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U.K. Regulator Plans to Fine Citigroup Over Bond Trade

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LONDON -- The U.K.'s Financial Services Authority intends to fine Citigroup Inc. for internal-control failures related to a European bond trade it executed last August, according to a person familiar with the situation.

The regulator's decision, which is expected to be announced in coming weeks, will come as a relief to the New York bank, which wants to avoid charges of market manipulation on the trade.

In the Aug. 2, 2004 trade, which Citigroup traders had dubbed Dr. Evil, the firm sold €12.4 billion ($15.5 billion) of euro-zone government bonds, €11.8 billion of which it put through 11 electronic-trading platforms operated by MTS Group. It then bought back €3.77 billion of bonds about 30 minutes later to make a profit of an estimated $17.5 million (€13.9 million) at the expense of market makers on the platforms.

The regulator has approached Citigroup and other parties to consult them on their intentions and is currently considering the size of the fine that will be levied, the person said.

The FSA is considering a fine of between €10 million and €50 million in order to signal the depth of its concern about control failures at a large investment bank, the person said.

The FSA declined to comment on the situation.

A Citigroup spokeswoman referred to previous statements in which the bank expressed regret for the trade and said it doesn't believe it violated any regulations.

In January, German regulator BaFin said it believed there was evidence of possible market manipulation by six Citigroup employees. But the Frankfurt state prosecutor decided there was no legal basis for a case.

The bank suspended five European government-bond traders in early February amid continuing regulatory investigations at several European regulators. The bank's co-head of European government-bond trading, Spiros Skordos, still works at the bank.

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