those decisions and the impact they could have on the accuracy of CGML's capital, liquidity and leverage returns; and
- e) Their oversight and governance in relation to regulatory reporting fell significantly below the standards expected of a systemically important institution. Members of the Firms' senior management and key governance committees had limited understanding and awareness of the Firms' own policies and procedures relating to the UK regulatory reporting control framework. It was unclear in a number of respects which senior individuals had ownership of procedures relating to specific Returns. This limited the ability of the Firms to ensure that the systems, controls and procedures intended to ensure complete and accurate regulatory reporting were operating effectively or being complied with.

3.4. As a result of the above failings, the Firms also breached Notifications Rule 6.1 and, in respect of CBNA London and CEP UK's branch returns, the Branch Return Rule, in that they failed to submit complete and accurate information to the PRA.

#### **4. REASONS WHY THE PRA TOOK ACTION**

- 4.1. The PRA is responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms. The PRA's role is to promote the safety and soundness of those firms.
- 4.2. The PRA expects firms' regulatory returns to be prepared to a high standard and submitted in a timely fashion. The PRA also expects firms to have robust validation and governance processes that ensure regulatory reporting is consistently of a high standard. The production and integrity of a firm's regulatory reporting is also a Prescribed Responsibility under the Senior Managers and Certification Regime ("SMCR").
- 4.3. The provision of complete, timely and accurate prudential data is a key component in the PRA's supervisory approach. The PRA relies on firms – including branches – submitting sufficient data, of appropriate quality, to inform its judgements about key risks, to measure individual firms' compliance and performance and to feed into macro-prudential decisions. Accurate and timely prudential data supports going-concern supervision and is crucial in identifying, monitoring and managing periods when firms are under stress or recovering from such periods. The failure to provide accurate and timely regulatory data can indicate a range of weaknesses in a firm's ability to manage its business prudently. Experience shows firms that do not produce timely, complete and accurate data during periods of relative stability are less likely to produce it under stress.
- 4.4. It is therefore essential that firms make appropriate investment to ensure that both the integrity of the data and the ability to process it accurately are maintained. Systems and controls also need to be in place to ensure the correct application of relevant rule changes. Firms ought not to take undue comfort from their ongoing business-as-usual checking processes, particularly checks which look for unusual variances over time as certain errors (especially incomplete data) may persist for a long time unnoticed because data has consistently been inaccurate and large variances across time do not occur.
- 4.5. The relatively large number of misstatements in the regulatory calculations and reporting forms in the Returns were of particular concern given that Citigroup is a G-SIB and the Firms comprise a Category 1 PRA-regulated group (meaning they have the capacity to cause significant disruption to the UK financial system if they were to fail).
- 4.6. The PRA's investigation identified that the root cause of these errors were that the Firms failed to ensure that key systems and controls supporting their regulatory reporting framework were designed, implemented and operating effectively, and that they failed to organise and control their compliance with UK regulatory reporting requirements effectively.
- 4.7. During the Relevant Period and since, the Firms had invested in remediating issues in the

upstream data processes, systems and controls that underpin its regulatory reporting. Further, in a number of instances, the Firms had self-identified certain findings of the Skilled Person's Report. However, in circumstances where the Firms had been aware of data quality issues since at least 2013, and had been required to resubmit a significant number of Returns, the PRA considers that greater immediate priority should have been given to ensuring that adequate systems and controls were in place.

- 4.8. While the PRA accepts that certain remediation efforts may be reliant on group-wide or global initiatives, these cannot be at the expense of the accuracy and completeness of reporting for UK entities or compliance with applicable PRA requirements, particularly where such initiatives may take a considerable period of time to implement.

## **5. SANCTION**

- 5.1. Taking into account the facts and matters in Annex A and the relevant factors set out in the PRA's Penalty Policy, the PRA considered that CGML and CBNA London's breaches of PRA Fundamental Rule 6, CBNA London and CEP UK's breaches of the Branch Return Rule, and the Firms' breaches of Notifications Rule 6.1 justified the imposition of a financial penalty of £62,700,000. That was reduced by 30% to £43,890,000 because the Firms settled the matter with the PRA during the Discount Stage.

## **6. ANNEXES/APPENDICES AND PROCEDURAL MATTERS**

- 6.1. The full particulars of the facts and matters relied on by the PRA in its decision-making process regarding the Firms can be found in **Annex A**. The Firms' breaches and failings are detailed in **Annex B** and the basis for the sanction the PRA imposed is set out in **Annex C**. The procedural matters set out in **Annex D** are important. The definitions used in this Notice are set out in **Appendix 1** and the relevant statutory, regulatory and policy provisions are set out in **Appendix 2**.

### **Miles Bake**

Head of Legal, Enforcement and Litigation Division  
for and on behalf of the PRA

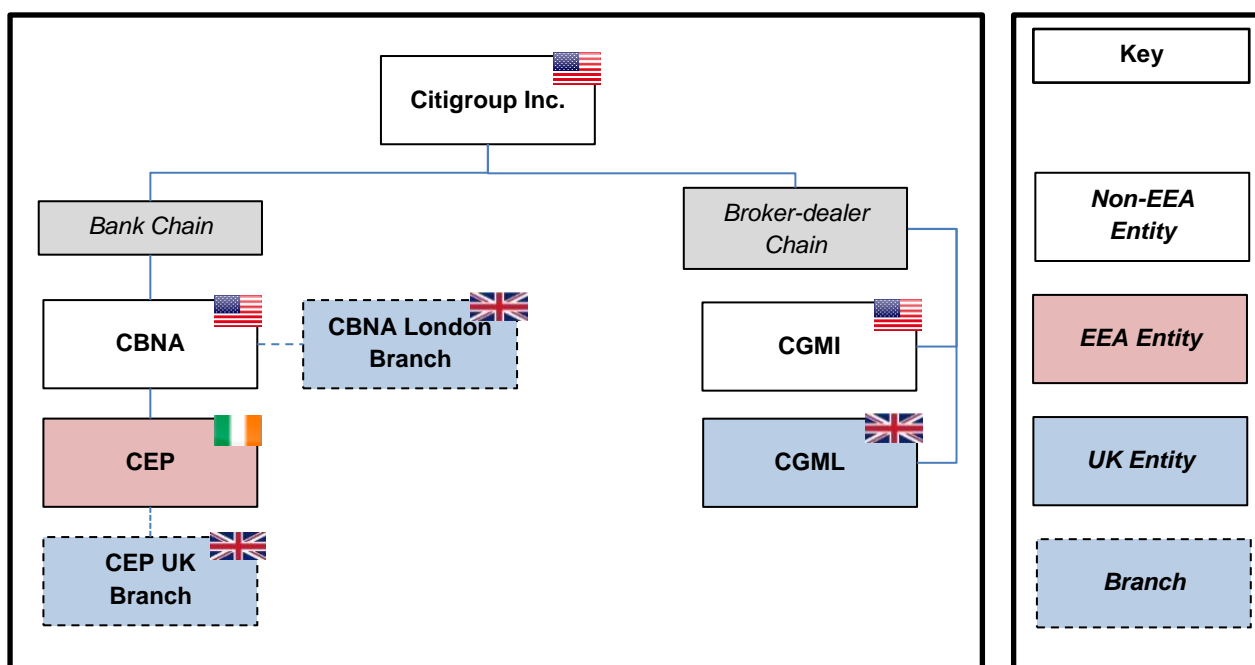


# Annex A – Facts and Matters Relied Upon

## 1. BACKGROUND

### *The Firms*

1.1. Citigroup is the third largest US bank by assets and is designated by the Financial Stability Board, in consultation with the Basel Committee on Banking Standards and national authorities as a global systemically important bank (“G-SIB”), with total assets of \$2 trillion and operations in around 100 countries. The UK is Citigroup’s largest jurisdiction outside of the US in balance sheet terms and UK entities account for two of Citigroup’s four global booking centres. A simplified diagram of Citigroup’s UK operations during the Relevant Period is set out below.



1.2. Citigroup operates in the UK through a broker-dealer subsidiary, a non-EEA branch and a smaller EEA branch:

- a) Citigroup Global Markets Ltd (“CGML”) is an international broker-dealer with total assets of \$192bn at end 2017. CGML's trading activities encompass cash, exchange traded and over-the-counter derivative markets with the major counterparties being banks, investment firms, investment managers, insurers and hedge funds.
- b) Citibank N.A. (London Branch) (“CBNA London”) is a branch of Citibank N.A. headquartered in the USA with total assets of \$193bn as at end 2017. Citibank N.A. is regulated by the Office of the Comptroller of the Currency (OCC) and Federal Reserve Bank of New York (FRBNY).
- c) Citibank Europe plc London Branch (“CEP UK”) is a passported branch of Citigroup's

Dublin-headquartered banking subsidiary, with total assets of \$13.6bn as at end 2017. CEP UK opened on 1 January 2016 following the merger of Citibank International Limited (a London headquartered banking subsidiary) with the existing CEP. Following that merger, CEP has a network of 14 passported branches across the EEA.

- 1.3. Together, these three firms comprise Citigroup's PRA-supervised UK operations. Overall, Citigroup's UK business accounts for c.15.6% of total group assets and 9.1% of group revenues. Citigroup's UK business reports into Citigroup EMEA management (which is also headquartered in London). Citigroup EMEA management in turn reports to Citigroup's head office in the USA.

### ***The Returns***

- 1.4. Under relevant European legislation (in particular the Capital Requirements Directive and the Capital Requirements Regulation ("CRR") (together "CRD IV"), and the Liquidity Coverage Regulation Delegated Act ("LCR DA") and in accordance with the PRA Rulebook<sup>3</sup>, the Firms were required to submit periodically a number of Returns to the PRA during the Relevant Period (or parts thereof). The purpose of these Returns was to provide the PRA with information and data to enable it to supervise the Firms effectively and to assist in its statutory objectives more broadly. The regulatory returns to which the findings in this Notice relate are as follows:
  - a) CGML's capital returns and leverage returns (COR001 – Consolidated Own Funds and Leverage returns). These were required to be produced with effect from 1 January 2014.
  - b) CGML's liquidity returns (COR011 - Consolidated Liquidity returns). These were required to be produced with effect from 1 October 2015.
  - c) CBNA's London branch returns and CEP UK's branch returns. These were required to be produced with effect from 1 July 2015.<sup>4</sup>
- 1.5. Following the 2015 PSM, the PRA informed the Firms that it considered their PRA-regulated UK operations to be amongst the most complex legal entity structures across their peer group and that their governance structure needed to reflect the complexities of the operating structure they had chosen in the UK. The PRA emphasised the need for positive engagement on both the letter and spirit of EU and UK regulations. A key part of that engagement was the provision by the Firms of accurate, timely and complete Returns.
- 1.6. During the Relevant Period, the Firms were required to resubmit a significant number of Returns due to errors in the original submissions. Between 2015 and 2017, CGML resubmitted a significant number of its liquidity and capital returns due to errors in the original submissions. In a number of instances multiple resubmissions were necessary. In addition, in 2016, the PRA

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<sup>3</sup> See Appendix 1 for further details of relevant requirements.

<sup>4</sup> In CEP UK's case, from its creation on 1 January 2016.

identified incorrect data entries in CBNA London and CEP UK's 2015 branch returns.

- 1.7. In October 2016, CGML brought to the PRA's attention that it had been mis-reporting its LCR by up to 47% between October 2015 and June 2016. This meant that during those months the Returns submitted were unreliable and the PRA did not have an accurate understanding of CGML's liquidity position (i.e. its short-term ability to fund outflows with high quality assets in a stressed situation) which in some months was significantly worse than originally reported. CGML identified this error as part of an internal process whereby variances between the LCR reported to the PRA and Citi's own internal liquidity metric were assessed monthly. The PRA had a meeting with the Firms on 19 October 2016, where Citi noted that its reporting process required manual intervention and was not end state. Following the identification of this issue, Citi increased the frequency of the relevant variance check from monthly to daily, and initiated reviews to assess potential similar issues.

### ***Skilled Persons Report***

- 1.8. Following these events, the PRA required the Firms to appoint a skilled person under s. 166 of the Act. The Skilled Person was to assess and report on: (i) the accuracy of the data being submitted to the PRA by CGML, CBNA London and CEP UK; (ii) the risk management and controls around the processes used to support data collation; and (iii) whether appropriate governance was in place, including in relation to the Firms' application of the SMCR. The Skilled Person was to issue opinions in relation to the Returns as at 30 December 2016. These opinions were to consider if the Returns had been prepared in accordance with applicable regulation and guidance and if they were free from material misstatements.
- 1.9. The Skilled Persons Report (the "Report") was issued on 31 October 2017. The Report highlighted a significant number of matters impacting the Firms' UK regulatory reporting framework and the completeness and accuracy of the Returns. While a number of the matters raised in the Report were below de minimis or related to optimisation opportunities, the most significant overall errors the Report identified were as follows:
  - a) In relation to CGML's capital returns as at 30 December 2016, the potential cumulative impact of the reporting errors was to increase CGML's risk-weighted assets by \$15.4bn, from \$103.8bn to \$119.2bn, and to reduce CGML's Common equity Tier 1 ratio from 11.8% to 10.3%.<sup>5</sup>
  - b) In relation to CGML's liquidity returns as at 30 December 2016, the cumulative impact of the reporting errors on CGML's LCR was a 36%-41% improvement in CGML's Pillar 1 ratio

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<sup>5</sup> The PRA notes that \$8.1bn of this misstatement related to: (i) a technical interpretation issue that was notified to the PRA and in relation to which a subsequent clarifying European Commission Implementing Decision and EBA Q&As have since been issued (impact: \$6.1bn); and (ii) a separate issue relating to a justifiable approach to the interpretation of CRD IV (impact: \$2bn). Excluding these issues, the impact on CGML's risk weighted assets was \$7.1bn (resulting in a reduction in CGML's Common equity Tier 1 ratio from 11.8 to 11.0%).

and a 22%-25% improvement in CGML's Pillar 2 ratio.

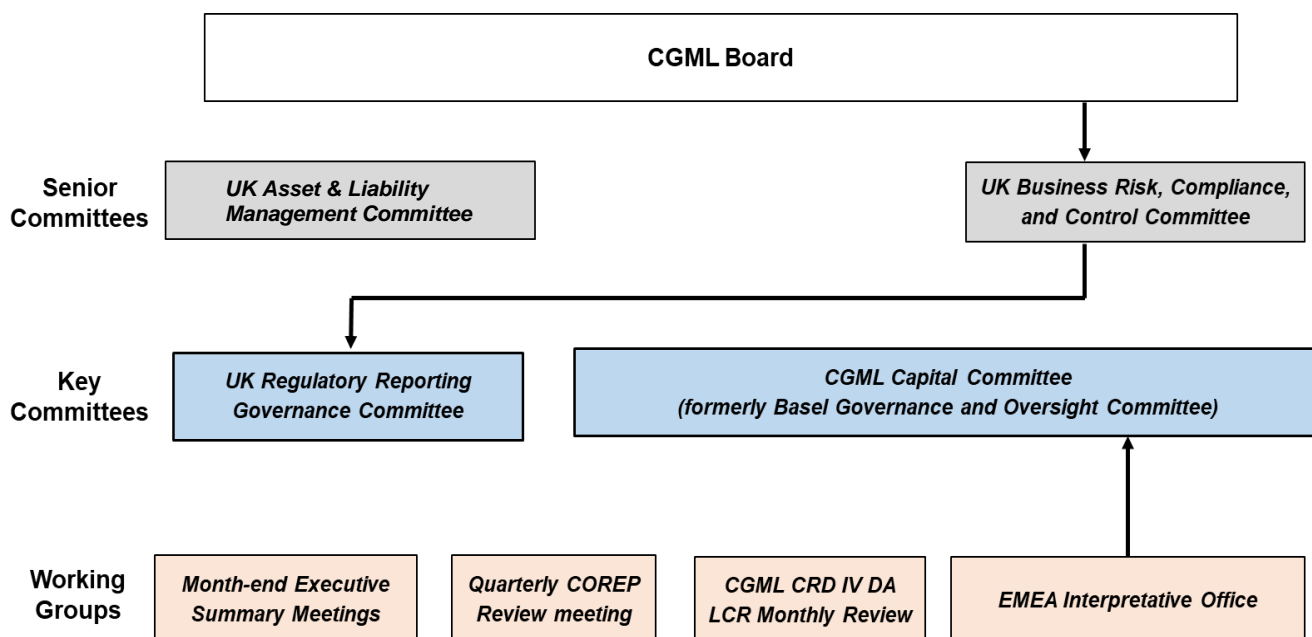
1.10. Given the significance of the errors identified by the Report, the importance of an effective regulatory reporting control framework to the Firms' safety and soundness, and the impact of inaccurate Returns on the PRA's ability to supervise the Firms effectively and the PRA's wider statutory objectives, the PRA investigated the Firms' UK regulatory reporting framework. The investigation focused on the Firms' systems, controls, and governance arrangements relating to the Returns. The key areas investigated are detailed in the remainder of this Annex and were as follows:

- a) The Firms' regulatory reporting governance arrangements;
- b) The Firms' regulatory reporting control framework;
- c) The Firms' approach to technical interpretations of UK reporting requirements;
- d) The Firms' approach to documentation;
- e) Resourcing of the Firms' regulatory reporting function; and
- f) Remediation of issues relating to the Firms' regulatory reporting function.

## 2. UK REGULATORY REPORTING GOVERNANCE ARRANGEMENTS

### *Formal committees and governance fora*

2.1. During the Relevant Period, the Firms established and maintained a number of formal committees and governance fora that were, amongst other responsibilities, to exercise oversight and governance in relation to regulatory reporting matters. These committees and fora are summarised in the diagram below:



2.2. The principal committees which were in a position to have oversight of the Returns were as follows:

- a) the Basel Governance and Oversight Committee (“BGO”) which was later named the CGML Capital Committee;
- b) the UK Assets and Liabilities Committee (the “UK ALCO”);
- c) the UK Business, Risk, Compliance and Control Committee (the “BRCC”); and
- d) the Local (i.e. UK) Regulatory Reporting and Governance Committee (the “UK RRG”).

2.3. While the CGML Board had ultimate responsibility for the organisation and control of the Firms’ affairs, it delegated oversight of regulatory reporting to the UK RRG via the UK BRCC.

2.4. The UK RRG had oversight of the preparation and submission of the Returns. It also had responsibility for compliance with the Firms’ Local Regulatory Reporting Directive (which set out a number of the UK RRG’s responsibilities) (see paragraphs 3.1 and 3.2 below). The UK RRG’s Charter noted that the committee’s primary responsibility was to govern the overall safety and soundness of the Firms’ regulatory reporting.

- 2.5. The UK BRCC was the key committee for the escalation and remediation of risks relating to the Firms, including in relation to regulatory reporting. The UK BRCC received updates from the UK RRG (which was incorporated into the UK BRCC from May 2016) and would consider the results of Management Control Assessments (see paragraph 2.18 below).
- 2.6. In addition, an EMEA Interpretative Office considered technical interpretations relevant to the Returns and reported to the BGOC / CGML Capital Committee. The role of the EMEA Interpretative Office and the BGOC / CGML Capital Committee are considered at paragraphs 4.1 to 4.7 below.

### ***Responsible departments and functions***

- 2.7. During the Relevant Period, the Firms' (and in particular CGML's) UK Finance function had responsibility for the preparation and submission of the Returns (the "UK Finance function"). As the Firms comprised part of the larger Citigroup organisation, there was a significant degree of reliance upon other departments and global systems, processes and data. In such situations, where regulatory reports contained information from multiple departments and such information was aggregated for submission, the Finance department had overall oversight of the submission process. Other functional department(s) retained responsibility for the accuracy of underlying data provided.
- 2.8. Within the Firms' UK Finance function, accountability for the Returns was split between the UK Controllers team (who were accountable for CGML's capital and leverage returns and CBNA London and CEP UK's branch returns) and the UK Corporate Treasury team (who were accountable for CGML's liquidity returns). The UK Finance function reported into the EMEA Regional Finance function.
- 2.9. The actual processes for the production of the Returns were carried out by the Firms' Regulatory Reporting team in Hungary (the "Budapest team") in the case of CGML's capital and leverage returns and CBNA London and CEP UK's branch returns, and by the Finance and Risk Shared Service ("FRSS") team in India (the "Mumbai team") in the case of CGML's liquidity returns. The Budapest team was part of CGML's EMEA operations. The Mumbai team was part of a separate entity that provided services to Citigroup's global Finance and Risk departments.
- 2.10. In the case of CGML's liquidity returns, the Budapest team would review and challenge the LCR ratios and returns, variance analysis and reconciliations prepared by the Mumbai team and would sign-off that the monthly liquidity returns were ready for receiving UK Corporate Treasury's approval for submission. During the Relevant Period, the Budapest team was also responsible for technical LCR DA interpretations. The role of the UK Controllers and Corporate Treasury teams was to provide oversight, governance and sign off for the Returns, prior to submission to the PRA.

2.11. There was also dependence on the wider Citigroup for the technical design and implementation of global regulatory reporting systems and for the provision of underlying data used in the Returns. The Firms had limited oversight of or involvement in these processes. The Firms placed a significant degree of reliance on these global processes being carried out to the requisite standards to enable them to comply with their specific UK regulatory reporting obligations.

#### ***Other governance and oversight meetings***

2.12. In addition to the formal committees described above, the UK Finance function conducted a number of other governance and oversight meetings during the Relevant Period. In particular, CGML's capital and liquidity returns would be discussed at regular forums: the COREP Review Meeting and the CGML CRD IV DA Monthly Review Meeting respectively. Similarly, two monthly executive summary meetings would review material month-on-month variances in financial positions, the CGML Capital Adequacy Meeting (for capital) and the CGML Stress Committee (for liquidity). CBNA London and CEP UK's branch returns were also considered at a PRA Branch Return Review meeting prior to submission.

2.13. Following the introduction of the Senior Managers and Certification Regime in 2016, the senior manager who held the prescribed responsibility for regulatory reporting began holding a monthly SMR Support Meeting with their direct reports.

2.14. The UK Finance function would also receive daily management information relating to CGML's liquidity and capital management (including variance analysis) from the Budapest and Mumbai teams. Members of the UK Controllers and Corporate Treasury teams would discuss this information and any issues with the Budapest team on a daily basis.

#### ***Risk and Compliance***

2.15. The Firms' Risk and Compliance functions did not have a role in relation to the preparation or completion of the Returns. However, the Risk and Compliance functions provided a level of challenge to aspects of the UK Finance function relevant to the preparation of and control framework for the Returns.

2.16. In particular, Operational Risk, which sat within the Risk function owned the Management Control Assessment ("MCA") process (see paragraph 2.18 below). The Risk function also had close interaction with the Finance function on several governance fora relevant to the Returns (for example the BRCC and EMEA IO).

2.17. The Firms' UK Finance function, rather than their Compliance function, had responsibility for compliance with local regulatory reporting obligations. Compliance highlighted to the UK Finance function any relevant new regulations or changes it became aware of and was responsible for ensuring the Firms' compliance with PRA Fundamental Rule 7.

### ***Management Control Assessments***

- 2.18. A key part of the Firms' governance arrangements were Management Control Assessments ("MCAs"). MCAs were conducted quarterly and were intended to identify risks and review and monitor the effectiveness of the UK Finance function's control framework. Separate MCA processes were carried out for the UK Controllers, UK Corporate Treasury, Budapest and Mumbai teams.
- 2.19. Senior individuals within the UK Finance function considered the MCA processes to be the primary means by which the effectiveness of the Firms' regulatory reporting control framework was reviewed and monitored and by which risks relevant to its operation were identified. These individuals believed that the controls mandated by the Directive would have been applied through the MCA process, notwithstanding the fact that in some instances those individuals had limited understanding and awareness of the contents of the Directive.
- 2.20. Whilst MCAs did not – and were not designed to – identify all specific reporting errors, throughout the Relevant Period MCAs repeatedly identified broader risks to the submission of complete and accurate Returns. In particular, every UK Finance MCA between 2015 and mid-2018 raised data quality and its impact on accuracy of downstream reporting as a continuing risk in near identical terms.
- 2.21. MCAs also noted that certain parts of the regulatory reporting process were extremely manual in nature. Throughout the Relevant Period, MCAs also consistently identified concerns relating to non-UK service teams (including the Mumbai and Budapest teams) who carried out these manual processes and the need for "very close monitoring" of these teams. Relevant MCAs were routinely reviewed by the Firms' key committees (in particular by the UK BRCC).

### ***RACI Matrix and responsibilities***

- 2.22. During the Relevant Period, a RACI Matrix set out which individuals within the UK Finance function management team had delegated responsibility or accountability for the delivery of various activities across the UK Finance function. These activities included UK regulatory reporting and the UK Finance function's control environment. All seven senior individuals listed in the RACI matrix were identified as Responsible and Accountable for the UK Finance function's control environment. Whilst the RACI Matrix detailed that accountability for local regulatory reporting sat within the UK Controller's function, as set out at paragraph 2.8 above, accountability for the Returns was split between the UK Controllers team (who were accountable for CGML's capital and leverage returns and CBNA London and CEP UK's branch returns), and the UK Corporate Treasury team (who were accountable for CGML's liquidity returns).



### 3. UK REGULATORY REPORTING CONTROL FRAMEWORK

#### ***The Local Regulatory Reporting Directive***

3.1. From June 2013 and throughout the Relevant Period, there existed a Local Regulatory Reporting Directive. This applied to all Citigroup entities outside the USA including the Firms. The Directive's stated objective was to ensure that a set of rigorous and consistent oversight and control process were followed with respect to the preparation and submission of regulatory reports in each jurisdiction in which Citigroup operated. In particular, the Directive:

- a) Described a common governance framework, to include roles and responsibilities of the key stakeholders managing or involved in regulatory reporting processes.
- b) Detailed the report validation requirements – both for initial validation and on-going validation of regulatory reports.
- c) Defined the minimum control standards applicable to departments responsible for regulatory reporting. Minimum control standards included documented procedures, preventive controls (such as training, data verification, account mapping and EUC standards) and detective controls (such as variance analysis and maker / checker).
- d) Set out the responsibilities of the EMEA RRGC and the UK RRGC.

3.2. The Directive also required the maintenance of documented procedures, including:

- a) Requiring specific individuals in management to ensure that the procedures used to prepare the regulatory reports were accurately documented; and
- b) Setting guidance for the level of detail required. Procedures were to be documented “*in sufficient detail so that the country LRRGC and others reviewing the process can fully understand how the process is performed and how key controls are in place and utilized to ensure the accuracy of the report(s)*”. The minimum requirements included: “*A detailed description of the process used to generate the report(s) to include the flow of information and data between sources, the departments providing the information, how the information is obtained, and the key control points around the process.*”

#### ***Categorisation of the Returns***

3.3. The Directive required every regulatory report to be categorised as high, medium or low complexity. This categorisation, in part, determined the validation requirements and level of procedural documentation required for the production of the report. In the case of the Returns, The UK Finance function, as the Responsible Functional Department, was responsible for assigning the categorisation. Under the Directive, the UK RRGC was required to complete a

review of the categorisation of regulatory reports at least once per year. The PRA's investigation did not identify evidence to suggest this occurred in practice.

- 3.4. According to the Directive, high complexity reports were typically defined as reports that: (i) included ratios, limits or other derived data; (ii) required significant analysis of information post-production; or (iii) had material qualitative components. Reports might further be categorised as highly complex based on the difficulty in acquiring and processing data or the level of manual compensating controls where automation did not exist. Medium complexity reports were defined as reports that required minimal post-production analysis and little or no supplemental data requirements, and were either largely automated, or were produced manually with a high quality of compensating controls. Low complexity reports were defined as reports which were generally fully automated and had no post-production analysis or supplemental data requirements. They typically did not require data from outside the Responsible Functional Department.
- 3.5. Notwithstanding the complexity of CEP UK and CBNA London's branch returns, the fact that they were dependent on a large number of upstream data sources and that the systems and controls underpinning those reports required significant manual intervention, they were categorised as 'low complexity' from their introduction during the Relevant Period. In 2017, the categorisation of these returns was changed to medium complexity. The reasons for this change were not documented in minutes of the UK RRG.
- 3.6. Separately, CGML's capital, leverage and liquidity returns were categorised as high complexity, however the PRA's investigation identified that a number of procedural documents erroneously stated these returns to be medium complexity.

#### ***Controls framework***

- 3.7. The Firms relied on a number of systems and processes to generate and collect the data required to prepare the Returns. As per the Directive, these were to be subject to a number of controls intended to ensure that the Firms' regulatory reporting was complete and accurate. In summary, the Firms' regulatory reporting control framework was intended to include initial and on-going validation of the Returns and certain minimum control standards (including detective controls such as variance analysis, reconciliations and maker / checker). The remainder of this section details these controls.

#### ***Initial and On-going Validation***

- 3.8. Prior to a return being submitted to a regulator for the first time, the Directive required the Firms to conduct an initial validation of the return. This process was intended to be robust to give Citi confidence that the end-to-end process of producing the return was accurate, complete, and had the necessary controls and appropriate levels of accountability in place.
- 3.9. On-going validation of the Returns was the obligation of the UK Finance function. These

processes, amongst other things, were to be robust enough to ensure that maker / checker and associated control procedures remained in place, data sources had been verified and all reports remained accurate and up to date.

- 3.10. Within the terms of the Directive, the frequency of on-going validation was driven by the categorisation of the specific return (as high, medium or low complexity). On-going validation was also to be performed more frequently where material weaknesses were identified in the underlying systems and controls used in preparing the return (for example via the MCA process).
- 3.11. As described further below, the PRA's investigation identified a number of concerns around the initial validation work conducted prior to the implementation of the LCR DA in October 2015 and the on-going validation of the Firms' regulatory reporting control framework. For example, an internal audit identified that UK Corporate Treasury had not completed a detailed review of their initial interpretation and implementation of the LCR DA reporting requirements prior to the first submission of CGML's liquidity returns under the LCR DA.

#### ***End User Computing Tools***

- 3.12. The process for preparing CGML's liquidity returns was particularly dependent on a number of end-user computing tools ("EUCs"). EUCs were database or spreadsheet-based tools that performed calculations and / or manipulated upstream data as part of the process of preparing the Returns. For CGML's liquidity returns, these included an EUC tool intended to calculate the net value of CGML's collateral swaps transactions.
- 3.13. There were a number of fundamental errors in the calculation logic of this liquidity EUC tool which were not identified prior to it becoming operational (due to shortcomings in the Firms' user acceptance testing process). This led to multiple reporting errors.
- 3.14. EUC tools were subject to requirements detailed in Citi's Global EUC Standards. These outlined controls and documentation standards to be performed in relation to EUCs. Whether an EUC was categorised as "Citi Critical", "Business Unit Important" or "Not Important" impacted the controls required to be carried out. The PRA's investigation identified that the liquidity EUCs were classified as "Business Unit Important" and as such ought to have been tested on a quarterly basis.
- 3.15. However, the Firms placed sole reliance on the initial design and development phase to ensure the accuracy of the liquidity EUC tool's calculation logic. No subsequent review or validation was carried out post-implementation, in contravention of the Firms' own requirements set out in Citi's Global EUC Standards. During the PRA's investigation, the Firms' management informed the PRA that the Firms only intended to rely on the liquidity EUC tool for a short period of time. This was because the Firms intended that compliance with LCR DA reporting requirements would have been validated as part of the implementation of Citigroup's global regulatory

reporting solution, RegInsight. However, this only began for liquidity reporting in October 2017 with the liquidity EUC tool retired in December 2017.

#### ***Other regulatory reporting systems***

- 3.16. In addition to EUC tools, a number of other deficiencies existed in the design and configuration of underlying regulatory reporting systems which led to reporting errors in the Returns.
- 3.17. For example, a number of issues were identified in the calculation logic and set up of Optima and LRR (two of Citi's underlying regulatory reporting systems). These included:
- a) errors relating to the Firms' calculation of volatility adjustments for different types of secured financing transactions;
  - b) in a number of instances, the Firms' regulatory reporting systems were still applying calculation logic based on BIPRU rules. This was despite the fact these rules had been superseded by CRR rules several years previously (in January 2014);
  - c) credit ratings data was not feeding correctly into the LRR system and no validation checks were being conducted to ensure that the feeds were working properly; and
  - d) for both Optima and LRR, reliance was being placed on the initial calculation logic remaining valid and no recent reviews had been conducted.
- 3.18. Further, the Optima system used in preparing aspects of CGML's capital returns was configured on the basis that the settlement currency of certain netting agreements would always be USD. However, there was no documented analysis or evidence to support this assumption. In fact, a number of the agreements' settlement currencies were not USD.

#### ***Reconciliations and variance analysis***

- 3.19. Key preventive controls used by the Firms in the preparation of the Returns included data reconciliation and day-on-day and month-on-month variance analysis. These processes were intended to identify errors in the preparation of the Returns (or underlying data) by cross-checking data used in the Returns against other data sources for discrepancies and by assessing the reasons for any significant changes in data from one reporting period to the next.
- 3.20. However, with respect to both CGML's capital and liquidity returns, not all data used in the preparation of the returns was subject to a comprehensive reconciliation. Instead, for CGML's liquidity returns, the Firms relied on an indirect reconciliation and variance analysis conducted by the Mumbai team with escalation to the Budapest team if required. For CGML's capital returns, the Firms used a number of separate reconciliations to assess different pieces of data that supported the preparation of the returns. While these preventive controls ultimately identified the initial LCR error referred to at paragraph 1.7 above, they did not cover all data points used in the Returns and were not sufficiently robust to ensure that data used in the

Returns was complete and accurate.

- 3.21. During the Relevant Period there existed a number of procedure notes that were intended to assist and provide guidance to individuals directly involved in the preparation and submission processes for the Returns (see paragraphs 5.4 to 5.6 below). However, there was a lack of detail in the Budapest and Mumbai teams' procedure notes, particularly in relation to variance analyses and reconciliations. For example, the procedure notes did not always specify the threshold at which a discrepancy identified by a reconciliation control would be escalated or the period in which discrepancies that were escalated should be resolved.
- 3.22. While the London and Budapest teams were updated on liquidity reconciliations and variance analyses on their regular working group calls, no formal management information was produced on these controls including how discrepancies had been explained or resolved. For example, such information was not available in the sign off pack for CGML's liquidity returns nor for governance committees such as the UK ALCO.

#### ***Maker / Checker Controls***

- 3.23. The Budapest and Mumbai teams performed certain maker / checker controls to identify and prevent errors occurring during the preparation of the Returns and to ensure that other controls were being performed effectively. At their simplest, maker / checker controls involved having the report preparer's work reviewed and checked by an appropriately experienced and knowledgeable second individual. This control was particularly important given the complex and manual nature of the report generation processes.
- 3.24. However, in a number of instances, maker / checker controls were not properly evidenced and did not identify errors which occurred during the preparation of the Returns. For example, in relation to CGML's leverage returns, the maker / checker control did not identify that an incorrect formula was being used in the report template nor did it identify inconsistencies in how CGML reported its leverage ratio. For CGML's liquidity returns, the maker / checker control did not identify that an incorrect reconciling balance was being used in one of the key liquidity reconciliation controls. Finally, for CGML's capital returns, the maker / checker control failed to identify mistakes made in manual adjustments to CGML's exposure to central counterparties or that certain positions had been assigned incorrect risk categories.
- 3.25. For CGML's liquidity returns, one part of the key manual reconciliation performed by the Mumbai team was not subject to any formal maker / checker control. While the Budapest team did review the output of liquidity reconciliations, their role was focused on assessing why discrepancies had occurred, rather than whether procedures had been properly followed. The Budapest team was also subject to the human resource constraints detailed at paragraph 6.2 below which limited the time available to perform this role. Further, while the Mumbai team had daily calls with UK Corporate Treasury, these did not always provide sufficient time to discuss the significant number of manual adjustments the Mumbai team were required to carry out.

These factors were of particular significance given the UK Finance function's awareness of the need to monitor their activities closely.

#### **4. APPROACH TO TECHNICAL INTERPRETATIONS OF UK REGULATORY REPORTING REQUIREMENTS**

- 4.1. Another key aspect of the Firms' regulatory reporting control framework were the processes around identifying, interpreting and implementing technical reporting requirements and related technical standards and guidance.
- 4.2. During the Relevant Period, the EMEA Interpretative Office (the "EMEA IO") was responsible for the interpretation of CRD IV and related guidance, rules and technical standards.
- 4.3. The EMEA IO's Terms of Reference provided for required attendees (covering a range of relevant business functions), quorum requirements and referred to the EMEA IO making "interpretative decisions", which were to be referred to the Basel Governance Oversight Committee (the "BGOC") for approval. In addition, the Terms of Reference required interpretative decisions to be minuted and distributed to attendees.
- 4.4. The PRA understands that the EMEA IO was a more informal meeting in its earlier years, co-ordinated by the UK Finance function and convening on an ad hoc basis as and when required. During this period, the EMEA IO was not intended to operate as a decision-making forum and its decisions were to be approved by the BGOC / CGML Capital Committee. In Q1 2018, the role of the EMEA IO was enhanced: it became a decision-making committee and chaired by senior individuals from the Firms' UK Risk and Finance functions.
- 4.5. Meetings of the EMEA IO were not formally minuted until 2018. While the PRA's investigation identified that some informal minutes and documentation of the EMEA IO's activities were produced prior to this period, they did not cover all technical interpretations the Firms relied upon and how these were implemented in key systems. Further, while the BGOC's stated role (amongst other responsibilities) was to consider and approve the EMEA IO's interpretative recommendations, meetings of the BGOC did not align with the EMEA IO, nor did it consider and approve all interpretations the EMEA IO made. Moreover, there was a lack of clarity as to whether the EMEA IO was a decision-making body.
- 4.6. With respect to technical interpretations relating to CGML's liquidity returns, these were not included in the scope of the EMEA IO's Terms of Reference until 2018. Instead, the individual with primary responsibility for interpretation and implementation of decisions relating to the LCR DA (and related rules, standards and guidance) was the Budapest team member referred to at paragraph 6.2 below. While the PRA understands that decisions made by this individual may have been subject to informal consultation or discussions with other Citi employees, they were not subject to challenge or review by an appropriately constituted technical committee or

governance forum, nor were they formally minuted or documented.

- 4.7. Two technical interpretation issues, one in respect of CGML's capital returns and one in respect of CGML's leverage returns, were identified which impacted on the completeness and accuracy of the relevant returns:
  - a) CGML, when calculating net exposures for the purposes of its capital returns, would recognise both mandatory and optional termination dates in determining the maturity date of certain derivatives contracts. However, this went against specific guidance contained in an EBA Q&A which stated that institutions should not use optional termination dates.
  - b) The Firms' reporting systems were unable to distinguish between different types of Forward Starting Repurchase Transactions ("FSRs"). The Firms had not documented their interpretation of this distinction between different types of FSRs or indeed how FSRs should be treated despite the importance of this decision for preparing CGML's leverage returns.

## **5. DOCUMENTATION**

- 5.1. The final key component of the Firms' regulatory reporting control framework was their documentation of systems, processes and controls related to the preparation and submission of the Returns. The PRA's investigation identified a number of areas where, during the Relevant Period, this documentation did not sufficiently cover all systems, processes or controls relevant to the Returns. This included both the level of documentation of report preparation processes (i.e. documentation of the steps followed when producing and checking the Returns) and documentation of how the Firms had implemented and validated their compliance with applicable UK regulatory reporting obligations.
- 5.2. During the Relevant Period, there was insufficient documentation of the end-to-end systems and processes involved in the production of CGML's capital and liquidity returns. This included a lack of documentation of credit and market risk reporting processes that supported these returns. There was no comprehensive overview of how reporting requirements had been implemented in the calculation logic of the Firms' regulatory reporting systems for credit risk. While individual system logic changes could be tracked using material query change documents ("MQCs"), MQCs were sometimes out of date and the overall population of MQCs was incomplete. The Firms were unable to identify any MQCs for their market risk systems.
- 5.3. For CGML's liquidity returns, prior to 2017, there was no documented description of the multiple upstream processes (e.g. data flows and LCR regulatory assumptions applied) for the overall end-to-end reporting process.

- 5.4. In addition, the Firms maintained a number of procedure notes during the Relevant Period. For CGML's capital returns, these procedure notes covered the reporting of credit risk, counterparty credit risk and market risk by products. They were owned by the Budapest team and provided a high-level description of the roles and responsibilities of the makers and checkers in Budapest, as well as the London Regulatory Reporting team; the main source systems used for reporting; and step-by-step procedures for preparing and completing the returns.
- 5.5. However, these procedure notes contained limited articulation of the roles and responsibilities of the Budapest team members that carried out the maker / checker control and the PRA's investigation did not identify any additional documentation or guidance which existed to assist those performing the maker / checker control. Similarly, there were examples where the Budapest team's documentation did not contain details of the thresholds to be applied in operating the reconciliation and variance analysis controls.
- 5.6. In addition, for CGML's liquidity returns, there was a lack of sufficiently detailed procedural documentation relating to preventive and detective controls (e.g. reconciliations). As noted at paragraph 3.24 above, during the Relevant Period, maker / checker controls for CGML's liquidity returns were carried out by the Mumbai team over a significant number of manual processes. These processes were one of the key data sources for the liquidity EUC tool and underpinned the preparation of CGML's liquidity returns. However, prior to 2017, there were no documented procedures specifying the actions that a checker needed to perform when reviewing these manual processes.

## **6. HUMAN RESOURCING OF THE REGULATORY REPORTING CONTROL FRAMEWORK**

- 6.1. The PRA's investigation identified that during the Relevant Period, the Firms placed reliance on long-term strategic solutions at the global Citigroup level to enhance their UK regulatory reporting framework. However, due to the length of time these solutions took to design and implement, the Firms were reliant on tactical solutions to ensure the Returns were complete and accurate in the shorter term. Given the Firms' awareness of a number of issues which could affect the accuracy of the Returns (e.g. poor data quality and the manual nature of the reporting process), it was imperative that appropriate human resources were devoted to the UK regulatory reporting control framework.
- 6.2. In addition to general human resourcing pressures (particularly due to high staff turnover), during the Relevant Period, a high degree of reliance was placed on a single member of the Budapest team. In relation to CGML's liquidity returns, there was significant dependency on this individual for the design of LCR EUC tools, technical interpretations of LCR DA requirements, review and challenge of liquidity return data prepared by the Mumbai team, variance analyses and reconciliations (i.e. the validation of all other minimum control standards for CGML's liquidity returns). The PRA does not make any criticism of the individual in question.



## **7. REMEDIATION OF ISSUES WITH THE REGULATORY REPORTING CONTROL FRAMEWORK**

- 7.1. In 2016, Citigroup initiated a major project to implement RegInsight, a global regulatory reporting strategic platform, to assist in the production of regulatory data, including the Returns. This was a substantial infrastructure enhancement, with data feeding directly from source systems thereby eliminating multiple manual calculations, and moving to one source of data with accompanying set of appropriate reconciliations to ensure completeness of reporting. RegInsight was in place for a majority of CGML's returns by Q1 2019 with CBNA and CEP UK branch returns included later in 2019.
- 7.2. In addition, during the Relevant Period, Citigroup had been developing Genesis, a central global data repository, which was intended to be a golden data source to feed multiple aspects of regulatory reporting. Genesis feeds data into underlying reporting systems and RegInsight and became operational for the Returns by the end of 2018.
- 7.3. Following the Skilled Persons Report, the Firms have also conducted a review of their systems and controls underpinning their regulatory reporting framework led by senior management in London. Oversight, governance and support for the remediation was provided by way of a Citigroup-level UK Senior Executive Oversight Committee that included relevant global heads of department.
- 7.4. Given the scale and complexity of the Firms' regulatory reporting framework, remediation of the issues identified in the Skilled Persons Report involved raising more than two hundred separate Corrective Action Plans ("CAPs"). While the large majority of CAPs were completed and validated during the course of 2018, a small number of CAPs related to strategic global projects and took until 2019 to complete. The Firms instructed a leading accountancy and audit firm to review the remediation work conducted by the Firms in 2019. This review did not identify any instances where the Firms had failed to remediate material issues identified in the Skilled Persons Report.

## Annex B: Breaches and Failings

- 1.1. During the Relevant Period, as a result of the facts and matters set out at Annex A to this Notice, the Firms breached relevant requirements of the PRA Rulebook. In particular:
  - a) CGML and CBNA London breached PRA Fundamental Rule 6;
  - b) CBNA London and CEP UK breached the Branch Return Rule; and
  - c) the Firms breached Notifications Rule 6.1.
- 1.2. Fundamental Rule 6 requires that a firm must organise its affairs responsibly and effectively. The Branch Return Rule requires incoming and third country firms to submit information to the PRA in the form set out in the PRA's Branch Return Form. Notifications Rule 6.1 requires that firms take reasonable steps to ensure that the information submitted to the PRA is complete and accurate.
- 1.3. These rules and additional provisions of the PRA Rulebook that are supportive of these breaches are included at Appendix 2.

### ***PRA expectations***

- 1.4. The provision of complete, timely and accurate prudential data is a key component in the PRA's supervisory approach. The PRA relies on firms – including branches – submitting sufficient data, of appropriate quality, to inform its judgements about key risks, to measure individual firms' compliance and performance and to feed into macro-prudential decisions. Accurate and timely prudential data supports going-concern supervision and is crucial in identifying, monitoring and managing periods of when firms are under stress or recovering from such periods. The failure to provide accurate and timely regulatory data can indicate a range of weaknesses in a firm's ability to manage its business prudently. Experience shows firms that do not produce timely, complete and accurate data during periods of relative stability are less likely to produce it under stress.
- 1.5. It is therefore essential that firms make appropriate investment to ensure that both the integrity of the data and the ability to process it accurately are maintained. Systems and controls also need to be in place to ensure the correct application of relevant rule changes. Firms ought not to take undue comfort from their ongoing business-as-usual checking processes, particularly automated checks, which look for unusual variances over time as certain errors (especially incomplete data) may persist for a long time unnoticed because data has consistently been inaccurate and large variances across time do not occur.
- 1.6. In addition, firms should implement an effective controls framework to identify errors or misstatements in underlying data or which might occur during the processing of such data. A

firm's regulatory reporting control framework should be commensurate to the size and complexity of the institution and designed to mitigate against potential risks to the quality of the firm's regulatory reporting. The controls framework should also include appropriate on-going validation to ensure that the firm is able to submit accurate returns on a continuing basis.

- 1.7. The PRA also expects a firm to have effective systems and controls in place to ensure the correct and prompt application of relevant rule changes that affect regulatory reporting. Where the application of regulatory reporting rules requires an element of interpretation or judgment, firms should have a clear and robust governance process in place to ensure that such decisions are challenged, validated and documented appropriately.
- 1.8. Firms should clearly identify and document individual responsibility and accountability for all aspects of their regulatory reporting arrangements. Firms must also make sure that individuals carrying out such roles are familiar with their duties and responsibilities so that they can exercise effective oversight of the firm's regulatory reporting framework.

#### ***Summary of Failings***

- 1.9. During the Relevant Period, CGML and CBNA London branch breached Fundamental Rule 6 because they failed to organise and control their affairs responsibly and effectively so that they were able to comply with their UK regulatory reporting requirements. These failings resulted in the Firms submitting incomplete and inaccurate Returns to the PRA. As a result, CBNA London and CEP UK breached the Branch Return Rule and the Firms breached Notifications Rule 6.1. In particular:
  - a) The Firms failed to ensure that key systems and controls supporting their regulatory reporting framework were designed, implemented and operating effectively;
  - b) The Firms failed to allocate adequate human resources to enable them to comply with their UK liquidity reporting obligations;
  - c) The Firms' documentation of multiple aspects of their regulatory reporting control framework was inadequate given their size and complexity;
  - d) CGML's approach to the technical interpretation and implementation of reporting requirements was insufficiently robust; and
  - e) The Firms' oversight and governance arrangements for UK regulatory reporting were inadequate.

#### ***Design, implementation and operation of key controls***

- 1.10. The Firms failed to ensure that key systems and controls supporting their regulatory reporting framework were designed, implemented and operating effectively.

- 1.11. The Firms had documented an intended regulatory reporting control framework at a high-level (e.g. through the Directive). The PRA considers that had the Firms designed and operated controls fully in accordance with their own policies and procedures, then a number of the errors that affected the completeness and accuracy of the Returns may not have occurred.
- 1.12. Initial validation of compliance with UK regulatory reporting obligations was particularly important given the Firms' reliance on global or US-designed systems and controls which were often adapted to support UK regulatory reporting obligations. However, the Firms' initial validation of regulatory reporting systems and controls was inadequate to ensure they had designed systems and controls that would enable them to produce complete and accurate returns from the point of implementation of CRD IV and the LCR DA (see paragraphs 3.7 to 3.14 of Annex A above).
- 1.13. The Firms' on-going validation of regulatory reporting systems and controls did not enable them to ensure that their regulatory reporting control framework operated effectively. A number of key systems in the Firms' reporting framework such as liquidity EUC tools, Optima and LRR do not appear to have been subject to sufficient on-going validation (see paragraph 3.17 of Annex A above).
- 1.14. Further, the liquidity EUC tool referred to at paragraph 3.12 of Annex A above was designed and developed at the global Citigroup level. The PRA considers that the severity of the errors identified with this EUC tool reflected failings in the Firms' approach to ensuring that the design and operation of global tools and systems were appropriate for UK regulatory reporting purposes.
- 1.15. Similarly, issues with the maker / checker controls, variance analyses and reconciliations (paragraphs 3.19 to 3.25 of Annex A above) conducted by the Budapest and Mumbai teams meant that the Firms' key preventive controls were insufficiently robust and comprehensive to ensure that data used in the Returns was complete and accurate. These failings were particularly significant given that MCAs throughout the relevant period emphasised the need for very close supervision of non-UK service teams (including the Budapest and Mumbai teams) (see paragraph 2.21 of Annex A above).
- 1.16. The Firms' MCAs also identified upstream data quality issues and the highly manual nature of the regulatory reporting process (see paragraph 2.18 of Annex A) and the risks these issues could pose to the accuracy the Returns. These ought to have alerted the Firms to the need for systems and controls that were sufficiently robust to address and compensate for these known risks to the accuracy of their UK regulatory reporting framework. However, for the above reasons, the Firms failed to design, implement or operate a controls framework which enabled them to ensure the information submitted in their Returns was complete or accurate.

### ***Human Resourcing***

- 1.17. As a result of the scale of the Firms' operations, a significant degree of complexity was to be expected in the preparation and submission of the Returns. This made it essential that key parts of the Firms' regulatory reporting control framework had human resources appropriate to their size and complexity.
- 1.18. The PRA considers that there was a high level of reliance on a single individual in the Budapest team in relation to CGML's liquidity returns (see paragraph 6.2 of Annex A). In addition, earlier in the Relevant Period, CGML faced considerable human resourcing challenges. The PRA considers that the ability of the Firms to design effective systems to support their LCR DA reporting obligations (particularly EUC tools) and to conduct proper validation of those systems was impacted by these resourcing issues.
- 1.19. The PRA considers that human resourcing constraints also contributed to the deficiencies in the Firms' documentation of the regulatory reporting process outlined below. Documentation and resourcing failings were also cumulative in nature and created an unacceptable level of key person dependency for an organisation of the Firms' size and systemic importance.
- 1.20. While the PRA acknowledges that firms may face conflicting resourcing priorities, the Firms should have been able to overcome these challenges in a timely fashion and ensured that adequate systems and controls were in place - especially given their awareness of human resourcing pressures. In particular, the need to allocate appropriate resources to LCR DA implementation should have been apparent to the Firms. From at least mid-2014, the need for appropriate systems to comply with liquidity reporting obligations and the fact that automated systems might not be ready in time had been identified in relevant MCAs. Concerns relating to the resourcing of the Firms' liquidity reporting function had also been raised within the Firms' UK Treasury function.

### ***Documentation***

- 1.21. The Firms' documentation of multiple aspects of their regulatory reporting control framework was inadequate given their size and complexity. The lack of a clearly documented end-to-end picture of their regulatory reporting systems and processes inevitably limited the degree to which the Firms' senior management could challenge and interrogate the preparation of the Returns (see paragraph 5.2 of Annex A above).
- 1.22. Moreover, the lack of detailed management information meant that the London regulatory reporting teams were largely reliant on the Budapest and Mumbai teams to assess and confirm the completeness and accuracy of the Returns, notwithstanding the fact that the London regulatory reporting team had ultimate responsibility for validating and signing off the Returns (see paragraph 2.8 of Annex A above).

1.23. Further, the Firms' procedural documentation was insufficiently detailed to ensure that key controls such as maker / checker, reconciliations and variance analysis were being conducted by the Budapest and Mumbai teams consistently and as intended (see paragraphs 3.24 and 5.4 to 5.6 of Annex A above). This was particularly significant given: (i) the high levels of staff turnover in the Budapest team; (ii) that the Mumbai team's role was focused on data processing rather than analysing the resulting work product; and (iii) that MCAs throughout the Relevant Period had identified the need for very close supervision of overseas teams (see paragraph 2.21 of Annex A above).

#### ***Approach to technical interpretations***

1.24. CGML's approach to the technical interpretation and implementation of reporting requirements was insufficiently robust given the complexity and importance of those decisions. In a number of instances, the basis for technical interpretations or assumptions coded into reporting systems' calculation logic was not clearly recorded and in some cases turned out to be incorrect (see for example paragraph 3.18 of Annex A above).

1.25. The lack of rigour around technical interpretations was also reflected in the operation of the EMEA IO and CGML Capital Committee / BGOCC during the Relevant Period which provided insufficient clarity around and challenge of regulatory interpretations (see paragraphs 4.2 to 4.6 above). Moreover, liquidity interpretation decisions were not included in the EMEA IO's remit despite the clear overlap between CRD IV and LCR DA interpretative processes. This omission placed yet more obligations on the under-resourced Budapest team and was indicative of a siloed approach to liquidity and capital reporting.

#### ***Oversight and governance***

1.26. The Firms' oversight and governance in relation to UK regulatory reporting was inadequate.

1.27. The PRA's investigation identified that senior members of the Firms' UK Controllers and Corporate Treasury functions (including UK RRGCC members) lacked knowledge and awareness of the Local Regulatory Reporting Directive (see paragraphs 3.1 and 3.2 of Annex A above) and at interview failed to demonstrate a clear understanding of the responsibilities and requirements outlined therein.

1.28. Senior individuals were also not familiar with the procedure notes that existed during the Relevant Period or whether and to what extent certain controls (e.g. maker / checker) were covered by procedure notes. Combined with the lack of documentation of the end-to-end reporting systems and processes, this inevitably limited the extent to which the Firms' UK Finance function could provide meaningful challenge, governance and oversight of the activities and controls which the Budapest and Mumbai teams were carrying out. This was despite the

fact that every UK Finance MCA from 2015 to 2018 had reiterated the need for very close monitoring of non-UK service teams.

1.29. These failings were compounded by the lack of detailed consideration of the UK regulatory reporting control framework at the Firms' key governance committees and fora. In particular:

- a) Minutes of the UK RRGc indicated that the UK RRGc failed to give sufficient consideration to the effectiveness of the Firms' regulatory reporting control framework (as distinct from the data it produced) and that it failed to ensure that the Firms and relevant senior individuals were fully carrying out their responsibilities under the Directive. This was not surprising given some RRGc members lacked knowledge of the Directive.
- b) Minutes of the UK BRCC indicated that, despite it frequently reviewing MCAs that identified risks to the completeness and accuracy of the Returns, it failed to provide sufficient oversight and challenge to ensure these issues were remediated in an adequate or timely manner. An internal audit from March 2017 noted that *"UK BRCC committee members do not always adequately (i) challenge the progress of remediating country-level self-identified, audit or regulatory issues against original committed deadlines, (ii) assess the need for local tactical actions while waiting for globally-managed issues to be remediated, or (iii) enforce prompt issue recording, approval and activation in the firms' primary issues management system."*
- c) With respect to the UK ALCO, its role was limited to reviewing and assessing information relevant to CGML's liquidity position (amongst other responsibilities). The PRA's investigation did not identify any instances prior to mid-2017 where minutes of the UK ALCO indicated its members considered the effectiveness of the Firms' liquidity reporting systems and controls (as distinct from the data they produced). This was despite the fact that the LCR DA came into effect during this period and that deficiencies in the Firms' liquidity reporting systems and controls could impact the information CGML provided to the PRA relating to its liquidity position.

### **Conclusions on Failings**

1.30. Taken together, these failings meant that the Firms' UK regulatory reporting systems were neither designed nor implemented in a manner which enabled the Firms to comply with their UK regulatory reporting obligations. Moreover, failings relating to human resourcing, documentation, governance and oversight meant that the Firms failed to operate effective controls sufficient to identify errors and mis-statements in the Returns and to ensure that the information they submitted to the PRA was complete and accurate.

1.31. These failings became increasingly significant during the Relevant Period. Firstly, additional reporting obligations were introduced over the Relevant Period (e.g. LCR DA and Branch Return reporting in 2015). Secondly, the Firms had, from early in the Relevant Period, identified a number of issues which posed risks to their ability to submit accurate Returns (e.g. through

the MCA process). However, the Firms failed to take sufficient action to address these risks and ensure that their regulatory reporting control framework was operating effectively.

- 1.32. As a result of these failings, CGML and CBNA London breached PRA Fundamental Rule 6, CBNA London and CEP UK breached the Branch Return Rule and the Firms breached Notifications Rule 6.1 during the Relevant Period (or parts thereof).



## Annex C: Penalty Analysis

### 1. PROPOSED FINANCIAL PENALTY

1.1. The PRA's policy for imposing a financial penalty is set out in '*The PRA's approach to enforcement: statutory statements of policy and procedure October 2019*, in particular *Statement of the PRA's policy on the imposition and amount of financial penalties under the Act* (the "PRA's Penalty Policy"). Pursuant to paragraphs 12 to 36 of the PRA's Penalty Policy, the PRA applies a five-step framework to determine the appropriate level of financial penalty.

#### ***Step 1: Disgorgement***

1.2. Pursuant to paragraph 17 of the PRA's Penalty Policy, at Step 1 the PRA seeks to deprive a person of any economic benefits derived from or attributable to the breach of its requirements, where it is practicable to ascertain and quantify them.

1.3. The PRA has no evidence that the Firms derived any economic benefit from the breaches, including profit made or loss avoided.

1.4. The Step 1 figure is therefore £0.

#### ***Step 2: The seriousness of the breach***

1.5. Pursuant to paragraph 18 of the PRA's Penalty Policy, at Step 2 the PRA determines a starting point figure for a financial penalty having regard to the seriousness of the breach by the firm – including any threat it posed or continues to pose to the advancement of the PRA's statutory objectives – and the size and financial position of the firm.

1.6. Paragraph 19(a) of the PRA's Penalty Policy sets out that a suitable indicator of the size and financial position of the firm may include, but is not limited to, the firm's revenue.

1.7. Pursuant to paragraph 19(b) of the PRA's Penalty Policy, the PRA considers that the Firms' revenue for FY 2017 (being the financial year preceding the date when the breaches ended) is a suitable indicator of the size and financial position of the Firms. Accordingly, the starting point figure is £6,433,858,404.<sup>6</sup>

1.8. Having established an appropriate starting point figure, pursuant to paragraph 19(c) of the PRA's Penalty Policy, the PRA then applies an appropriate percentage rate ("the Seriousness Percentage") to the starting point figure that properly reflects the nature, extent, scale and gravity of the breaches.

1.9. Pursuant to paragraphs 21 to 23 of the PRA's Penalty Policy, the PRA has taken the following

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<sup>6</sup> This figure represents the combined revenue of CGML, CBNA London branch and CEP UK branch.

factors into account to determine the Step 2 Seriousness Percentage:

- a) The provision of prudential regulatory information is fundamental to the PRA's ability to effectively supervise firms and discharge its statutory objectives. As a result, the PRA attaches considerable importance to the preparation and submission of complete and accurate Returns. This is particularly the case for institutions of the Firms' size and systemic importance – their safety and soundness can impact the financial stability of the UK financial system as a whole.
- b) The Firms' systems and controls and related oversight and governance failings persisted over a significant length of time and form part of a course or pattern of non-compliant behaviour in relation to inaccurate and inadequate reporting. The Firms had been aware of data quality issues since at least 2013 and had historically been required by the PRA to resubmit a number of Returns due to errors in the original submissions.
- c) While the Firms remained in compliance with their regulatory capital and liquidity requirements throughout the Relevant Period, the significant number of errors and mis-statements in the Returns was indicative of broader shortcomings in how the Firms organised and controlled their compliance with UK regulatory reporting obligations. These failings created a material risk that the Firms, and indeed the PRA, would take decisions based on inaccurate regulatory data.
- d) The failings identified in the Firms' systems and controls and related oversight and governance failings were serious and widespread in nature. The Firms failed to design, implement or operate systems and controls sufficient to ensure the accuracy of any of the four categories of Returns investigated. Moreover, the PRA considers that the failings reflected the fact that the Firms' oversight and governance of its regulatory reporting control framework had fallen significantly below the standards expected of a systemically important institution.

1.10. The PRA has also had regard to the matters set out at Annexes A and B to this Notice.

1.11. Taking all of these factors into account, the PRA considers that the seriousness of the conduct to be such that the appropriate Seriousness Percentage is 25%.

1.12. Pursuant to paragraph 14 of the PRA's Penalty Policy, the PRA may decrease the level of financial penalty which would otherwise be determined if it considers it is disproportionately high having regard to the seriousness, scale and effect of the breach. This is to ensure that any financial penalty imposed is a reasonable, appropriate and proportionate sanction.

1.13. Notwithstanding the seriousness of the failings, the PRA considers that having regard to the scale and effect of the breaches, the level of the financial penalty should be reduced to ensure a proportionate and appropriate sanction.

1.14. The Step 2 figure is therefore £57,000,000.

***Step 3: Adjustment for any aggravating, mitigating or other relevant factors***

1.15. Pursuant to paragraph 24 of the PRA's Penalty Policy, the PRA may increase or decrease the Step 2 figure to take account of any factors which may aggravate or mitigate the breaches. Any such adjustment will normally be made by way of a percentage adjustment to the figure determined at Step 2.

1.16. The PRA considers that the following factors are relevant:

- a) The Firms notified the PRA of the original misstatement in CGML's LCR in October 2015.
- b) The Firms have cooperated with the PRA's investigation.
- c) The Firms self-identified a number of the systems failings that had given rise to certain of the errors and misstatements in the Returns.

1.17. In addition (and as outlined further at section 7 of Annex A above), during the Relevant Period and since, the Firms have undertaken remediation of their UK regulatory reporting control framework. The PRA considers, however, that given that the Firms were aware of potential weaknesses and deficiencies in their prudential reporting systems and controls from the beginning of the Relevant Period, greater immediate priority should have been given to ensuring the adequacy of the Firms' UK regulatory reporting control framework.

1.18. Notwithstanding the above, the PRA acknowledges that the Firms have made substantial strategic enhancements to their regulatory reporting infrastructure (also set out at section 7 of Annex A above) including the implementation of the RegInsight and Genesis systems.

1.19. The previous disciplinary history of Citibank Europe plc (Citigroup's Dublin-headquartered banking subsidiary, which CEP UK is a passported branch of) is also relevant. On 11 December 2013, Citibank Europe plc entered into a Settlement Agreement with the Central Bank of Ireland ("CBI") who imposed a fine of €550,000 in relation to contraventions of CBI's requirements for the management of liquidity risk. The contraventions included that Citibank Europe plc had failed to ensure the accuracy of liquidity reporting to the CBI and failed to have adequate internal controls in place to ensure the accuracy of its liquidity regulatory reporting.

1.20. Considering the above factors taken as a whole, the PRA concludes that these factors justify an upwards adjustment to the Step 2 figure of 10% for aggravating factors.

1.21. The Step 3 figure is therefore £62,700,000.

***Step 4: Adjustment for deterrence***

- 1.22. Pursuant to paragraph 27 of the PRA's Penalty Policy, if the PRA considers the figure arrived at after Step 3 is insufficient effectively to deter the firm that committed the breach, or others, from committing further or similar breaches, then the PRA may increase the penalty at Step 4 by making an appropriate adjustment to it.
- 1.23. The PRA does not consider an adjustment for deterrence is necessary in this particular matter taking into account all the circumstances.
- 1.24. The Step 4 figure is therefore £62,700,000.

***Step 5: Application of any applicable reductions for early settlement or serious financial hardship***

- 1.25. Pursuant to paragraph 29 of the PRA's Penalty Policy, if the PRA and the firm upon whom a financial penalty is to be imposed agree the amount of the financial penalty and any other appropriate settlement terms, the PRA's settlement policy provides that the amount of the penalty which would otherwise have been payable may be reduced.
- 1.26. The PRA and the Firms reached an agreement to settle during the Discount Stage therefore a 30% settlement discount applies to the Step 4 figure.
- 1.27. The Step 5 figure is therefore £43,890,000.

**Conclusion**

- 1.28. The PRA therefore considers it appropriate to impose **a financial penalty of £43,890,000** on the Firms for:
- a) CGML and CBNA London's breaches of PRA Fundamental Rule 6;
  - b) CBNA London and CEP UK's breaches of the Branch Return Rule; and
  - c) the Firms' breaches of Notifications Rule 6.1.

# Annex D: Procedural Matters

## 1. DECISION MAKER

The settlement decision makers made the decision which gave rise to the obligation to give this Notice.

This Final Notice is given in accordance with section 390 of the Act.

## 2. MANNER AND TIME FOR PAYMENT

The Firms must pay the financial penalty in full to the PRA by no later than 9 December 2019, 14 days from the date of this Notice

If all or any of the financial penalty is outstanding on the 10 December 2019, the day after the due date for payment, the PRA may recover the outstanding amount as a debt owed by the Firms and due to the PRA.

## 3. PUBLICITY

Sections 391(4), 391(6A) and 391(7) of the Act apply to the publication of information about the matter to which this Final Notice relates. Under these provisions the PRA must publish such information about the matter to which this Final Notice relates as the PRA considers appropriate. However, the PRA may not publish information if such information would, in the opinion of the PRA, be unfair to the persons with respect to whom the action was taken or prejudicial to the safety and soundness of PRA-authorized persons.

## 4. PRA CONTACTS

For more information concerning this matter generally, contact John Cheesman, Senior Legal Counsel & Manager (direct line: 020 3461 7866; [john.cheesman@bankofengland.co.uk](mailto:john.cheesman@bankofengland.co.uk)) or Calum Macdonald, Legal Counsel (direct line: 020 3461 3153; [calum.macdonald@bankofengland.co.uk](mailto:calum.macdonald@bankofengland.co.uk)) of the Enforcement and Litigation Division of the PRA.

# Appendix 1: Definitions

## THE DEFINITIONS BELOW ARE USED IN THIS NOTICE:

1. “the Act” means the Financial Services and Markets Act 2000 (as amended);
2. “ALCO” means Asset and Liability Management Committee;
3. “BIPRU” means the Prudential Sourcebook for Banks, Building Societies and Investment Firms;
4. “BRCC” means Business, Risk, Compliance and Control Committee;
5. “BGO” means Basel Governance and Oversight Committee (which later became the CGML Capital Committee);
6. the “Branch Return Rule” means Rule 3.1 of the Incoming Firms and Third Country Firms Part of the PRA Rulebook as in force during the Relevant Period from 1 June 2015;
7. the “Budapest team” means the Local Regulatory Reporting Team in Budapest, Hungary which performed aspects of the Firms’ regulatory reporting processes;
8. “CAP means Corrective Action Plan;
9. “CBI” means the Central Bank of Ireland;
10. “CBNA” means Citibank N.A. London Branch;
11. “CEP UK” means Citibank Europe Plc UK Branch;
12. “CGML” means Citigroup Global Markets Limited;
13. “COREP” means Common Reporting Framework;
14. “CRD IV” means the Capital Requirements Directive (2013/36/EU) and the Capital Requirements Regulation (575/2013) (CRR), which is directly applicable to firms across the EU. CRD IV implemented the Basel III agreement in the EU. This included enhanced requirements for: the quality and quantity of capital; a basis for new liquidity and leverage requirements; new rules for counterparty risk; new macro-prudential standards including a countercyclical capital buffer and capital buffers for systemically important institutions. CRD IV also introduced standardised EU regulatory reporting - referred to as COREP and FINREP. These reporting requirements specify the information firms must report to supervisors (including the PRA) in areas such as own funds,

large exposures and financial information. The bulk of its rules became effective from 1 January 2014;

15. "Common equity Tier 1" (CET1) capital means a firm's paid-up capital and its associated share premium accounts, retained earnings, accumulated other comprehensive income, other reserves, and funds for general banking risk. CET1 capital must be available to the institution for unrestricted and immediate use to cover risks or losses as soon as these occur;
16. "Discount Stage" means, as provided for in the PRA Penalty Policy and PRA Settlement Policy, the early period of an investigation during which the subject of an investigation will qualify for a 30% discount to the proposed financial penalty if they enter into a settlement agreement with the PRA;
17. the "Directive" means Citigroup's Local Regulatory Reporting Directive, later Global Regulatory Reporting Policy which applied to the Firms during the Relevant Period;
18. "EBA Q&A" means a Question and Answer document published by the European Banking Authority;
19. the "EMEA IO" means the EMEA Interpretative Office;
20. "EUC" means an End User Computing tool. These were database or spreadsheet-based tools that performed calculations and / or manipulated upstream data as part of the process of preparing the Returns;
21. the "FCA" means the Financial Conduct Authority;
22. the "Firms" mean Citigroup's PRA-regulated UK operations, consisting of CGML, CBNA and CEP UK;
23. "FSR" means Forward Starting Repurchase Transaction;
24. "LCR" means Liquidity Coverage Ratio;
25. the "LCR DA" means the European Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement the Capital Requirements Regulation. The LCR DA specifies in detail the liquidity coverage ratio provided for in CRR Article 412 and is directly applicable in the United Kingdom. It took effect from 1 October 2015;
26. "MCA" means a Management Control Assessment;
27. "MQC" means a material query change document;

28. the “Mumbai team” means Citigroup’s Finance and Risk Shared Service (FRSS) service provider in Mumbai, India which performed aspects of the Firms’ regulatory reporting processes;
29. “Notice” means this Final Notice, together with its Annexes and Appendices;
30. the “PRA” means the Prudential Regulation Authority;
31. “PRA Rulebook” means the Prudential Regulation Authority Rulebook;
32. the “PRA Penalty Policy” means ‘The Prudential Regulation Authority’s approach to enforcement: statutory statements of policy and procedure October 2019 – Appendix 2 – Statement of the PRA’s policy on the imposition and amount of financial penalties under the Act’;
33. “Prescribed Responsibility” means a responsibility set out under the Senior Managers and Certification Regime;
34. the “PRA Settlement Policy” means ‘The Prudential Regulation Authority’s approach to enforcement: statutory statements of policy and procedure October 2019 – Appendix 4 - Statement of the PRA’s settlement decision-making procedure and policy for the determination of the amount of penalties and the period of suspensions or restrictions in settled cases’;
35. “RACI Matrix” means the Firms ‘Responsible, Accountable, Informed, Consulted’ Matrix as in effect during the Relevant Period;
36. the “Report” means the Skilled Persons Report issued on 31 October 2017;
37. the “Relevant Period” means between 19 June 2014 and 31 December 2018;
38. the “Returns” mean CGML’s capital returns; CGML’s leverage returns; CGML’s liquidity returns; CBNA London’s branch returns; and CEP UK’s branch returns;
39. the “RRGC” means the Regulatory Reporting and Governance Committee;
40. the “Tribunal” means the Upper Tribunal (Tax and Chancery Chamber);
41. “UK ALCO” means UK Assets and Liabilities Management Committee;
42. the “UK Finance function” means the relevant parts of the Firms’ UK-based Finance function which had overall responsibility for the preparation and submission of the Returns; and



43. "UK RRG" means the Local (i.e. UK) Regulatory Reporting and Governance Committee.

# Appendix 2: Relevant Statutory and Regulatory Provisions

## 1. RELEVANT STATUTORY PROVISIONS

- 1.1. The PRA has a general objective, set out in section 2B of the Act, to promote the safety and soundness of PRA-authorized persons. The PRA seeks to advance this objective by seeking to ensure that the business of PRA-authorized firms is carried on in a way which avoids any adverse effect on the stability of the UK financial system.
- 1.2. Section 206 of the Act provides that: *“If the appropriate regulator considers that an authorised person has contravened a relevant requirement imposed on the person, it may impose on him a penalty, in respect of the contravention, of such amount as it considers appropriate.”*
- 1.3. Citigroup Global Markets Limited, Citibank N.A. London Branch and CEP UK Branch are authorized persons for the purposes of section 206 of the Act. Relevant requirements imposed on authorized persons include rules made under the PRA Rulebook, including the PRA’s Fundamental Rules, the Branch Return Rule and the Notifications Rules.

## 2. RELEVANT REGULATORY PROVISIONS

- 2.1. In addition to its Threshold Conditions, the PRA has a number of Fundamental Rules which apply to all PRA-authorized firms. These are high-level rules which collectively act as an expression of the PRA’s general objective of promoting the safety and soundness of regulated firms.
- 2.2. Fundamental Rule 6 states that: *“A firm must organise and control its affairs responsibly and effectively.”*
- 2.3. PRA Branch Return Rule 3.1 which came into effect on 1 July 2015 states that: *“A firm must provide the PRA with information in accordance with the Branch Return Form. The information must be provided as at 30 June and 31 December each year and provided electronic means within 30 days of the date to which the information relates.”*
- 2.4. PRA Notifications Rule 6.1 which came into effect on 19 June 2014 states that: *“A firm must take reasonable steps to ensure that all information it gives to the PRA in accordance with a rule is: (1) factually accurate or, in the case of estimates and judgments, fairly and properly based after appropriate enquiries have been made by the firm; and (2) complete, in that it should include anything of which the PRA would reasonably expect notice.”*

- 2.5. PRA General Organisational Requirements 2.1, 2.2 and 2.8 which came into effect on 2 April 2015 state:

Rule 2.1: “A firm must have robust governance arrangements, which include a clear organisational structure with well defined, transparent and consistent lines of responsibility, effective processes to identify, manage, monitor and report the risks it is or might be exposed to, and internal control mechanisms, including sound administrative and accounting procedures and effective control and safeguard arrangements for information processing systems.”

Rule 2.2: “The arrangements, processes and mechanisms referred to in 2.1 must be comprehensive and proportionate to the nature, scale and complexity of the risks inherent in the business model and of the firm's activities and must take into account the specific technical criteria described in 2.6, Skills, Knowledge and Expertise 3.2, Risk Control and (for a firm to which SYSC 19A applies), SYSC 19A of the PRA Handbook.”

Rule 2.8: “A firm must monitor and, on a regular basis, evaluate the adequacy and effectiveness of its systems, internal control mechanisms and arrangements established in accordance with 2.3 to 2.7 and take appropriate measures to address any deficiencies.”

### **3. RELEVANT STATUTORY POLICY**

#### **Approach to the supervision of banks**

- 3.1. *The Prudential Regulatory Authority's Approach to Banking Supervision, June 2014* (as updated in October 2019) sets out how the PRA carries out its role in respect of deposit-takers and designated investment firms. One of the purposes of the document is to communicate to regulated firms what the PRA expects of them, and what they can expect from the PRA in the course of supervision.
- 3.2. In addition, the following additional Supervisory and Policy Statements set out the PRA's approach to the supervision of international banks, branches and the Branch Return Rule during the Relevant Period and are of relevance:
- a) Policy Statement PS8/14 - *Supervising international banks: the PRA's approach to branch supervision* - September 2014
  - b) Supervisory Statement SS10/14 - *Supervising international banks: the PRA's approach to branch supervision* - September 2014
  - c) Policy Statement PS 8/15 - *Supervising international banks: the Branch Return* – April 2015

- d) Policy Statement PS3/18 - International banks: the PRA's approach to branch authorisation and supervision - March 2018
- e) Supervisory Statement SS1/18 - International banks: the Prudential Regulation Authority's approach to branch authorisation and supervision - March 2018.

### **Approach to enforcement**

- 3.3. *The Prudential Regulation Authority's approach to enforcement: statutory statements of policy and procedure*, April 2013 (as updated in October 2019) sets out the PRA's approach to exercising its main enforcement powers under the Act.
- 3.4. In particular, The PRA's approach to the imposition of penalties is outlined at Annex 2 *Statement of the PRA's policy on the imposition and amount of financial penalties under the Act*; and the PRA's approach to settlement is outlined at Annex 4 - *Statement of the PRA's settlement decision-making procedure and policy for the determination of the amount of penalties and the period of suspensions or restrictions in settled cases*.