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Judge Won't Dismiss SEC Charges v. Ex-Citigroup Execs

April 27, 2006 (Associated Press) — A federal judge in Manhattan has denied a motion to dismiss allegations that two former Citigroup Inc. executives cheated customers out of millions of dollars in savings.

They allegedly did so using an affiliated transfer agent created to provide deeply discounted services to the firm's Smith Barney mutual-fund family.

In an order made public Wednesday, U.S. District Judge Richard C. Casey declined to dismiss civil charges by the Securities and Exchange Commission against Thomas W. Jones, the former chief executive of Citigroup Asset Management, and Lewis E. Daidone, the former treasurer and chief financial officer of the Smith Barney family of funds.

"Without addressing the question of whether Jones owed the funds a fiduciary duty, the court finds these claims, which still must be proven to the satisfaction of a jury, adequately allege Jones' knowledge of the underlying violation," the judge said.

Citigroup settled the SEC's charges last May and agreed to pay \$208 million to mutual-fund customers allegedly victimized by the transfer-agent arrangements. In settling, the financial-services giant didn't admit or deny wrongdoing.

The SEC has alleged that Jones and Daidone were "principally responsible" for the transfer-agent scheme, which ran from 1999 through the autumn of 2004.

The SEC's complaint claims that Citigroup's asset-management business took most of the benefit of the discount from using an affiliated transfer agent for itself, rather than passing on the savings to the mutual funds and fund customers.

G. Irvin Terrell, Jones' lawyer, said they are disappointed the judge denied their motion to dismiss but believe he will grant their motion for summary judgment, expected to be filed later this year. Terrell said they believe the SEC's evidence in the case is "deficient."

"We expect to prevail," Terrell said.

Richard Morvillo, a lawyer for Daidone, said, "We're disappointed with the ruling."

-- CHAD BRAY (Dow Jones Newswires)