

October 23, 2004

## S.E.C. Warns It May Act On Ex-Officer Of Citigroup

By LANDON THOMAS Jr.

**C**itigroup said yesterday that federal regulators had warned the bank that an investigation of its asset management unit could result in an enforcement action against the executive who ran the division until this week.

The Securities and Exchange Commission has sent a Wells notice - a letter warning that an individual or company will probably face a civil complaint from the commission - to Thomas W. Jones, who had run Citigroup asset management, the fund management arm of the bank, since 1998.

The notice caps a difficult week for Charles O. Prince, Citigroup's chief executive, who has been taking pains to prove to regulators as well as to investors that Citigroup, a mammoth financial institution with offices and businesses that span the globe, can at the same time run a clean ship.

On Wednesday, Mr. Jones and two other senior bank executives were forced to resign by Mr. Prince after an internal review concluded that they were responsible for a breakdown in oversight at Citigroup's private banking operations in Japan.

In September, Japanese regulators barred Citigroup's private banking business from operating in the country, citing inadequate internal controls to prevent fraudulent trades and money laundering.

Robert B. Willumstad, the president of Citigroup, said yesterday in an e-mail message sent to employees that neither the "Wells notice nor the underlying investigation had anything to do with Tom's leaving the company." Mr. Willumstad added that Citigroup had informed regulators in November 2003 of the infractions, which included an inappropriate and undisclosed payment made to Citigroup asset management by an outside vendor.

For Mr. Jones, a respected executive with over 20 years of experience working at the top levels of financial services firms, the notice is a troubling epilogue to a long career at Citigroup.

His path to the upper reaches of Citigroup's executive suite was an unusual one. As a student at Cornell in 1969, Mr. Jones led an armed takeover of the student union building to protest the university's policies toward its black students as well as the Vietnam War, an action that led to his being featured in Newsweek.

He eventually graduated from Cornell, and after top posts at John Hancock, TIAA-CREF and Salomon Brothers, he joined Citigroup. At the time of his dismissal, Mr. Jones was responsible for \$490 billion under management at Citigroup asset management.

Mr. Jones could not be reached for comment.

On the surface, the S.E.C. investigation would seem to pale in comparison to the other regulatory run-ins that Citigroup has encountered over the last three years. All the same, it raises some uncomfortable questions with regard to the quality of executive decision making at the top tier of Citigroup's business units.

Between 1997 and 1999, Mr. Jones decided to bring in house the bank's transfer agency operations, a business that documents the ownership of securities within the firm's mutual funds.

The initiative was aimed at reducing fund fees, a goal Citigroup executives say was met.

Subsequently, Mr. Jones and other executives within the unit decided to pass on a portion of the agency business to an outside vendor, the **First Data Corporation**. The agreement with First Data included a revenue guarantee of \$16 million that was paid to Citigroup asset management but that was not passed on to its mutual funds as it should have been. Nor were the payments ever disclosed.

Citigroup is repaying the amount to its funds with interest although it has offered no explanation as to why it received such a revenue guarantee.

While Citigroup itself received a notice in July, securities lawyers said yesterday that the payment and the nondisclosure were at the heart of the S.E.C. investigation.

"The fact that only individuals are being charged makes it more likely that it's the improper payment and not back-office record-keeping violations, that the S.E.C. is investigating," said Thomas Dewey, a former S.E.C. lawyer at the law firm of Dewey Pegno & Kramarsky.

A lower-level Citigroup executive working in its compliance division and a former employee who worked in the bank's back office also received notices. Citigroup declined to reveal their names.

The commission, as is its practice, declined to comment on the investigation.

But, while the sum of money is indeed tiny for an institution that earned \$17 billion last year, the investigation highlights the two issues that analysts say continue to plague the bank.

One is the enormous size and breadth of its businesses, which allows for ethical and regulatory lapses on the part of employees to slip through the cracks. Second is the "meet your numbers mentality" that has long been the hallmark philosophy of Sanford I. Weill, the bank's chairman. Analysts and Citigroup employees say that mind-set puts undue pressure on executives to cut corners as they search for extra pennies to meet their financial targets.

With the company's stock price lagging, Mr. Prince is now taking steps to address these points.

On Monday, he will hold a news conference in Japan to explain how the bank aims to improve its operations there. Yesterday, Citigroup submitted a plan to Japanese regulators, outlining the steps it will take to strengthen internal oversight of its Japanese operations.

The plan includes measures to strengthen the management structure of the Japanese operation, the bank said. Japanese regulators from the Financial Services Agency have said they believe that a main reason the violations occurred was that private bankers in Tokyo reported directly to executives in New York, so there was little oversight of daily operations on the ground in Japan.