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EUROPEAN BUSINESS NEWS

Citigroup Fined in U.K. For 'Dr. Evil' Bond Trades

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LONDON – Britain's Financial Services Authority fined **Citigroup** £13.9 million (\$25.4 million) for a series of controversial bond trades it made last August.

The regulator said Citigroup will pay a penalty of £4 million and relinquish profits from the trades of about £9.9 million.

The controversial trading strategy last year, dubbed "Dr. Evil" by the bank's traders, caused a temporary disruption to trading on electronic platforms run by MTS Group, a dramatic drop in prices and a withdrawal of quotes from the system by some market participants.


Citigroup "planned, authorized and executed a trading strategy without having due regard to the risks and likely consequences of its action for the efficient and orderly operation of the MTS platform," Hector Sants, FSA managing director for wholesale business, said in a statement. "Furthermore, the lack of adequate systems and controls meant that the strategy was never fully considered, as would be expected, at an appropriate senior level," he said.

"Today's decision confirms our position that the trade didn't breach rules of market conduct," William J. Mills, chairman and chief executive of corporate and investment banking for Citigroup in Europe, the Middle East and Africa, and Tom Maheras, chief executive of global capital markets, said in a statement. "However, we regret that this trade took place because it didn't meet our high standards and consequently caused damage to Citigroup's reputation."

The FSA's Mr. Sants said the regulator has high expectations for large institutions like Citigroup. "The FSA expects high standards from all its regulated firms, but especially from firms such as CGML [Citigroup Global Markets Ltd.], whose size and resources allow them to trade in large volumes and take significant risks," he said.

In its statement, the FSA said the European government bond desk at Citigroup developed the trading

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strategy in response to encouragement to boost proprietary trading profits. In the trades, Citigroup built up and quickly exited large long positions in European government bonds over a period of an hour.

"The strategy was escalated to senior management, but Citigroup did not ensure that clear parameters for the size of the trade were understood, communicated and reviewed," the FSA said.

The FSA said the strategy breached two of the FSA's principles: the first requiring firms to conduct business with due skill, care and diligence, and the second requiring institutions to "take reasonable care to organize and control its affairs responsibly and effectively, with adequate risk management systems."

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