Citigroup Paying $18 Million for Overbilling Clients

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The Securities and Exchange Commission today announced that Citigroup Global Markets has agreed to pay $18.3 million to settle charges that it overbilled investment advisory clients and misplaced client contracts.

The SEC's order finds that at least 60,000 advisory clients were overcharged approximately $18 million in unauthorized fees because Citigroup failed to confirm the accuracy of billing rates entered into its computer systems in comparison to fee rates outlined in client contracts, billing histories, and other documents. Citigroup also improperly collected fees during time periods when clients suspended their accounts. The billing errors occurred during a 15-year period, and the affected clients have since been reimbursed.

"Advisory clients have every expectation that the fees charged by their financial adviser reflect the negotiated rate. Citigroup failed to take the necessary precautions to ensure clients were billed in a manner consistent with their advisory agreements," said Andrew M. Calamari, Director of the SEC's New York Regional Office.

The SEC's order further finds that Citigroup cannot locate approximately 83,000 advisory accounts opened from 1990 to 2012. Without those missing advisory contracts, Citigroup could not properly validate whether the fee rates negotiated by clients when accounts were opened were the same advisory fee rates being billed to clients over the years. It is estimated that Citigroup received approximately $3.2 million in excess fees from advisory clients whose contracts were lost.

"It's a fundamental responsibility of a financial adviser to preserve key account documents such as advisory contracts. Citigroup failed to safeguard its client contracts, which seriously impeded its ability to determine the proper amount of fees the firm was authorized to charge," said Sanjay Wadhwa, Senior Associate Director of the SEC's New York office.

Citigroup consented to the SEC's cease-and-desist order and agreed to undertakings related to its fee-billing and books-and-records practices. The firm is censured and must pay $3.2 million in disgorgement of the excess fees collected due to the missing contracts plus $800,000 in interest and a $14.3 million penalty.

The SEC's investigation has been conducted by Olivia Zach and Celeste Chase in the New York office and supervised by Mr. Wadhwa.