

1 this paragraph affects Stifel's: (a) testimonial obligations; (b) right to take legal or factual
2 positions in defense of litigation or in defense of other legal proceedings in which the Division is
3 not a party; or (c) right to make public statements that are factual;

4 NOW, THEREFORE, the Division, as administrator of the Wisconsin Uniform Securities
5 Law ("Act") hereby enters this Order.

6 **I.**

7 **FINDINGS OF FACT**

8 1. Stifel admits the jurisdiction of the Division for purposes of this Order, neither
9 admits nor denies the Findings of Fact and Conclusions of Law contained in this Order, and
10 consents to the entry of this Order by the Division.

11 2. Auction rate securities are long-term debt or equity instruments that include
12 auction preferred shares of closed-end funds, municipal auction rate bonds, and various asset-
13 backed auction rate bonds (collectively referred to herein as "ARS"), with variable interest rates
14 that reset through a bidding process known as a Dutch auction.

15 3. At a Dutch auction, bidders generally state the number of ARS they wish to
16 purchase and the minimum interest rate they are willing to accept. Bids are ranked, from lowest
17 to highest, according to the minimum interest rate each bidder is willing to accept. The lowest
18 interest rate required to sell all of the ARS at auction, known as the "clearing rate," becomes the
19 rate paid to all holders of that particular security until the next auction. The process is then
20 repeated, typically every seven, twenty-eight, or thirty-five days.

21 4. While ARS are all long-term instruments, one significant feature of ARS (which
22 historically provided the potential for short-term liquidity) is the interest/dividend reset through
23 periodic auctions. If an auction is successful (i.e., there are enough buyers for every ARS being
24 offered for sale at the auction), investors are able to exit their positions at the auction. If,
25 however, auctions "fail" (i.e., there are not enough buyers for every ARS being offered for sale),
26 investors are required to hold all or some of their ARS until the next successful auction in order

1 to liquidate their funds.

2 5. Beginning in February 2008, the ARS market experienced widespread failed
3 auctions.

4 6. Stifel and its Wisconsin-registered securities agents (“Registered Agents”) sold
5 ARS to Wisconsin residents.

6 7. Stifel’s Registered Agents recommended ARS as safe and/or liquid investments,
7 and compared ARS to cash alternatives, such as certificates of deposit or money market
8 accounts.

9 8. Stifel did not formally train its Registered Agents regarding the risks and features
10 of ARS.

11 9. A number of Registered Agents did not sufficiently understand, and therefore did
12 not adequately communicate to retail purchasers, the risks and features of ARS. As a result,
13 because of the auction failures described above, certain Stifel customers in Wisconsin who were
14 holding ARS in February 2008, were unable to sell their ARS at auction.

15 **Stifel’s Failure to Supervise the Sale of ARS**

16 10. Stifel failed to reasonably supervise its Registered Agents, which is grounds to
17 discipline Stifel under sec. 551.34(1)(j), Wis. Stats., the statute applicable to the conduct during
18 the relevant time period with respect to this Order. Stifel failed to provide reasonable supervision
19 by failing to provide pertinent information and comprehensive training to its Registered Agents
20 and other sales and marketing staff regarding ARS and the mechanics of the auction process.

21 **II.**

22 **CONCLUSIONS OF LAW**

23 11. The Division has jurisdiction over this matter pursuant to the Wisconsin Uniform
24 Securities Law.

25 12. The Division finds Stifel failed to reasonably supervise its Registered Agents in
26 Wisconsin, and that this conduct constitutes grounds to discipline Stifel under sec. 551.34(1)(j),

1 Wis. Stats., the statute applicable to the conduct during the relevant time period with respect to
2 this Order.

3 13. Pursuant to sections 551.61 and 551.63(1) and (2), Wis. Stats., thereunder, the
4 administrative order issuance authority statutes applicable during the relevant time period with
5 respect to this Consent Order, the Division finds that this Order and the following relief to be
6 appropriate, in the public interest, and consistent with the purposes intended by the Act.

7 **III.**

8 **ORDER**

9 On the basis of the Findings of Fact, Conclusions of Law, and Stifel's consent to the entry of
10 this Order,

11 **IT IS HEREBY ORDERED:**

12 1. This Order concludes the investigation by the Division and any other action that the
13 Division could commence under applicable Wisconsin law on behalf of Wisconsin as it relates to
14 Stifel, relating to the marketing and sale of auction rate securities. The Division shall refrain from
15 initiating any action against Stifel based upon or related to the conduct set forth in this Order.
16 Specifically excluded from and not covered by this paragraph are any claims by the Division arising
17 from or relating to the Order provisions contained herein.

18 2. This Order is entered into solely for the purpose of resolving the multistate
19 investigation and is not intended to be used for any other purpose.

20 3. Stifel will CEASE AND DESIST from violating the Act and will comply with the
21 Act.

22 4. In accordance with the Consent Order entered in January 2010 against Stifel by
23 the Missouri Office of the Secretary of State, Case No. Ap-10-05 ("Missouri Order"), Stifel has
24 or will retain, at its expense, an outside consultant ("Consultant"). The scope of Consultant's
25 work is to conduct a review and make written recommendations concerning Stifel's supervisory
26 and compliance policies and procedures relating to the product review of nonconventional

1 investments and the training, marketing, and sale of nonconventional investments by Stifel and
2 its Registered Agents throughout Stifel's retail branch office system. Stifel will receive a report
3 prepared by the Consultant describing his or her recommendations and Stifel will provide to the
4 Enforcement Section a copy of such report. Stifel shall authorize the Enforcement Section to
5 share these written reports with the Division pursuant to Missouri law, provided that such written
6 reports are given confidential treatment and are treated as nonpublic, nondisclosable records to
7 the extent possible under Wisconsin law.

8 5. For a period of one (1) year following the conclusion of the Consultant's work,
9 Stifel, and its affiliates may not employ or hire the Consultant in any capacity.

10 6. Stifel shall modify its Voluntary Offer to Repurchase Eligible Auction Rate
11 Securities at Par dated April 9, 2009 (the "Voluntary Offer") for all Eligible Investors as
12 described in Paragraph 7 below. For purpose of this Order, Eligible Investors shall be defined as
13 investors who hold Eligible Accounts as that term is defined in the Voluntary Offer. Except as
14 modified by this Order, all other terms and conditions of the Voluntary Offer shall remain in full
15 force and effect and shall in no way be modified by this Order.

16 7. Stifel shall accelerate its repurchase of Eligible ARS from Eligible Investors who
17 have accepted the Voluntary Offer as follows:

18 a. January 2010 Repurchase

19 Stifel will repurchase at par up to the greater of twenty-five thousand
20 dollars (\$25,000) of the remaining Eligible ARS holdings or ten percent (10%) of the
21 remaining Eligible ARS holdings plus any accrued and unpaid interest or dividend of
22 such amount no later than January 15, 2010.

23 b. December 2010 Repurchase

24 Stifel will repurchase at par up to the greater of twenty-five thousand
25 dollars (\$25,000) of the remaining Eligible ARS holdings or ten percent (10%) of the
26

1 remaining Eligible ARS holdings plus any accrued and unpaid interest or dividend of
2 such amount no later than December 31, 2010.

3 c. 2010 Supplemental Repurchase

4 Stifel will repurchase at par all of the Eligible ARS that remain after the
5 December 2010 Repurchase from Eligible Investors who, as of January 1, 2009,
6 maintained in an Eligible Account, Eligible ARS in an amount of one hundred fifty
7 thousand dollars (\$150,000) or less. Such repurchase shall be completed no later than
8 December 31, 2010.

9 d. 2011 Repurchase

10 Stifel will repurchase at par all of the remaining Eligible ARS holdings
11 plus any accrued and unpaid interest. Such repurchase shall be completed no later than
12 December 31, 2011. Stifel will make its Voluntary Offer as modified by this Order to
13 those Eligible Investors who have not previously accepted the Voluntary Offer.

14 8. Subject to applicable regulatory requirements and limitations, Stifel will
15 cooperate with its bank affiliate to use its best efforts to make no-net-cost loans to Eligible
16 Investors, provided such investors have demonstrated need for liquidity.

17 9. In accordance with the Missouri Order, Stifel shall, within fifteen (15) days of the
18 end of each calendar quarter following the execution of the Missouri Order, provide to the
19 Missouri Commissioner of Securities a written report describing and updating, in detail, all
20 repurchase/buyback, issuer redemption and investor arbitration claims related to Eligible ARS
21 that occur or continue to occur. Where applicable and in describing repurchase, redemption and
22 arbitration developments or occurrences, Stifel shall include investor or issuer names and state of
23 residence and amounts of repurchases, redemptions, and/or arbitration claims/awards. Missouri
24 shall be authorized to share these written reports with the Division pursuant to Missouri law,
25 provided that such written reports are given confidential treatment and are treated as nonpublic,
26 nondisclosable records to the extent possible under Wisconsin law.

1 10. Stifel shall pay fines and/or penalties totaling five hundred twenty-five thousand
2 dollars (\$525,000) to the states and other jurisdictions participating in this multistate task force
3 as allocated by the North American Securities Administrators Association to resolve matters
4 relating to Stifel's marketing and sale ARS in those states or other jurisdictions.

5 11. Within ten (10) calendar days following the entry of this Order by the Division,
6 Stifel shall pay the sum of eighteen thousand two hundred eighty-six dollars and ninety-three
7 cents (\$ **18,286.93**) to the Wisconsin Department of Financial Institutions to be deposited in the
8 Gifts, Grants, Settlements and Publications appropriation in sec. 20.144(1)(h), Wis. Stats., as a
9 civil monetary penalty, which amount constitutes Wisconsin's allocated share of the total
10 settlement payment described in the preceding paragraph.

11 12. If Stifel defaults in any of its obligations set forth in this Order, the Division may
12 vacate this Order, at its sole discretion, upon ten (10) days notice to Stifel and without
13 opportunity for administrative hearing, or may refer this matter for enforcement as provided in
14 sec. 551.57, Wis. Stats., the statute applicable during the relevant time period with respect to this
15 Consent Order.

16 13. This Order is not intended to indicate that Stifel or any of its affiliates or current
17 or former employees shall be subject to any disqualifications contained in the federal securities
18 law, the rules and regulations there under, the rules and regulations of self-regulatory
19 organizations or various states' securities laws, including any disqualifications from relying upon
20 the registration exemptions or safe harbor provisions. In addition, this Order is not intended to
21 form the basis for any such disqualifications.

22 14. This Order may not be read to indicate that Stifel or any of its affiliates or current
23 or former employees engaged in fraud or violated any federal or state laws, the rules and
24 regulations thereunder, or the rules and regulations of any self regulatory organization.

25 15. For any person or entity not a party to this Order, this Order does not limit or create
26 any private rights or remedies against Stifel including, without limitation, the use of any e-mails or

1 other documents of Stifel or of others for the marketing and sale of auction rate securities to
2 investors, limit or create liability of Stifel, or limit or create defenses of Stifel to any claims.

3 16. This Order shall not disqualify Stifel or any of its affiliates or current or former
4 employees from any business that they are otherwise qualified or licensed to perform under
5 applicable state law, or form the basis for any such disqualification.

6 17. Nothing herein shall preclude the state of Wisconsin, its departments, agencies,
7 boards, commissions, authorities, political subdivisions and corporations (collectively, "State
8 Entities"), other than the Division and only to the extent set forth in paragraph 1 above, and the
9 officers, agents or employees of State Entities from asserting any claims, causes of action, or
10 applications for compensatory, nominal and/or punitive damages, administrative, civil, criminal, or
11 injunctive relief against Stifel in connection with the marketing and sale of auction rate securities at
12 Stifel.

13 18. Stifel shall pay its own costs and attorneys' fees with respect to this matter.

14 Dated this 24 day of December, 2010.

15 BY ORDER OF THE
16 WISCONSIN DEPARTMENT OF FINANCIAL INSTITUTIONS
17 DIVISION OF SECURITIES
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21 Patricia D. Struck, Division Administrator
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