UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK 11 CIV 7388

U.S. SECURITIES AND EXCHANGE COMMISSION, **Plaintiff,** **v.** **BRIAN H. STOKER,** **Defendant.**	**COMPLAINT** **11-CV-__________ ( )** **ECF CASE** Jury Trial Demanded

Plaintiff Securities and Exchange Commission ("Commission") alleges as follows against the defendant Brian H. Stoker ("Stoker"):

SUMMARY

1. The Commission brings this securities fraud action against Brian H. Stoker, who was an employee of Citigroup Global Markets, Inc. (along with certain affiliates, "Citigroup"), relating to his role in the structuring and marketing of a largely synthetic collateralized debt obligation ("CDO") called Class V Funding III ("Class V III"). The investment portfolio for Class V III consisted primarily of credit default swaps ("CDS") referencing other CDO securities whose value was tied to the United States residential housing market. Citigroup structured and marketed this $1 billion "CDO squared" in early 2007 when the housing market and the securities linked to the U.S. housing market were already beginning to show signs of distress. CDO squareds, such as Class V III, were designed to, and did, provide leveraged exposure to the housing market and therefore magnified the severity of losses suffered by investors when the United States housing market experienced a downturn.

2. Citigroup's marketing materials for Class V III, including a pitch book and offering circular, represented that the investment portfolio was selected pursuant to an extensively described asset selection process undertaken by Credit Suisse Alternative Capital, Inc. ("CSAC"), a registered investment adviser that was promoted as having experience and expertise in analyzing credit risk in CDOs. Undisclosed in the marketing materials and unbeknownst to investors, Citigroup exercised significant influence over the asset selection process for the purpose of creating a tailored, proprietary bet against the collateral of Class V III. Through its influence on the selection of the investment portfolio, Citigroup was able to short a set of assets it hand-picked by entering into CDS to buy protection on those assets from Class V III. The CDS assets on which Citigroup bought protection had a notional value of approximately $500 million, representing half of Class V III's investment portfolio. The marketing materials Citigroup prepared and distributed to investors did not disclose Citigroup's role in selecting assets for Class V III and did not accurately disclose to investors Citigroup's short position on those assets.

3. In sum, while ostensibly acting in its customary role as arranger of a CDO intended to benefit the CDO's investors, Citigroup in fact used Class V III as a proprietary trade, whereby it furthered its own economic interests, which were directly adverse to those of Class V III's investors, without disclosing its role in the selection of assets or the short position it took with respect to those assets.

4. Stoker was Citigroup's lead structurer on Class V III and was responsible for ensuring the accuracy of the offering circular and pitch book. Stoker was aware that Citigroup was using Class V III as a proprietary trade and, that even prior to the outset of the transaction, Citigroup intended to short a specific set of assets into the Class V III investment

portfolio. Stoker was also involved in the drafting and distribution of the offering materials. Notwithstanding his knowledge, Stoker did not ensure that the offering materials accurately described Citigroup's role in selecting the assets, Citigroup's intention to use Class V III as a proprietary trade, and Citigroup's shorting of $500 million of assets in Class V III.

5. Class V III closed on February 28, 2007. At closing, Citigroup was paid approximately $34 million in fees for structuring and marketing Class V III. On or about that date and in the following weeks, Citigroup sold approximately $343 million of Class V III's equity and mezzanine liabilities ("notes") to approximately fourteen (14) institutional investors ("Subordinate Investors"), all of whom received some or all of the marketing materials for Class V III. The Subordinate Investors included hedge funds, investment managers, and other CDO vehicles. On or about March 16, 2007, Ambac Credit Products ("Ambac"), an affiliate of Ambac Assurance Corporation, a monoline insurance company, agreed to sell protection to an affiliate of Citigroup on the $500 million super-senior tranche of Class V III, meaning that Ambac effectively invested in that tranche by assuming the credit risk associated with that portion of the capital structure via CDS in exchange for premium payments. The transaction with Ambac was intermediated by a European financial institution (together with Ambac, the "Super-Senior Investors").

6. By November 6, 2007, approximately 83 percent of the CDO assets referenced in the Class V III investment portfolio had been downgraded by rating agencies. Class V III declared an event of default on November 19, 2007. As a result of the poor performance of the investment portfolio, the Subordinate Investors and Super-Senior Investors lost several hundred million dollars. Through its fees and its short position on the $500 million in assets in Class V III, Citigroup realized net profits of at least $160 million.

7. By engaging in the conduct described herein, Stoker violated Sections 17(a)(2) and (3) of the Securities Act of 1933 [15 U.S.C. §77q(a)(2) and (3)] ("the Securities Act") by misrepresenting key deal terms in Class V III, namely, the process by which the investment portfolio was selected and Citigroup's financial interest in the transaction, and by engaging in a course of business that operated as a fraud upon investors in Class V III. The Commission seeks injunctive relief, disgorgement of profits, prejudgment interest, civil penalties and other appropriate and necessary equitable relief from the defendant.

JURISDICTION AND VENUE

8. This Court has jurisdiction and venue over this action pursuant to Sections 20(b), 20(d) and 22(a) of the Securities Act [15 U.S.C. §§ 77t(b), 77t(d), 77v(a)]. Stoker transacted business related to Class V III in this judicial district and, directly or indirectly, made use of the means or instrumentalities of interstate commerce, or of the mails, or the facilities of a national securities exchange therein.

DEFENDANT

9. **Brian H. Stoker,** age 40, was a Director in the CDO structuring group at Citigroup from March 2005 through August 2008. Stoker was the principal Citigroup employee responsible for overseeing the structuring of Class V III and the drafting of the offering memorandum and pitch book. Stoker obtained his Series 7 and 63 licenses in 1998, but has not been a registered broker since 2008. Stoker lives in Pound Ridge, New York.

RELATED ENTITIES

10. **Citigroup Global Markets Inc. ("Citigroup Global Markets")** is and was the principal U.S. broker-dealer of Citigroup Inc., a global financial services firm

headquartered in New York City. Citigroup Global Markets structured and marketed Class V III.

11. **Credit Suisse Alternative Capital, LLC ("CSAC")** was an investment adviser registered with the Commission and based in New York, New York until December 2010, when it became Credit Suisse Asset Management, LLC ("CSAM"). CSAC acted as the collateral manager for Class V III. CSAC was a wholly-owned subsidiary of Credit Suisse Securities (USA) LLC. Credit Suisse Securities (USA) LLC, an investment adviser and broker-dealer based in New York, New York, is and was the principal U.S. broker-dealer and investment advisory subsidiary of Credit Suisse Group, a global financial services firm based in Switzerland.

FACTS

A. THE STRUCTURE OF A CDO SQUARED

12. CDOs are debt securities collateralized by fixed income obligations, including residential mortgage backed securities ("RMBS"). Investors in CDO notes receive payments derived from the cash flows produced by the investment portfolio of the CDO. The notes issued by a CDO are securities with defined risk profiles determined by a hierarchical, tranched structure. The cash flows from the CDO's investment portfolio are divided according to defined rights among the tranches of the CDO in a waterfall fashion. The "super senior" tranche is at the top of the waterfall with the first right to receive principal and interest if there is a shortfall. As a result, the super senior tranche is considered to have the highest credit quality, meaning the lowest likelihood of being affected by problems in the underlying collateral. The lower, "mezzanine" tranches are junior in priority and, therefore,

carry more risk. Below the mezzanine tranches are the subordinated notes, or equity, which are the first to experience losses.

13. A CDS is an over-the-counter derivative contract that functions like insurance on a so-called "reference asset." In a CDS transaction, a "protection buyer" makes periodic premium payments to a "protection seller." In exchange, the protection seller promises to make a contingent payment to the protection buyer if an agreed-upon reference obligation (such as a CDO) experiences a "credit event," such as a default. Thus, the protection seller is effectively taking a long position on the reference asset (i.e., betting it will perform), while the protection buyer is effectively taking a short position on the reference asset (i.e., betting it will perform poorly).

14. A CDO collateralized by bonds is known as a "cash CDO." A CDO collateralized by tranches of other CDOs is known as a "CDO squared." A CDO collateralized only by CDS is called a "synthetic CDO." A hybrid CDO is a CDO collateralized by both cash assets (i.e., bonds) and synthetic assets (i.e., CDS). Class V III was a hybrid CDO.

15. A CDO squared is created through a special purpose vehicle ("SPV") that issues notes entitling the note-holders to payments derived from the underlying assets. Investors in the notes issued by a cash CDO squared receive payments derived from the principal and interest paid by the CDO tranches in the CDO's investment portfolio. However, with respect to a synthetic CDO squared, the SPV does not actually own a portfolio of fixed income assets, but rather enters into a CDS whereby the SPV acts as the protection seller to one or more counterparties on a portfolio of reference assets, or "names,"

which in the case of a synthetic CDO squared would be specified tranches of other CDOs. Investors in the notes issued by a synthetic CDO receive payments derived from the periodic premium payments from the protection buyer.

16. Prior to the date on which a CDO closes, it is typical for the arranging bank to have acquired most of the collateral on behalf of the SPV. The acquiring bank typically finances the acquisition of collateral and places acquired collateral in a segregated account or "warehouse." This pre-closing process is called "warehousing." If there is an asset manager for the CDO squared, it is the collateral manager, not the arranging bank, that directs what assets will be acquired by the warehouse. The arranging bank, which provides the warehouse, bears the risk of loss on the assets in the warehouse prior to closing. In the case of a synthetic CDO, the arranging bank, in its role as initial CDS asset counterparty, will buy protection from the warehouse. In that instance, prior to the closing of the CDO, the warehouse is merely an entry on the arranging bank's balance sheet and the arranging bank is essentially selling protection to itself.

17. Typically, in a CDO with synthetic assets, the arranging bank plays the role of initial CDS asset counterparty, meaning the arranging bank is the sole counterparty facing the CDO for synthetic collateral. This role is usually defined in the indenture for the CDO. Arranging banks, in their role as CDS asset counterparty, typically act through their trading desks as intermediaries between the CDO and other market participants. If a collateral manager identifies a counterparty with whom it wants to trade for the CDO's portfolio, the arranging bank will intermediate that trade (that is, sell protection to that counterparty and simultaneously buy protection from the CDO) in exchange for a small "intermediation fee." However, the arranging bank can purchase protection directly from the CDO, either for a

customer who it knows to be interested in assuming that position, or for the arranging bank's own account. When the arranging bank trades directly with the CDO, there is no intermediation fee, but the arranging bank typically sells protection on that asset to one of its customers in order to capture as profit the difference between what it pays for protection and what it charges its customer (the "spread" between the two trades) without retaining any of the risk of the asset itself.

18. When a synthetic CDO closes and the assets are transferred to the SPV, the SPV will be the protection seller. The money the SPV receives from investors is used to make any contingent payments if there are credit events on the assets in the reference portfolio. Thus, once the arranging bank sells the synthetic CDO notes to outside investors, those investors are effectively in the position of protection seller on the reference portfolio (they have taken the long side of the underlying CDS transactions).

19. The arranging bank for a synthetic CDO was understood to profit from the fees it charges for structuring and marketing the transaction, any fees it received for intermediating trades, and the spread it captured by buying protection from the CDO and selling protection to its customers.

B. THE DEMAND FOR "SHORT" POSITIONS ON CDO TRANCHES

20. During late 2006 and early 2007, certain hedge funds and other market participants came to believe that CDOs whose assets consisted primarily of BBB-rated subprime RMBS (so-called "mezzanine" CDOs) would experience significant losses, leading even the A-rated tranches of mezzanine CDOs to potentially become worthless. These

market participants sought to profit from a downturn in the United States housing market by buying protection through CDS on A-rated tranches of mezzanine CDOs originated in 2006.

21. Citigroup's CDO trading desk was one of the most active traders of CDS referencing CDOs. By late October 2006, Citigroup's CDO trading desk had a large number of hedge fund customers seeking to buy protection on CDO tranches, particularly on mezzanine CDOs originated in 2006. In particular, Citigroup's CDO trading desk was aware that there was a large demand from market participants to purchase protection on mezzanine CDOs that were part of a series of transactions that shared certain structural and other features and were named after constellations (the "Constellation Series"). Indeed, as Citigroup knew, a significant portion of the market interest in shorting the Constellation CDOs came from the very hedge fund that helped create those CDOs. The Citigroup CDO trading desk also was aware that there was great demand from market participants to purchase protection on a similar group of CDOs, known as "President" deals. In other words, the Citigroup CDO trading desk was aware that many market participants were seeking to bet that the Constellation and President deals would perform poorly.

22. The increased demand for protection in the market led to the widening of spreads that market participants were willing to pay for protection on single A-rated tranches of CDOs. CDS were typically priced based on a spread over a risk free funding rate, such as LIBOR. All other things being equal, a wider spread on a CDS indicates a higher level of perceived riskiness in the reference asset. With this widening of spreads, internal discussions began at Citigroup about the feasibility of structuring and marketing a CDO squared collateralized by single A-rated tranches.

23. A significant part of Citigroup's rationale for pursuing such a transaction was the desire of its CDO trading desk to buy protection on A-rated tranches of mezzanine CDOs originated in 2006 for its own account, without an offsetting long trade with a customer. Such positions were known as "naked short" positions. These naked short positions would mirror the trades entered into by certain of the CDO trading desk's hedge fund customers and would position Citigroup to realize profits in the event of a downturn in the United States housing market.

B. STRUCTURING OF CLASS V III -- PHASE ONE

24. Beginning in or around October 2006, personnel from Citigroup's CDO trading desk had discussions with Stoker and others on Citigroup's CDO structuring desk about the possibility of the CDO trading desk establishing short positions in a specific group of assets, including several Constellation and President deals, by buying protection from a CDO squared that Citigroup would structure and market. Stoker and others within Citigroup also discussed the possibility of having the CDO squared purchase unsold tranches from CDOs previously structured by Citigroup.

25. Citigroup knew it would be difficult to place the liabilities of a CDO squared if it disclosed to investors its intention to use the vehicle to short a hand-picked set of CDOs and to buy Citigroup's hard-to-sell cash CDOs. By contrast, Citigroup knew that representing to investors that an experienced, third-party investment adviser had selected the investment portfolio would facilitate the placement of the CDO squared's liabilities.

26. On or around October 19, 2006, Citigroup initiated discussions with CSAC about CSAC acting as collateral manager for the proposed CDO squared. CSAC was a

registered investment adviser that had previously acted as the collateral manager for several other CDOs.

27. On October 23, 2006, a Managing Director on Citigroup's CDO trading desk sent Stoker a list of 21 recent-vintage, mezzanine CDOs on which the CDO trading desk wished to buy protection from the CDO squared. Eighteen of the 21 names the Managing Director forwarded were Constellation or President deals.

28. On or about October 26, 2006, Stoker discussed with others within Citigroup potential structures for the CDO squared, as well as the possibility that Citigroup would short assets into the CDO squared. On or about October 27, Stoker prepared (or had prepared) and distributed internally to Citigroup's CDO trading desk and others, several models showing the potential profits to Citigroup from shorting assets into the CDO squared.

29. On or about October 30, 2006, Stoker sent the Citigroup CDO salesperson who covered CSAC the list of 21 CDOs that Stoker had received from the Managing Director on the CDO trading desk on October 23, 2006.

30. On November 1, 2006, the Citigroup CDO salesperson forwarded the list he received from Stoker, along with four additional names he received from the trading desk, to CSAC, describing the list as CDOs that were "contemplated to be in the [CDO squared] portfolio."

31. On November 2, 2006, the Managing Director on the CDO trading desk informed Stoker that CSAC appeared "amenable to the portfolio" and "receptive to the concept," and asked Stoker to draft an engagement letter for CSAC.

32. On November 3, 2006, Stoker drafted an engagement letter for CSAC and circulated it internally with the subject line "CSAC CDO Squared." Later that day, in response to receiving the draft engagement letter, Stoker's immediate supervisor inquired "Are we doing this?" Stoker responded: "I hope so. This is [the CDO trading desk]'s prop trade (don't tell CSAC). CSAC agreed to terms even though they don't get to pick the assets." The term "prop trade" is shorthand for "proprietary trade," meaning a trade undertaken for a firm's own account, rather than on behalf of the firm's customer(s).

33. On November 14, 2006, Stoker's immediate supervisor informed Stoker that Stoker should take action to ensure that the structuring desk received "credit for [the CDO trading desk's] profits" on Class V III.

34. On November 22, 2006, Stoker distributed internally to Citigroup's CDO trading desk and others, "the latest structure" of Class V III, in which he recommended that the President and Constellation deals included in the deal should be those having a single-A rating.

C. STRUCTURING OF CLASS V III – PHASE TWO

35. In late December 2006, CDS spreads on single-A CDO tranches widened further, and Citigroup renewed its efforts to finalize the engagement with CSAC and move forward with the CDO squared. As a result of those efforts, CSAC and Citigroup agreed to proceed with the transaction.

36. On December 21, 2006, CSAC sent the Citigroup CDO salesperson a list of 127 CDOs as potential candidates for inclusion in the CDO squared. The names identified

were diversified by deal type and vintage, with only a portion represented by recent-vintage, mezzanine CDOs. The list included approximately 19 of the original 25 names Citigroup provided CSAC on November 1, 2006. The Citigroup CDO salesperson forwarded a copy of the list to Stoker and others at Citigroup.

37. On the morning of January 8, 2007, Citigroup's CDO trading desk selected 25 CDOs from CSAC's December 21, 2006 list and provided the 25 names to the Citigroup CDO salesperson. Sixteen of the 25 names Citigroup selected were on the original list it provided to CSAC on November 1, 2006, and all but one of the 25 names were 2006, mezzanine CDOs; the sole exception was a mezzanine CDO that closed in December 2005. Later that morning, the Citigroup CDO salesperson sent the list of 25 names to CSAC with the statement, "Here are the names where we would like to buy protection from CSAC." Within an hour, CSAC agreed to include the 25 CDOs in the investment portfolio by selling protection to Citigroup on those names. The notional amount of CDS referencing these CDOs was $250 million. Sixteen of the names Citigroup selected were Constellation of President deals with a notional value of $160 million.

38. On the morning of January 8, 2007, Stoker learned that CSAC intended to sell Citigroup's CDO trading desk protection on CDOs with a notional value of $250 million for the Class V III investment portfolio.

39. Also, on or about January 8, 2007, Citigroup and CSAC entered into an engagement letter, drafted by Stoker, pursuant to which Citigroup agreed to serve as "Placement Agent" and CSAC agreed to serve as "Manager" for Class V III. The letter states that "the Manager [CSAC] agrees to identify Collateral that meets the criteria

established for the Transaction," and that "the Manager will direct the purchase of securities for the Collateral."

40. On or about January 10, 2007, CSAC selected 18 additional CDO tranches on which protection would be sold for the investment portfolio with little or no involvement from Citigroup. The counterparties who would buy the CDS on these synthetic assets were identified using a "bid wanted in competition" or "BWIC" process, pursuant to which a list of bonds is submitted to various brokers to solicit bids for protection. The notional amount of CDS on these CDOs was $220 million.

41. On or about January 11, 2007, Citigroup and CSAC agreed to increase the size of the Class V III transaction from $500 million to $1 billion.

42. On or about January 12, 2007, Citigroup and CSAC reached an agreement pursuant to which CSAC doubled the credit exposure of Class V III to the original 25 CDOs that Citigroup selected for the investment portfolio by selling additional protection to Citigroup at agreed-upon premiums. The original notional amount of the CDS involved was $250 million, which increased Citigroup's short position to a notional amount of approximately $500 million, representing half of Class V III's investment portfolio.

43. Of the $500 million of short positions that Citigroup purchased on January 8 and 12, 2007, $490 million were naked shorts, or names in which Citigroup's CDO trading desk was not already holding an unhedged, long position.

44. Over the course of the next month, CSAC selected additional CDOs to include in Class V III via CDS with little or no involvement from Citigroup. The notional amount of

CDS on these CDOs was approximately $150 million. This brought the total notional amount of synthetic CDOs included in the investment portfolio for Class V III to approximately $870 million.

45. The investment portfolio for Class V III also included nine cash CDOs with a total notional amount of $130 million. Six of these nine cash CDOs, with a face value of $92.25 million, were from CDOs structured and marketed by Citigroup. CSAC did not apply to these securities the rigorous credit analysis described in the marketing materials for Class V III.

46. On or about February 14, 2007, the Managing Director on the CDO trading desk communicated to Citigroup's Risk Management that the CDO trading desk's intention was to retain the short position in the Class V III collateral even if Citigroup sold all the tranches of Class V III. This decision permitted Citigroup to remain positioned to profit from the negative performance of the Class V III collateral even as it was marketing Class V III to investors.

D. DISCLOSURES RELATING TO PORTOLIO SELECTION AND FINANCIAL INTERESTS

47. The two primary marketing documents for Class V III were the offering circular (similar to a statutory prospectus) and the pitch book (a PowerPoint presentation used in discussions with potential investors). Both documents were prepared by Citigroup. As lead structurer for Class V III, Stoker was responsible for ensuring the accuracy and completeness of the offering circular and the pitch book. For Class V III, both documents were adapted from models used by Citigroup for earlier, similar transactions.

48. The pitch book was specifically adapted from a transaction called Adams Square II ("Adams Square") on which Citigroup and CSAC had collaborated in early January 2007. The Citigroup structuring team, under the direction of Stoker, revised the Adams Square pitch book to reflect various deal terms in Class V III, while retaining the risk factors listed in the Adams Square pitch book.

49. Citigroup's pitch book for Class V III, which was finalized on or about February 5, 2007, represented in its "Transaction Overview" that CSAC was the "collateral manager" and "Manager" and that CSAC had selected the collateral for Class V III. The "Manager" section, a 20-page section originally provided by CSAC, provided an overview of CSAC, described its track record and investment philosophy, and, most significantly included a detailed, 9-page section titled "Portfolio Construction and Management," purporting to describe CSAC's rigorous approach to selecting each asset it included in the investment portfolio of its CDOs. This section represented that CSAC "utilizes a credit-intensive, relative value investment approach in managing structured finance assets," and that it "believes performance is driven by a strong credit culture and systematic investment process." Another sub-section touted CSAC's "CDO Investment Process," which it claimed included three steps: "Evaluation of Transaction Structure," "Evaluation of Collateral Manager," and "Evaluation of Underlying Collateral." Another page represented that a key element of CSAC's "process" was "bottom-up fundamental security selection." The Risk Factors section of the pitch book, prepared by Citigroup, stated that CSAC had "selected" the collateral for Class V III.

50. The offering circular for Class V III also was drafted by Citigroup's structuring team under the direction of Stoker. Stoker sought to standardize the deal

documents used by Citigroup for CDOs, including the offering circular, in order to ease the speedy execution of multiple deals and thereby increase Citigroup's fee revenue. As part of that effort, Stoker based the Class V III offering circular on the offering circular for an earlier deal, which he used as a template.

51. In February 2007, Stoker made substantial edits to the preliminary offering circular for Class V III but made no changes or edits to the sections stating that CSAC selected the assets or the section describing Citigroup's position as initial swap counter-party. Stoker did nothing to determine whether the statements about the asset selection process, or about CSAC's role in selecting the assets, were accurate.

52. Although Stoker had information at the time the Class VIII offering circular was being drafted that Citigroup's Trading desk was using Class V III to establish a large proprietary short position, he made no attempt to obtain information from the Trading desk about the size of its short position or otherwise take action to ensure that the disclosure documents were accurate concerning Citigroup's interest in Class V III.

53. On or about February 26, 2007, Citigroup finalized an offering circular for Class V III.

54. The cover page of the finalized version of the Class V III offering circular stated that CSAC "will act as the manager for the portfolio of assets." The offering circular also made at least six separate representations that the investment portfolio was "selected" by CSAC. A section titled "The Manager," drafted by CSAC, trumpets CSAC's expertise and experience with CDO management and asset selection, and includes a representation that "selection of the Eligible Collateral Debt Securities is based primarily on structural and credit

analysis as well as technical factors which may influence trading levels and pricing." In another section, the offering circular identified as a risk factor that the performance of Class V III's investment portfolio "depends on the investment strategy and investment process of the Manager in analyzing, selecting and managing the [portfolio]."

55. Both the pitch book and the offering circular contained a disclosure concerning Citigroup's role as "Initial CDS Asset Counterparty," including an explanation of the potential conflicts of interest deriving from Citigroup assuming that role. This generic disclosure provided investors with no information as to Citigroup's long-term interest in the negative performance of the assets.

56. Page 88 of the 192-page offering circular included a statement that "The Initial CDS Asset Counterparty may provide CDS Assets as an intermediary with matching off-setting positions requested by the Manager or may provide CDS Assets alone without any off-setting positions." As with the generic disclosures about Citigroup's role, this disclosure did not provide any information about the extent of Citigroup's long-term interest in the negative performance of the collateral in Class V III, or even whether Citigroup actually had any short positions in the collateral at all.

57. Nothing in the offering circular, or in the pitch book's description of the asset selection process included any reference to the role played by Citigroup in selecting half of the Class V III investment portfolio.

58. Similarly, nothing in the pitch book or offering circular disclosed that Citigroup had taken a $490 million naked short position on the 25 names it had selected for Class V III. Stoker knew that Class V III was intended to be the Citigroup CDO trading

desk's "prop trade," and he was responsible for the preparation of models showing the profits that Citigroup would reap from shorting assets into Class V III.

59. The pitch book and offering circular were materially misleading because they failed to disclose:

a. Citigroup's substantial role in selecting names for Class V III;

b. That Citigroup had taken a $500 million proprietary short position on the Class V III collateral, including a $490 million naked short position; and

c. That Citigroup's proprietary short position was comprised of the names it had been allowed to select; while Citigroup did not short those names which it had no role in selecting.

60. Taken together, the misleading and inaccurate disclosures led investors to believe that Class V III's investment portfolio was selected by CSAC, pursuant to a rigorous, proprietary selection process, and that Citigroup and its affiliates would play the traditional role of an arranging bank in such a transaction. Nothing in the disclosures put investors on notice that fully $500 million of the $1 billion investment portfolio was comprised of assets Citigroup had selected and on which it had taken a naked short position directly adverse to the interests of the investors to whom it was marketing Class V III.

Stoker knew or should have known the role that Citigroup played in selecting collateral for Class V III. Stoker also knew or should have known that the failure to disclose this information in the pitch book and offering memorandum rendered them materially misleading to investors in Class V III.

E. CLASS V III'S INVESTORS

61. Beginning in late January 2007, Citigroup made an intense effort to sell the Class V III tranches. This effort involved offering Class V III broadly through the Citigroup CDO Sales group to many of Citigroup's institutional clients, including a variety of hedge funds, asset managers, and both US and foreign financial institutions. Citigroup provided the pitch book and offering circular to prospective investors.

62. On or about February 6, 2007, Stoker personally sent a copy of the Class V III pitch book to a prospective investor, along with a representation that Class V III was a "top-of-the-line CDO squared."

63. On or around February 6, 2007, a prospective investor in Class V III asked Citigroup to arrange a call with CSAC, in order to seek an explanation for why CSAC had chosen to invest in several "static" CDOs (i.e., CDOs with non-managed portfolios). Each of the static transactions in the portfolio seen by the potential investor had been selected by Citigroup on January 8, 2007. After learning that the potential investor was raising questions, the head of Citigroup's Syndicate desk told several individuals at Citigroup, including Stoker that, "[CSAC] bought these static bonds and . . . should have a rationale as to why [CSAC] found them attractive." One of the structurers who had been on the call with the potential investor and CSAC responded to everyone, including Stoker, "[CSAC] can come up with some stories for some of the static deals in Class V pool, but not all of them."

64. Stoker knew or should have known that Citigroup intended to use the Class V III transaction as a means of establishing a position that would maximize Citigroup's profit in a falling market by taking a $500 million short position on the 25 names it selected for the

investment portfolio. Stoker also knew or should have known that the use of Class V III for this purpose without fully disclosing that position would operate as a fraud upon the investors in Class V III.

65. Ultimately, approximately 15 different investors purchased or sold protection on tranches of Class V III with a face value of approximately $893 million. Many of the investors in Class V III considered CSAC's purported experience as a collateral manager and rigorous asset selection process to be important to their investment decision.

66. The largest investor in Class V III was Ambac. Ambac was first approached by Citigroup on January 12, 2007, about selling protection on the super senior tranche of Class V III. In January and February 2007, Stoker participated in extensive discussions with Ambac about the terms of Ambac's investment in Class V III. Ambac received multiple drafts of the offering circular from Citigroup during that time.

67. Ambac typically invested in CDOs with portfolios selected by a collateral manager. Ambac's internal documents approving the investment in Class V III contain extensive discussion of CSAC's purported expertise and asset selection process, and note the importance of CSAC's "perceived disciplined approach to the selection of securities."

68. On or around February 12, 2007, Stoker personally provided a copy of the preliminary offering circular to Ambac.

69. Ambac was unaware of Citigroup's approximately $500 million short position in Class V III or the extent of Citigroup's influence on the asset selection process. Information concerning Citigroup's short position would have been material to Ambac's

decision to sell protection on the super senior tranche of Class V III. Had Ambac been aware that arranging banks such as Citigroup were using synthetic CDOs to establish and profit from large short positions, Ambac would have ceased its involvement in the CDO business immediately.

70. Citigroup also offered and sold notes with a par value of $393 million to the Subordinate Investors, a group of approximately fourteen (14) institutional investors including hedge funds, investment managers and other CDO vehicles. Citigroup provided the Subordinate Investors with marketing materials for Class V III, including the pitch book and offering circular.

71. The Class V III transaction closed on February 28, 2007. Effective March 16, 2007, Ambac agreed to sell protection on the $500 million super senior tranche of Class V III, meaning it effectively invested in that tranche by assuming the credit risk associated with that portion of the capital structure via CDS in exchange for premium payments. The super senior transaction with Ambac was intermediated by BNP Paribas ("BNP"), a large European financial institution. This meant that, through a series of CDS, BNP assumed the credit risk associated with the super senior tranche of Class V III in the event and only to the extent Ambac was unable to pay.

72. The CDS between and among Citigroup, Ambac and BNP relating to the super senior tranche of Class V III were entered into, in whole or in part, in New York, New York. Each of the CDS was subject to an agreement between the relevant parties that the transaction would be governed by the laws of the state of New York

73. Citigroup offered and sold the notes for Class V III in New York, New York, and delivered them to the Subordinate Investors in book-entry form through the Depository Trust Company in New York, New York on or about the closing date.

74. At the time they invested in the Class V III transaction, the Subordinate Investors were unaware that Citigroup had played a significant role in selecting 25 names for the Class V III investment portfolio, or that Citigroup had taken a $500 million short position, including a $490 million naked short position, on those assets. Neither at closing nor at the time it agreed to sell protection on the super senior tranche of Class V III did Stoker or anyone else at Citigroup inform Ambac that Citigroup had taken a $500 million short position, including a $490 million naked short position, on assets it selected for Class V III.

F. THE PERFORMANCE OF CLASS V III

75. By late July 2007, 14 of the 58 assets in the Class V III portfolio had been placed on negative watch by Moody's and/or Standard & Poor's. Eleven of the 14 assets placed on the watch list were assets that Citigroup selected and on which it then purchased protection. By early November 2007, approximately 33.4 percent of all the assets in Class V III had been downgraded.

76. The 25 names that Citigroup selected for Class V III and on which it purchased $500 million of protection performed significantly worse than other names in Class V III and significantly worse than approximately 102 other names on the list that CSAC provided to Citigroup on December 21, 2006 that were not selected for Class V III.

77. On November 7, 2007, Moody's downgraded every tranche of Class V III, and on November 19, 2007, as a result of the severity of the downgrades of the underlying collateral, Class V III was declared to be in an Event of Default. The Subordinate Investors lost most, if not all, of their principal when their notes became nearly worthless.

78. Ambac began suffering significant losses on the super senior tranche of Class V III towards the middle of 2008 and settled its exposure toward the end of that year by paying BNP $305 million. BNP has suffered additional losses on the super senior tranche in excess of $100 million.

79. Citigroup was paid approximately $34 million in fees for structuring and marketing Class V III and, as a result of the fees Citigroup received and its short position on the $500 million in assets in Class V III, Citigroup realized net profits of approximately $160 million.

80. Citigroup paid Stoker a salary and a bonus for his work as a structurer on CDOs, including Class V III. In 2006, Stoker was paid a salary of $150,000 and a bonus of $1,050,000. In February 2007, Stoker negotiated a salary of $150,000 and a guaranteed bonus of $2.25 million for 2007.

CLAIM FOR RELIEF

Sections 17(a)(2) and (3) of the Securities Act

81. Paragraphs 1-80 are realleged and incorporated herein by reference.

82. As set forth above, Stoker, in the offer or sale of securities or securities-based swap agreements, by the use of the means or instruments of interstate commerce or by the mails, directly or indirectly, obtained money or property by means of untrue statements of

material facts or omissions of material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading, and engaged in transactions, practices or courses of business which operated or would operate as a fraud or deceit upon purchasers of securities in violation of Sections 17(a)(2) and (3) of the Securities Act [15 U.S.C. § 77q(a)(2) & (3)].

PRAYER FOR RELIEF

WHEREFORE, the Commission respectfully requests that this Court enter a judgment:

A. Permanently restraining and enjoining Stoker from violating Sections 17(a)(2) and (3) of the Securities Act of 1933 [15 U.S.C. §77q(a)(2) and (3)];

B. Ordering Stoker to disgorge all profits that it obtained as a result of its conduct, acts or courses of conduct described in this Complaint, and to pay prejudgment interest thereon; and

C. Ordering Stoker to pay civil monetary penalties pursuant to Section 20(d)(2) of the Securities Act [15 U.S.C. § 77t (d)(2)].

Dated: Washington, D.C.

October 19, 2011

Respectfully submitted,

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