

**UNITED STATES OF AMERICA**  
**Before the**  
**SECURITIES AND EXCHANGE COMMISSION**

**SECURITIES EXCHANGE ACT OF 1934**  
**Release No. 57970 / June 16, 2008**

**ACCOUNTING AND AUDITING ENFORCEMENT**  
**Release No. 2838 / June 16, 2008**

**ADMINISTRATIVE PROCEEDING**  
**File No. 3-13070**

**In the Matter of**

**CITIGROUP INC.,**

**Respondent.**

**ORDER INSTITUTING CEASE-AND-  
DESIST PROCEEDINGS, MAKING  
FINDINGS, AND IMPOSING A CEASE-  
AND-DESIST ORDER PURSUANT TO  
SECTION 21C OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**I.**

The Securities and Exchange Commission (“Commission”) deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 21C of the Securities Exchange Act of 1934 (“Exchange Act”), against Citigroup Inc. (“Citigroup,” “company,” or “Respondent”).

**II.**

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement of Citigroup Inc. (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over Citigroup and the subject matter of these proceedings, which Respondent admits, Respondent consents to the entry of this Order Instituting Cease-and-Desist Proceedings, Making Findings, and Imposing a Cease-and-Desist Order Pursuant to Section 21C of the Securities Exchange Act of 1934 (“Order”), as set forth below.

### III.

On the basis of this Order and Respondent's Offer, the Commission finds that:

#### A. SUMMARY

This action concerns Citigroup's improper accounting relating to the impact of the economic and political crisis in Argentina on the company's operations during the fourth quarter of 2001. In the latter part of 2001 and continuing into 2002, Argentina experienced a severe economic and political crisis during which, among other things, the Argentine government defaulted on certain of its sovereign debt obligations, devalued its currency, and abandoned the one-to-one ratio between the Argentine peso and the United States dollar.

The actions of the Argentine government during the crisis required Citigroup to make a number of significant accounting decisions for the fourth quarter of 2001. Most relevant for purposes of these proceedings, Citigroup was required to account for (1) the impact of the company's participation in a government-sponsored exchange of Argentine government bonds for loans (the "Bond Swap"); (2) the value of Argentine government bonds held by Citigroup that were not eligible for the Bond Swap (the "Non-Swapped Bonds"); (3) the sale of Banco Bansud S.A. ("Bansud"), the Argentine subsidiary of Banco Nacional de Mexico, S.A. ("Banamex"), which Citigroup had acquired in August 2001; and (4) the impact of government actions that resulted in the conversion of over \$1 billion of Citigroup loans from dollars to Argentine pesos. Citigroup accounted for each of these items in a manner that did not conform with generally accepted accounting principles ("GAAP") and thereby overstated its income reported in the company's earnings press release included in a Form 8-K filed with the Commission on January 18, 2002, and in the company's annual report on Form 10-K for 2001 filed with the Commission on March 12, 2002. For the fourth quarter of 2001, Citigroup recorded \$470 million of pre-tax charges related to Argentina and earnings per share of \$.74. If Citigroup had accounted for the four Argentina-related items described above in conformity with GAAP, the company would have recorded additional charges of at least \$479 million pre-tax, or at least \$311 million after-tax, and would have reduced fourth quarter 2001 earnings by more than 8%. In accounting for the four items improperly and thereby reporting incorrect results both in the Form 8-K and the Form 10-K, Citigroup violated reporting, record-keeping, and internal accounting controls provisions of the Exchange Act.

#### B. RESPONDENT

Respondent Citigroup Inc. is a Delaware corporation with its principal place of business in New York, New York. Citigroup is a global financial services company whose businesses provide a broad range of financial services to consumer and corporate clients. During the relevant time, Citigroup was the largest foreign bank in Argentina, with a market share of approximately 9% and assets totaling more than \$8 billion. Citigroup's securities are registered with the Commission under Sections 12(b) and 12(g) of the Exchange Act, and its common stock is traded on the New York Stock Exchange.

## C. FACTS

### **The Crisis in Argentina**

During the latter part of 2001 and continuing into 2002, Argentina suffered a severe economic and political crisis. As the economy weakened, thousands of Argentines withdrew money from their bank accounts, with a significant spike in deposit withdrawals occurring in late November 2001. To avoid a continuing “run on the banks,” the Argentine government issued a policy known as the “corralito” on December 3, 2001, which severely limited the amount of money that an individual could withdraw each month. In response to the corralito and general economic woes, widespread rioting occurred throughout Argentina. The crisis worsened in December and into January as the Argentine government began to default on its sovereign debt obligations; issued various decrees that ended the one-to-one ratio between the dollar and the Argentine peso, allowing the peso to devalue; and pesified certain dollar-denominated loans. International credit rating agencies significantly downgraded Argentine sovereign debt, and the majority of Argentine government bonds began trading at substantial discounts. The Argentine government itself was in flux during this period of turmoil. Between December 2001 and early January 2002, when Citigroup was finalizing its results for 2001 and the fourth quarter of the year, there were five changes in leadership of the Argentine government.

The developments in Argentina had a significant impact on Citigroup’s Argentine operations and required Citigroup to make a number of complex accounting decisions as events occurred. In making these accounting decisions, Citigroup improperly accounted for certain items related to the crisis in a manner that significantly reduced the impact of these items on the company’s earnings.

### **Argentine Bond Swap**

In early November 2001, the Argentine government issued a decree offering holders of certain market-traded Argentine government bonds the opportunity to exchange such bonds for Argentine government loans called Guaranteed Promissory Notes (“GPNs”) that would not be market-traded. The Argentine government offered the Bond Swap in an effort to reduce Argentina’s debt service in the short-term and to avoid defaulting on its sovereign debt by extending the maturities of its debt obligations and reducing the coupon rates of the instruments. In addition to lower interest rates and longer terms, the GPNs offered in the Bond Swap had certain features that the swapped bonds did not have, including tax-exempt interest, a tax credit option that allowed the holder to offset any unpaid principal or interest against certain taxes, a collateral protection feature that gave the GPNs first call on certain tax receipts, and a provision for a step-up in tax basis. There was significant participation by local institutions in the Bond Swap.

Citigroup owned a total in book value of \$681 million of Argentine government bonds eligible for the Bond Swap. Citigroup’s Argentine insurance subsidiary, Siembra Administradora de Fondos de Jubilaciones y Pensiones S.A. (“Siembra”), owned \$595 million of these bonds. In addition, Citigroup’s Argentine banking operations owned approximately \$86 million in bonds eligible for the Bond Swap. In mid-November 2001, Citigroup local management decided to swap

all \$681 million of its eligible bonds and tendered these bonds to the Argentine government on November 29 and 30, 2001. The Bond Swap was executed in mid-December 2001.

In accounting for the Bond Swap, GAAP required that the transaction be accounted for based on the most readily determinable fair value.<sup>1</sup> Under GAAP, quoted market prices are considered to be the most reliable evidence of fair value.<sup>2</sup> In certain circumstances, however, other approaches to determining fair value may be appropriate. Citigroup consulted with its auditor as well as informally with Commission accounting staff regarding the proper approach to account for the Bond Swap. Both the Commission staff and Citigroup's auditor came to express a preference for using the market value of the bonds surrendered in the exchange to account for the Bond Swap (the "Market Approach"). The company, however, took the position that the bonds that were trading were not reflective of the fair value of the GPNs received and chose to use an alternate approach of looking to the value of the GPNs received in the exchange.

Citigroup used a discounted cash flow analysis to determine the fair value of the GPNs.<sup>3</sup> To arrive at the fair value, Citigroup incorporated several unreasonable assumptions into its analysis of the discount rate and thus overstated the value of the GPNs. In particular, Citigroup used a pre-crisis risk rate that assumed that the collapsing Argentine economy would recover in the short term. Notwithstanding the economic crisis and near daily changes in the Argentina government, Citigroup further assumed that, in the event the Argentine government defaulted on the GPNs, there was a high likelihood that the government would honor the collateral features of the GPNs, enabling Citigroup to recover all principal and interest. Using the above assumptions and others, Citigroup determined that the fair value of the GPNs received in the Bond Swap by its Siembra subsidiary was \$520 million and that the fair value of the GPN's received by its Argentine banking operations was \$79 million. Based on this analysis, Citigroup recorded a pre-tax loss of \$75 million on the Bond Swap by its Siembra subsidiary and a pre-tax loss of \$7 million on the Bond Swap by its Argentine banking operations, for a total pre-tax loss on the Bond Swap of \$82 million. This loss was reflected in Citigroup's January 18, 2002, Form 8-K and in the financial statements included in the company's 2001 Form 10-K.

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<sup>1</sup> See Practice Bulletin 4, *Accounting for Foreign Debt/Equity Swaps*; FAS 15, *Accounting by Debtors and Creditors for Troubled Debt Restructurings* at footnote 16; and APB 29, *Accounting for Non-monetary Transactions*.

<sup>2</sup> See Statement of Financial Accounting Standards No. 115, *Accounting for Investments in Debt and Equity Securities*. In 2006, the Financial Accounting Standards Board adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("FAS 157"). FAS 157, in part, codifies and simplifies previous approaches and provides that "[a] quoted price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available . . . ."

<sup>3</sup> A discounted cash flow analysis is a calculation that multiplies an investment's future cash flows by discount factors to obtain the present value of the investment. The purpose of the calculation is to estimate the amount of money that will be received from a security or other type of investment, adjusting for the time value of money.

While Citigroup's approach may have been appropriate under the then existing circumstances, the assumptions that Citigroup applied were not reasonable and resulted in Citigroup understating its losses on the Bond Swap. For example, in analyzing the discount rate, if Citigroup had used a country risk rate that reflected the current status of the collapsing Argentine economy rather than the pre-crisis risk rate reflecting more stable economic conditions, its losses would have been much greater. Similarly, Citigroup's losses would have been greater had it sufficiently taken into account the likelihood that the defaulting Argentine government would not be able to honor the collateral on the GPNs. By applying reasonable assumptions to its discounted cash flow analysis, Citigroup would have recorded pre-tax Bond Swap losses of approximately \$236 million for the fourth quarter of 2001, significantly more than the \$82 million Citigroup actually recorded. These additional losses would have decreased the company's earnings for the fourth quarter by \$100.1 million after-tax, or approximately \$.02 per share.<sup>4</sup>

Under the Market Approach, Citigroup would have recorded Bond Swap losses of \$416 million pre-tax, instead of the \$82 million it actually recorded. The impact of employing such an approach would have decreased the company's earnings for the fourth quarter by \$217.1 million after-tax, or approximately \$.04 per share.

### **Other-Than-Temporary Impairment of Non-Swapped Bonds**

A number of the Argentine government securities owned by Citigroup's Argentine banking operations were not eligible for the Bond Swap. These bonds, the Non-Swapped Bonds, totaled more than \$380 million and were held in varying amounts by Citigroup throughout the fourth quarter of 2001. More specifically, at December 31, 2001, Citigroup's Argentine banking operations held PAR Bonds (commonly known as Brady Bonds) with book value of \$98.4 million, Bonos del Gobierno Nacional with book value of \$134.9 million, and Patriotic Bonds with book value of \$150.9 million.

Under GAAP, specifically Statement of Financial Accounting Standards No. 115, *Accounting for Investments in Debt and Equity Securities* ("FAS 115"), Citigroup was required, at least quarterly, to assess the Non-Swapped Bonds to determine whether there was any decline in the fair value of these securities below their amortized cost and, if so, whether that decline was other-than-temporary. If the decline in fair value was other-than-temporary, Citigroup was required to record a charge to income for the quarter. The determination of whether a decline in the value of a security is other-than-temporary is based on the review of a number of factors such as the financial condition and near-term prospects of the issuer, including prospects for the geographic region; whether the issuer has defaulted on scheduled interest payments; the issuer's ability to make future scheduled interest and principal payments on a timely basis; and whether

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<sup>4</sup> In the third quarter of 2003, the Argentine government required Citigroup to return the GPNs and take back the bonds because Citigroup declined to follow a 2002 government decree requiring it to change the dollar-denominated GPNs to pesos.

there has been any downgrade in ratings by rating agencies at the time of evaluation compared to the time of acquisition of the security.<sup>5</sup>

Citigroup determined that the Non-Swapped Bonds were not impaired as of December 31, 2001. As a result, the company did not record any charge to income for these bonds. At the time Citigroup reached this decision, the Argentine government was in the midst of an economic and political collapse. The Argentine government recently had announced that it intended to default on its sovereign debt. In addition, credit rating agencies had significantly downgraded Argentina's sovereign debt; and the majority of Argentine government bonds were trading well below \$0.50 on the dollar. Thus, Citigroup's determination that these bonds were not impaired was not reasonable.

The Brady Bonds were market-traded bonds that were collateralized by U.S. Treasury securities that guaranteed the principal of the bonds and one-year of interest. Like almost all other Argentine bonds in the market, the Brady Bonds were trading well below their cost during the fourth quarter. At December 31, 2001, the market value of the Brady Bonds held by Citigroup was \$63.4 million, approximately \$35 million less than their cost of \$98.4 million. Despite this significant decline in market value, notwithstanding the collateral, Citigroup determined that the bonds were not impaired.

The other two types of Non-Swapped Bonds, the Bonos del Gobierno Nacional and the Patriotic Bonds were not market-traded. Citigroup concluded that there was no other-than-temporary impairment of these bonds because they were collateralized by a tax credit option that allowed Citigroup to withhold tax payments to offset any government default on the bonds. Citigroup reached this conclusion, despite the fact that similar, market-traded securities were trading at a steep discount, including securities like the Brady Bonds that had reliable collateral. In finding no impairment of the Bonos del Gobierno Nacional and the Patriotic Bonds, Citigroup necessarily assumed that the Argentine government would abide by its commitment to provide the tax credit option. This was during a period when the Argentine government had announced that it intended to default on its sovereign debt and when the political upheaval accompanying the country's economic collapse led to five changes in leadership during December 2001 and early January 2002.<sup>6</sup> In light of the circumstances in Argentina at this time, Citigroup's assumptions were not reasonable.

Citigroup recorded no charges to income for the fourth quarter of 2001 in connection with the Non-Swapped Bonds. Had Citigroup determined that these bonds had an other-than-temporary impairment as of December 31, 2001, it would have been required to record a charge to income to reflect the decline in fair value of the bonds. The amount of impairment of the Brady Bonds can be reasonably estimated at \$35 million, based on the quoted market price of these bonds as of

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<sup>5</sup> See, e.g., FAS 115; AICPA Statement of Auditing Standards No. 92, *Auditing Derivative Instruments, Hedging Activities, and Investments in Securities*.

<sup>6</sup> During the third quarter of 2002, the Argentine government suspended use of the tax credit option. At that time, Citigroup determined that the Patriotic Bonds and the Bonos del Gobierno Nacional were other-than-temporarily impaired. Citigroup also sold its Brady Bonds in the third quarter.

December 31, 2001. For the non-traded bonds, the Bonos del Gobierno Nacional and the Patriotic Bonds, the amount of impairment based on a reasonable determination of fair value, could be estimated at \$22.5 million for the Bonos del Gobierno Nacional and \$59.4 million for the Patriotic Bonds. With these estimates, had Citigroup determined that the Non-Swapped Bonds were other-than-temporarily impaired as of December 31, 2001, the company should have recorded an aggregate pre-tax charge of approximately \$117 million or \$76 million after-tax. This charge would have decreased the company's earnings per share for the fourth quarter by more than \$.01.

### **Pesification of Consumer Loans**

On January 6, 2002, the Argentine government issued a decree that, among other things, authorized it to mandate the conversion of certain consumer loans from dollars to pesos at a rate of one dollar to one peso (this mandatory conversion was referred to as "pesification"). Citigroup owned over \$1 billion in consumer loans that were subject to pesification. Citigroup determined that it should account for the impact of the pesification decree in the fourth quarter of 2001.

In its January 6, 2002, decree and subsequent regulations, the Argentine government established an exchange rate for official transactions, namely import-export transactions, of 1.4 pesos to 1 dollar. The decree noted that all other transactions would be subject to a "free" exchange rate based on the rate used for open-market trading. Because Argentina suspended foreign exchange transactions and closed banks from the end of December 2001 through January 10, 2002, there was no "free" rate when Citigroup recorded its consumer loan pesification charge on January 9, 2002. Using the only rate available on that day, 1.4 pesos to 1 dollar, Citigroup recorded a \$235 million charge for consumer loan pesification losses for the fourth quarter of 2001.

On Friday, January 11, 2002, two days after Citigroup recorded its pesification losses, the Argentine banks were reopened, the trading suspension was lifted, and the market established a "free" rate of between 1.6 and 1.7 pesos to 1 dollar. On Monday, January 14, 2002, Citigroup's auditor informed Citigroup senior management that this "free" rate was the proper rate under GAAP. On that day or the next, Citigroup's auditor further informed Citigroup senior management that all Argentine transactions, other than import/export transactions, were subject to the "free" rate and that members of the International Practices Task Force of the American Institute of Certified Public Accountants and the staffs of the Financial Accounting Standards Board and the Commission also had reached this conclusion.

Had Citigroup used a rate of 1.6, instead of 1.4, pesos to 1 dollar when accounting for these pesification losses, it should have recorded an additional charge of \$57 million pre-tax or \$37 million after-tax for the fourth quarter of 2001. This additional loss would have decreased the company's earnings per share for the fourth quarter by less than \$.01.

## Bansud Disposition

On August 6, 2001, Citigroup acquired Banamex, a Mexican holding company with diverse financial institution operations. At the time of acquisition, Citigroup intended to dispose of Bansud, a Banamex subsidiary conducting banking operations in Argentina. Citigroup agreed to sell Bansud in December 2001, and closed on the sale in early January 2002, several months after it had purchased Banamex. During the period when Citigroup held Bansud, Argentina experienced the economic and political crisis described above, and Bansud suffered a substantial decline in value.

Citigroup determined that the applicable accounting for the Bansud disposition was EITF Issue No. 87-11, *Allocation of Purchase Price to Assets to be Sold* (“EITF 87-11”). Under that provision, the decline in value of Bansud during the period when Citigroup held Bansud would impact Citigroup’s income only if the decline was attributable to specific identifiable economic events that occurred during the holding period.<sup>7</sup>

Citigroup reached a tentative agreement to sell Bansud in September 2001 for a loss of \$401 million. That agreement fell through in October 2001, and Citigroup continued holding Bansud until it reached a subsequent agreement to sell Bansud in early December 2001. The transaction closed in early January 2002, and Citigroup had a loss of \$552 million on its sale of Bansud. Citigroup treated the entire loss as a reallocation of the purchase price of Banamex and recorded the loss in goodwill, which was a balance sheet item that did not affect the company’s earnings. To reach this result, Citigroup concluded that the adverse developments in the Argentine economy and the related actions by the Argentine government, described above, during the fourth quarter of 2001 were not specific identifiable economic events that caused the decline in the value of Bansud. Citigroup’s position was not reasonable, particularly considering the impact of the Argentine economic crisis on financial institutions like Bansud.

By improperly treating the entire \$552 million loss on the sale of Bansud as a reallocation of the purchase price rather than as a loss due to specific identifiable economic events, Citigroup avoided a charge to income. Had Citigroup properly accounted for the transaction, it would have recorded a pre-tax charge to income of at least \$151 million, representing the difference between the \$552 million ultimate loss on the sale of Bansud and the \$401 million anticipated loss from the October 2001 failed attempt to sell Bansud.<sup>8</sup> This additional \$151 million pre-tax or \$98.2

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<sup>7</sup> In relevant part, EITF 87-11 provides that the difference between the carrying amount at the time of sale of a subsidiary intended to be disposed of and the proceeds from the sale lead to a reallocation of the purchase price rather than a gain or loss to earnings, unless specific identifiable economic events occurred during the holding period that change the fair value of the subsidiary from the fair value estimated at the time of acquisition. If specific identifiable economic events that decrease the value of the subsidiary occur during the holding period, that decline in value is to be reflected as a charge to the parent company’s income for the quarter.

<sup>8</sup> The lack of documentation relating to Citigroup’s accounting for the disposition of Bansud makes it difficult to reach a conclusive determination of the full amount of the losses that should have been charged to income.



million after-tax loss would have decreased the company's earnings per share for the fourth quarter by nearly \$.02.

### **Citigroup's Financial Results**

On January 17, 2002, Citigroup issued a press release announcing its results. Among other things, the company reported that its earnings for the fourth quarter of 2001 were \$3.88 billion,<sup>9</sup> or diluted earnings per share of \$.74, which included a \$470 million pre-tax charge related to Argentina. Citigroup's reported results were \$.01 per share above analysts' consensus earnings estimates for the period.<sup>10</sup> If Citigroup had properly recorded the charges related to the Bond Swap, the Non-Swapped Bonds, the pesification of consumer loans, and the Bansud disposition described above, the company's earnings per share for the quarter would have been no more than \$.68, or \$.05 below consensus earnings estimates for the quarter.

On January 18, 2002, Citigroup filed a Form 8-K with the Commission that incorporated the company's January 17, 2002, earnings release. In addition to reporting earnings of \$3.88 billion, and diluted earnings per share of \$.74, the company further reported that its core earnings per share increased 14% over those earnings for the fourth quarter of 2000. If Citigroup had recorded the charges described above related to the Bond Swap, the Non-Swapped Bonds, the pesification of consumer loans, and the Bansud disposition, these results would have differed materially because the company would have recorded additional charges after tax of at least \$311 million.

On March 12, 2002, Citigroup filed its annual report on Form 10-K for 2001. For the fourth quarter of 2001, Citigroup reported earnings of \$3.875 billion and diluted earnings per share of \$.74. As set forth above, these results were misstated. The company's earnings for the quarter were no more than \$3.56 billion. In its 2001 Form 10-K, Citigroup also reported earnings for fiscal year 2001 of \$14.13 billion, or \$2.72 per diluted share. If Citigroup had recorded the charges described above related to the Bond Swap, the Non-Swapped Bonds, the pesification of consumer loans, and the Bansud disposition, it would have reported 2001 earnings of no more than \$13.82 billion and its diluted earnings per share for the year would have been no more than \$2.66.

#### **D. LEGAL ANALYSIS**

As a result of the conduct described above, Citigroup violated Sections 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act and Exchange Act Rules 12b-20, 13a-1, and 13a-11.

Section 13(a) of the Exchange Act requires issuers of registered securities to file periodic reports with the Commission containing information prescribed by Commission rules and

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<sup>9</sup> The \$3.88 billion in earnings was a rounded number from the \$3.875 billion that the company reported in its financial supplement to its January 17, 2002, press release and, subsequently, in its Form 10-K filed on March 12, 2002.

<sup>10</sup> At the time, each \$52 million of after-tax earnings equated to earnings per share of \$.01.

regulations. Exchange Act Rule 13a-1 requires issuers to file annual reports on Form 10-K, and Exchange Act Rule 13a-11 requires issuers to file current reports on Form 8-K. Further, Exchange Act Rule 12b-20 requires that, in addition to the information required to be included in annual and current reports, such further material information as may be necessary to make the required statements not misleading also must be included. These annual and current reports must be complete and accurate. *See SEC v. Savoy Industries*, 587 F.2d 1149, 1165 (D.C. Cir. 1978). Rule 210.4-01 of Regulation S-X provides that financial statements filed with the Commission are presumed misleading or inaccurate if they are not prepared in conformity with GAAP.<sup>11</sup> Citigroup's accounting for the Bond Swap, the Non-Swapped Bonds, the pesification of consumer loans, and the sale of Bansud was not in conformity with GAAP.

With respect to the Bond Swap, the relevant accounting guidance, which Citigroup reviewed at the time,<sup>12</sup> provided that registrants should determine fair value by following an approach that provides the most clearly evident or readily determinable value of the instrument received in the exchange. This GAAP guidance reflected a preference for using quoted market prices because they provide an objective and reliable value of the instrument exchanged.<sup>13</sup> The guidance provided, however, that, in certain circumstances, other approaches to determining fair value may also be appropriate.

Citigroup took the position that the quoted market prices of the bonds surrendered were not a reliable indicator of the value of the GPNs that it received. Instead, Citigroup used a discounted cash flow analysis of the GPNs to determine their fair value. Regardless of whether this approach was appropriate, Citigroup's discounted cash flow analysis was based on unreasonable assumptions that caused Citigroup to overvalue the GPNs.

A discounted cash flow analysis of the GPNs using reasonable assumptions would have resulted in a fourth quarter pre-tax loss of approximately \$236 million on the Bond Swap. Thus, Citigroup's pre-tax Bond Swap losses for the fourth quarter should have been in the range of \$236 million to \$416 million (the amount of the loss under the Market Approach). Citigroup thus should have recorded a pre-tax loss of at least \$236 million on the Bond Swap, or at least \$154 million more than the amount included in the financial statements and other financial results in Citigroup's 2001 Form 10-K and the company's January 18, 2002, Form 8-K.

With respect to the Non-Swapped Bonds, for the reasons described above, Citigroup improperly failed to record any charge to income. Had Citigroup properly assessed the fair value

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<sup>11</sup> 17 CFR § 210.4-01(a)(1).

<sup>12</sup> Because it determined that there was no accounting guidance specifically addressing an exchange of bonds for loans, Citigroup considered the following analogous accounting literature: Statement of Financial Accounting Standards No. 115, *Accounting for Investments in Debt and Equity Securities*; Practice Bulletin 4, *Accounting for Foreign Debt/Equity Swaps*; and EITF Issue No. 94-8, *Accounting for a Conversion of a Loan into a Debt Security in a Debt Restructuring*.

<sup>13</sup> *See id.*; see also Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*.

of the Non-Swapped Bonds, Citigroup would have found that the fair value of these bonds had declined significantly. Applying a reasonable valuation indicates that these bonds had an other-than-temporary impairment as of the fourth quarter in the amount of approximately \$117 million pre-tax or \$76 million after-tax. Thus, Citigroup should have recorded a pre-tax loss of \$117 million on the Non-Swapped Bonds and included this loss in the financial statements and other financial results set forth in Citigroup's 2001 Form 10-K and the company's January 18, 2002, Form 8-K.

In connection with Citigroup's accounting for its consumer loan pesification losses, Citigroup improperly recorded a loss to income in its fourth quarter financial results of only \$235 million pre-tax. As discussed, Citigroup's reported loss was based on an exchange rate of 1.4 pesos to one dollar. Statement of Financial Accounting Standards No. 52, *Foreign Currency Translation*, provides that the appropriate exchange rate is the rate at which the foreign-currency denominated asset could be settled at the end of the period. Pursuant to the Argentine government's pesification decree, that rate was the free market rate on the date the markets opened, or between 1.6 and 1.7 pesos to 1 dollar. Citigroup did not follow these GAAP guidelines or guidance from its auditor, who advised Citigroup to use a rate of at least 1.6 pesos to one dollar, and instead used a rate of 1.4 pesos to one dollar. Had Citigroup used a rate of 1.6 pesos to one dollar, it would have incurred an additional loss of \$57 million pre-tax or \$37 million after-tax for the fourth quarter. Thus, Citigroup should have recorded a pre-tax loss of \$292 million on the consumer loan pesification issue, or \$57 million more than the amount included in the financial statements and other financial results set forth in Citigroup's 2001 Form 10-K and the company's January 18, 2002, Form 8-K.

Citigroup's accounting for the disposition of Bansud also was not in conformity with GAAP. As discussed above, EITF Issue No. 87-11 provides that, if specific identifiable economic events occurred during the holding period that decreased the value of the subsidiary, that decline in value was to be reflected as a charge to the parent company's income for the quarter. Despite the collapse of the Argentine economy and the related actions by the Argentine government during the holding period, Citigroup did not record a charge to income for the fourth quarter to reflect Bansud's decline in value, as required by EITF 87-11. Had Citigroup complied with EITF 87-11, the company would have incurred a loss to income of at least \$151 million for the fourth quarter of 2001. Thus, Citigroup should have recorded a pre-tax loss of \$151 million or \$98.2 million after-tax on the sale of Bansud and included that loss in the financial statements and other financial results set forth in Citigroup's 2001 Form 10-K and the company's January 18, 2002, Form 8-K.

As a result of its improper accounting for the Bond Swap, the Non-Swapped Bonds, the pesification of consumer loans, and the Bansud disposition, Citigroup materially misstated the financial results that it reported in its 2001 Form 10-K and its January 18, 2002, Form 8-K. As set forth above, these misstatements included Citigroup's reported fourth quarter 2001 earnings of \$3.875 billion, which were overstated by at least \$311 million, or 8%, after tax, and the company's reported diluted earnings per share of \$.74, which were overstated by at least \$.06. Citigroup thus violated Section 13(a) of the Exchange Act and Exchange Act Rules 12b-20, 13a-1, and 13a-11.

Section 13(b)(2)(A) of the Exchange Act requires reporting companies to make and keep books, records, and accounts, which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the issuer. As described above, the manner in which Citigroup accounted for the Bond Swap, the Non-Swapped Bonds, the pesification of the consumer loans, and the disposition of Bansud resulted in the company's financial statements for 2001, including the results for the fourth quarter of the year, being inaccurate, and the underlying documentation related to the improper accounting also was inaccurate.<sup>14</sup> Citigroup thus violated Section 13(b)(2)(A) of the Exchange Act.

Section 13(b)(2)(B) of the Exchange Act, in relevant part, requires reporting companies to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP or other applicable criteria. As reflected above, Citigroup's system of internal controls was not sufficient to provide reasonable assurances that the value of the GPNs received in the Bond Swap, the changes in value of the Non-Swapped Bonds, and the disposition loss on the sale of Bansud were recorded in accordance with GAAP. Citigroup thus violated Section 13(b)(2)(B) of the Exchange Act.

#### IV.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondent Citigroup's Offer.

Accordingly, it is hereby ORDERED that:

Pursuant to Section 21C of the Exchange Act, Respondent Citigroup cease and desist from committing or causing any violations and any future violations of Sections 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act and Exchange Act Rules 12b-20, 13a-1, and 13a-11.

By the Commission.

Florence E. Harmon  
Acting Secretary

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<sup>14</sup> In this regard, it is noteworthy that Citigroup's purported support for the company's accounting related to the Non-Swapped Bonds and the Bansud transaction consisted of brief internal memoranda. Among other things, the memorandum concerning the Non-Swapped Bonds did not properly analyze whether the bonds were impaired. The memorandum related to the Bansud transaction was not prepared until months after the company filed its Form 10-K for 2001 and set forth the erroneous conclusion that there were no specific identifiable economic events, as defined in EITF 87-01, that occurred during the holding period to change the value of Bansud.