Citibank to Pay More Than $38 Million for Improper Handling of ADRs

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Washington D.C., Nov. 7, 2018 —
The Securities and Exchange Commission today announced that Citibank N.A. has agreed to pay $38.7 million to settle charges of improper handling of "pre-released" American Depositary Receipts (ADRs).

ADRs – U.S. securities that represent foreign shares of a foreign company – require a corresponding number of foreign shares to be held in custody at a depositary bank. The practice of "pre-release" allows ADRs to be issued without the deposit of foreign shares provided brokers receiving them have an agreement with a depositary bank and the broker or its customer owns the number of foreign shares that corresponds to the number of shares the ADR represents.

The SEC found that Citibank improperly provided ADRs to brokers in thousands of pre-release transactions when neither the broker nor its customers had the foreign shares needed to support those new ADRs. Such practices resulted in inflating the total number of a foreign issuer's tradeable securities, which resulted in abusive practices like inappropriate short selling and dividend arbitrage that should not have been occurring.

This is the second action against a depositary bank and sixth action against a bank or broker resulting from the SEC's ongoing investigation into abusive ADR pre-release practices. Information about ADRs is available in an SEC Investor Bulletin.
"Our charges against Citibank are the latest in our ongoing investigative effort to hold accountable Wall Street institutions that participated in an industry-wide fraud," said Sanjay Wadhwa, Senior Associate Director of the SEC's New York Regional Office. "Our investigation into these practices has revealed that banks and brokerage firms profited while ADR holders were unaware of how the market was being abused."

Without admitting or denying the SEC's findings, Citibank agreed to pay more than $20.9 million in disgorgement of ill-gotten gains plus $4.2 million in prejudgment interest and a $13.5 million penalty for a total of more than $38.7 million. The SEC's order acknowledges Citibank's remedial acts and cooperation in the investigation.

The SEC's continuing industry-wide investigation is being conducted by Andrew Dean, Joseph P. Ceglio, William Martin, Elzbieta Wraga, Philip Fortino, Richard Hong, and Adam Grace of the New York Regional Office, and the case is being supervised by Mr. Wadhwa.

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