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4 Attorney for the Securities Department

5 **BEFORE THE COMMISSIONER OF SECURITIES AND INSURANCE**
6 **OFFICE OF THE STATE AUDITOR**
7 **STATE OF MONTANA**

8 In the matter of)

9 CREDIT SUISSE SECURITIES (USA)
10 LLC.)

11 1 Madison Avenue, 9th Floor
12 New York, New York 10010)

13 Respondent.)

Case No. SEC-2009-59

**CONSENT AGREEMENT AND
FINAL ORDER**

14 CONSENT AGREEMENT dated this 30th day of October, 2009,

15 between the MONTANA SECURITIES DEPARTMENT (hereinafter the "Department"), acting
16 pursuant to the authority of the Securities Act of Montana, Mont. Code Ann. § 30-10-101, *et seq.*
17 and Mont. Code Ann. § 2-4-603, and CREDIT SUISSE SECURITIES (USA) LLC (hereinafter
18 "Respondent Credit Suisse").

19 WHEREAS, at all times relevant herein, the Respondent, Credit Suisse, a limited liability
20 company organized under the laws of the state of Delaware, has been and remains a securities
21 dealer registered with the Department under the provisions of the Securities Act of Montana, Mont.
22 Code Ann. § 30-10-101, *et seq.* (hereinafter "the Act"). In addition, Respondent Credit Suisse is a
23 registered securities broker-dealer and an investment adviser covered under federal law offering
24 brokerage and investment products and services to investors across the United States of America;
25 and

26 WHEREAS, coordinated investigations of the activities of Respondent Credit Suisse and its
affiliates in connection with its marketing and sales practices for investment products generally

1 known as "auction rate securities" have been conducted by a multistate task force composed of
2 members of the North American Securities Administrators Association Inc. (hereinafter
3 "NASAA"); and

4 WHEREAS, Respondent Credit Suisse has cooperated with regulators conducting the
5 investigations by responding to inquiries, providing documentary evidence and other materials, and
6 providing regulators with access to facts relating to the investigations; and

7 WHEREAS, Respondent Credit Suisse has advised regulators of its agreement to resolve
8 the investigations relating to its marketing and sales practices to certain investors in auction rate
9 securities; and

10 WHEREAS, Respondent Credit Suisse admits that this matter is within the subject matter
11 jurisdiction of the Department and that it is personally subject to the jurisdiction of the Department;
12 and
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14 WHEREAS, Respondent Credit Suisse neither admits nor denies the Findings of Fact and
15 Conclusions of Law contained in this Order (except as to jurisdiction), and consents to the entry of
16 this Order by the Commissioner; and

17 WHEREAS, Respondent Credit Suisse elects to permanently waive any right to a hearing,
18 the making of findings of fact and conclusions of law, and all further proceedings before the
19 Department to which it may be entitled under the Act, or any other law, including an appeal under
20 Mont Code Ann. § 30-10-308 with respect to this Consent Agreement and Final Order (the
21 "Order"), and all rights to seek judicial review or otherwise challenge the validity of this Order.
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23 NOW, THEREFORE, the Commissioner of Securities (the "Commissioner), as
24 administrator of the Act, hereby enters this Order:
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I.

DEFINITIONS

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3 1. For the purposes of this Order:

4 (a) "Auction rate securities" are long-term debt or equity instruments that include
5 auction rate preferred shares of closed-end funds, municipal auction rate bonds, and various asset-
6 backed auction rate bonds. Some auction rate securities products have maturity dates of 20 years
7 or longer; auction rate preferred shares of certain closed-end funds have no maturity date
8 whatsoever. While auction rate securities are all long-term instruments, one significant feature of
9 auction rate securities, which historically provided the potential for short-term liquidity, is that the
10 variable interest rates reset through a bidding process known as a Dutch auction that occurred in
11 varying increments, generally between seven (7) and forty-two (42) days. At a Dutch auction,
12 bidders generally state the number of auction rate securities they wish to purchase and the
13 minimum interest rate they are willing to accept. Bids are then ranked, from lowest to highest,
14 according to the minimum interest rate each bidder is willing to accept. The lowest interest rate
15 required to sell all of the auction rate securities available at auction, known as the "clearing rate,"
16 becomes the rate paid to all holders of that particular security until the next auction. If an auction
17 is successful, investors wishing to sell are able to exit the auction rate securities market on a short-
18 term basis. When there are not enough orders to purchase all of the auction rate securities being
19 sold, a "failed" auction occurs. If an auction fails, investors are required to hold all or some of
20 their auction rate securities until the next successful auction in order to liquidate their funds, or
21 they may attempt to sell those auction rate securities in a secondary market transaction, if such a
22 secondary market even exists and is functioning. Beginning in February 2008, the auction rate
23 securities market experienced widespread and repeated failed auctions.
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1 (b) "Individual Investor" means any natural person who purchased auction rate
2 securities from or through a Respondent Credit Suisse account prior to February 14, 2008, and also
3 includes

4 (i) legal entities acting as an investment vehicle for family members, including
5 but not limited to IRA accounts, Trusts, Family Limited Partnerships, and other legal
6 entities performing a similar function;

7 (ii) charities and non-profits; and

8 (iii) small- to medium-sized businesses with up to \$10 million in assets in
9 accounts with Credit Suisse Securities (USA) LLC, any of which purchased auction rate
10 securities from or through Respondent Credit Suisse prior to February 14, 2008.

11 Notwithstanding any other provision, "Individual Investor" does not include broker-dealers,
12 banks, Registered Investment Advisers, other investment firms or investment institutions
13 regardless of whether any of the foregoing were acting for their own account or as conduits
14 for their customers.
15

16 (c) "Institutional Investor" means any other legal entity not meeting the definition of
17 "Individual Investor" in paragraph I.1(b), above, and which purchased auction rate securities from
18 or through a Respondent Credit Suisse account.

19 (d) "Proceedings" include, but are not limited to, any meetings, interviews, depositions,
20 hearings, trials, grand jury proceedings, or any other proceedings.

21 (e) "The representative specified by NASAA" is the North Carolina Secretary of State
22 as Securities Administrator, or her lawfully authorized designee.
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24 (f) All other words, terms, and phrases used in this Order shall have the usual and
25 ordinary meanings given to them in everyday speech, and are to be taken and understood in their
26 plain, ordinary, and popular sense.

EVENTS

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2 2. Respondent Credit Suisse was an underwriter of a limited number of offerings of
3 auction rate securities. Respondent Credit Suisse also acted as a manager for certain issues of
4 auction rate securities. When acting as a sole manager, Respondent Credit Suisse was the only
5 firm that could submit bids into the auction on behalf of its clients and/or other broker-dealers
6 who wanted to buy and/or sell any auction rate securities. When acting as a co-lead manager,
7 Respondent Credit Suisse and the other co-lead managers could directly submit orders into the
8 auction, while other broker-dealers were able to submit orders on behalf of their clients and on
9 their own behalf into the auction through a co-lead manager. Respondent Credit Suisse received
10 revenue in connection with auction rate securities, including underwriting fees representing a
11 percentage of total issuance and a fee for managing the auctions.
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13 3. From time to time over many years, Respondent Credit Suisse submitted support
14 bids, or purchase orders, for some or all of an auction rate security issue for which it acted as the
15 sole or lead manager. Support bids were Respondent Credit Suisse's proprietary orders that
16 would be filled, in whole or in part, if there was otherwise insufficient demand in an auction.
17 When Respondent Credit Suisse purchased auction rate securities through support bids, those
18 auction rate securities were then owned by Respondent Credit Suisse and were recorded on
19 Respondent Credit Suisse's balance sheet.
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21 4. Because investors could not ascertain how much of an auction was filled through
22 proprietary bids of Respondent Credit Suisse and other firms acting as sole or lead managers, they
23 could not determine if auctions were clearing because of normal marketplace demand, or because
24 Respondent Credit Suisse and other firms acting as lead managers were supporting the auctions
25 through their own proprietary purchase orders. Generally, investors also were not aware of the
26 extent to which the auction rate securities market was dependent upon Respondent Credit Suisse's

1 and other broker-dealers' use of support bids for its successful operation. While Respondent
2 Credit Suisse could track its own inventory as a measure of the supply and demand for auction
3 rate securities for which it was a sole or co-lead manager, ordinary investors had no comparable
4 ability to assess the operation of the market. There was no way for those investors to monitor
5 supply and demand in the market or to assess when broker-dealers might decide to stop
6 supporting the market, which could cause numerous and repeated auction failures.

7 5. In August 2007, the credit crisis and other deteriorating market conditions strained
8 the auction rate securities market. Some institutional investors withdrew from the market,
9 decreasing demand for auction rate securities.

10 6. The potential for a market dislocation should have been evident to Respondent
11 Credit Suisse. In those auctions where Respondent Credit Suisse was a lead manager, Respondent
12 Credit Suisse's support bids filled the increasing gap between the supply of and the demand for
13 auction rate securities, maintaining the impression that the auction process was functioning. From
14 Fall 2007 until February 2008, demand for auction rate securities continued to erode and
15 Respondent Credit Suisse's inventory of auction rate securities grew. Respondent Credit Suisse
16 was aware of increasing strains on the auction rate securities market and increasingly questioned
17 the viability of the auction rate securities market. On January 28, 2008, Respondent Credit Suisse
18 provided written disclosure of these increasing risks of owning or purchasing auction rate
19 securities to its customers; prior to that date, certain of its representatives did not fully disclose
20 those increasing risks to certain of their clients.

21 7. In February 2008, Respondent Credit Suisse and other broker-dealers stopped
22 supporting the auctions. Without the benefit of support bids, the auction rate securities market
23 collapsed, leaving investors who thought they were buying liquid, short-term investments instead
24 holding long-term or perpetual securities that they were unable to sell at par value.
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III.

ORDER

On the basis of the Findings of Fact, Conclusions of Law, and Respondent Credit Suisse's consent to the entry of this Order,

IT IS HEREBY ORDERED:

1. This Order terminates the investigation by the Department with respect to Respondent Credit Suisse's marketing and sale of auction rate securities to Individual Investors. However, nothing herein limits the ability of the Department, individually or jointly with other States, in pursuing any investigation with respect to any individual concerning Respondent Credit Suisse's marketing and sale of auction rate securities, whether that individual is associated with Respondent Credit Suisse or otherwise; and specifically excluded from and not covered by this paragraph are any claims by the Department arising from or relating to the Order provisions contained herein.

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

3. Respondent Credit Suisse will CEASE AND DESIST from violating the Securities Act of Montana, Mont. Code Ann. § 30-10-101, *et seq.* and will comply with the provisions of that Act.

4. Within ten (10) days following the entry of this Order, Respondent Credit Suisse shall pay the sum of Thirty Thousand Dollars (\$30,000.00), to the Investor Protection Trust for investor education on behalf of the state of Montana. That amount constitutes Montana's allocated share of the total settlement payment that Respondent Credit Suisse has agreed to make to those states and territories that enter administrative or civil consent orders approving the terms of the NASAA settlement and to the State of New York, allocated according to a formula determined and set

1 by NASAA and the State of New York. The payment to the Investor Protection Trust shall be in the
2 form of a wire transfer certified or bank check referencing this settlement, payable to Investor
3 Protection Trust, sent to IPT, attention to Don Blandin, Suite 300, 919 Eighteenth Street NW,
4 Washington DC 20006-5517.

5 5. In the event another state securities regulator determines not to accept
6 Respondent Credit Suisse's offer of settlement and does not enter an administrative or civil consent
7 order approving the terms of the NASAA settlement, the total amount of the Montana allocated
8 payment shall not be affected, and shall remain at Thirty Thousand Dollars (\$30,000.00).

9 6. Respondent Credit Suisse shall not claim, assert, or apply for a tax deduction or
10 tax credit with regard to any state, federal, or local tax for any administrative monetary payment
11 that Respondent Credit Suisse shall pay pursuant to this Order.
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13 7. Respondent Credit Suisse shall fully and fairly comply with all of the following
14 requirements:

15 A. As soon as practicable after September 23, 2008, Respondent Credit Suisse
16 will have offered to purchase at par auction rate securities that since February 14, 2008,
17 have not been successfully auctioning from Individual Investors who purchased those
18 auction rate securities from or through a Respondent Credit Suisse account prior to
19 February 14, 2008;

20 B. Respondent Credit Suisse shall have purchased such securities from
21 investors who accepted this offer prior to December 11, 2008, by that date;

22 C. Respondent Credit Suisse shall keep such offer open until December 31,
23 2009, and promptly shall purchase such securities from any Individual Investor who accepts
24 the offer between December 11, 2008, and December 31, 2009;

25 D. Respondent Credit Suisse promptly will have provided notice to customers
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1 of the settlement terms publicly announced on September 16, 2008, and Respondent Credit
2 Suisse promptly will have established a dedicated telephone assistance line, with
3 appropriate staff, to respond to questions from customers concerning the terms of the
4 settlement;

5 E. No later than December 11, 2008, any Individual Investor that Respondent
6 Credit Suisse could reasonably identify who sold auction rate securities in a Credit Suisse
7 account below par between February 14, 2008, and September 16, 2008, will have been
8 paid by Respondent Credit Suisse the difference between par and the price at which the
9 Individual Investor sold those auction rate securities;

10 F. No later than December 11, 2008, Respondent Credit Suisse shall have
11 notified all Individual Investors that a public arbitrator (as defined by section 12100(u) of
12 the *NASD Code of Arbitration Procedure for Customer Disputes*, effective April 16, 2007),
13 under the auspices of the Financial Industry Regulatory Authority (“FINRA”), will be
14 available for the exclusive purpose of arbitrating any Individual Investor’s consequential
15 damages claim. Arbitration shall be conducted by public arbitrators and Respondent Credit
16 Suisse will pay all applicable forum and filing fees. Any Individual Investors who choose
17 to pursue such claims shall bear the burden of proving that they suffered consequential
18 damages and that such damages were caused by investors’ inability to access funds
19 consisting of investors’ auction rate securities holdings in Credit Suisse accounts.
20 Respondent Credit Suisse shall be able to defend itself against such claims; provided,
21 however, that Respondent Credit Suisse shall not contest in these arbitrations liability
22 related to the sale of auction rate securities; and further provided that Respondent Credit
23 Suisse shall not be able to use as part of its defense an Individual Investor’s decision not to
24 borrow money from Respondent Credit Suisse. Punitive damages, or any other type of
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1 damages other than consequential damages, shall not be available in the arbitration
2 proceedings;

3 G. Respondent Credit Suisse shall endeavor to work with issuers and other
4 interested parties, including regulatory and governmental entities, to expeditiously provide
5 liquidity solutions for Institutional Investors;

6 H. Beginning December 11, 2008, and then quarterly after that, Respondent
7 Credit Suisse shall submit a written report to the representative specified by NASAA
8 outlining the efforts in which Respondent Credit Suisse has engaged and the results of those
9 efforts with respect to Respondent Credit Suisse's Institutional Investors' holdings in
10 auction rate securities;

11 I. Respondent Credit Suisse shall confer with the representative specified by
12 NASAA no less frequently than quarterly to discuss Respondent Credit Suisse's progress to
13 date;

14 J. Such quarterly reports shall continue until no later than December 31, 2009;

15 K. Following every quarterly report, the representative specified by NASAA
16 will advise Respondent Credit Suisse of any concerns and, in response, Respondent Credit
17 Suisse shall discuss with the representative specified by NASAA how it plans to address
18 such concerns;

19 L. Respondent Credit Suisse shall make its best efforts to identify Individual
20 Investors who took out loans from Respondent Credit Suisse, between February 14, 2008,
21 and December 11, 2008, that were secured by auction rate securities that were not
22 successfully auctioning at the time the loan was taken out from Respondent Credit Suisse,
23 and who paid interest associated with the auction-rate-securities-based portion of those
24 loans in excess of the total interest and dividends received on the auction rate securities
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1 during the duration of the loan. Respondent Credit Suisse shall reimburse such customers
2 for the excess expense, plus reasonable interest, of the loan. Such reimbursement shall
3 occur no later than March 31, 2009. This paragraph does not apply to margin loans;

4 M. Respondent Credit Suisse shall, upon request by the Commissioner, provide
5 all documentation and information reasonably necessary for the Commissioner to verify
6 compliance with this Order;

7 N. Respondent Credit Suisse shall not take any action, or make or permit to be
8 made any public statement, denying, directly or indirectly, any finding in this Order or
9 creating the impression that this Order is without factual basis. Nothing in this paragraph
10 affects Respondent Credit Suisse's (a) testimonial obligations; or (b) right to take legal or
11 factual positions in defense of litigation or other legal proceedings to which the
12 Commissioner is not a party; and

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14 8. In consideration of Respondent Credit Suisse's agreement to resolve the
15 previously referenced multistate investigation relating to its marketing and sales practices for
16 auction rate securities, and its agreement to fully comply with all the terms of this Order, the
17 Department will have refrained from taking legal action against Respondent Credit Suisse with
18 respect to its Institutional Investors until at least December 11, 2008, and will not seek additional
19 monetary payments from Respondent Credit Suisse relating to Respondent Credit Suisse's
20 marketing and sale of auction rate securities.

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22 9. If payment is not made timely by Respondent Credit Suisse, or if Respondent
23 Credit Suisse defaults in any of its obligations set forth in this Order, the Department may vacate
24 this Order, at its sole discretion, upon ten (10) days notice to Respondent Credit Suisse and without
25 opportunity for administrative hearing, or may refer this matter for enforcement.

26 10. Nothing herein shall preclude the State of Montana, its departments, agencies,

1 boards, commissions, authorities, political subdivisions, and corporations (collectively, "State
2 Entities"), other than the Department and then only to the extent set forth in Paragraphs III.1 and III.8,
3 and the officers, agents, or employees of state entities from asserting any claims, causes of action, or
4 applications for compensatory, nominal and/or punitive damages, administrative, civil, criminal, or
5 injunctive relief against Respondent Credit Suisse in connection with the marketing and sale of
6 auction rate securities by Respondent Credit Suisse.

7 11. This Order is not intended to indicate that Respondent Credit Suisse or any of
8 its affiliates or current or former employees shall be subject to any disqualifications contained in
9 the federal securities law, the rules and regulations thereunder, the rules and regulations of self
10 regulatory organizations or various states' securities laws including any disqualifications from
11 relying upon the registration exemptions or safe harbor provisions. In addition, this Order is not
12 intended to form the basis for any such disqualifications.
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14 12. For any person or entity not a party to this Order, this Order does not limit or create
15 any private rights or remedies against Respondent Credit Suisse including, without limitation, the use
16 of any e-mails or other documents of Respondent Credit Suisse or of others for auction rate securities
17 practices, limit or create liability of Respondent Credit Suisse, or limit or create defenses of or for
18 Respondent Credit Suisse to any claims.

19 13. This Order shall not disqualify Respondent Credit Suisse or any of its affiliates or
20 current or former employees from any business that they otherwise are qualified or licensed to
21 perform under applicable state law and this Order is not intended to form the basis for any disqualification.
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23 14. This Order and any dispute related thereto shall be construed and enforced in accordance
24 with, and governed by, the laws of the state of Montana without regard to any choice of law principles.

25 15. This Order shall be binding upon Respondent Credit Suisse and its affiliates, its successors
26 and assigns as well as the successors and assigns of relevant affiliates, with respect to all conduct subject to

1 the provisions above, and all future obligations, responsibilities, undertakings, commitments, limitations,
2 restrictions, events, and conditions under the above provisions.

3 16. This Order contains, constitutes, and embodies the entire agreement between the
4 undersigned, there being no agreement of any kind, verbal or otherwise, which varies, alters, or adds to this
5 Order; and this Order supersedes any prior communication, understanding, or agreement, whether written or
6 oral, concerning the subject matter of this Order.

7 17. In the event that one or more provisions contained in this Order shall for any reason be held
8 to be invalid, illegal, or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not
9 affect any other provision of this Order.

10 18. By its consent to and execution of this Order, Respondent Credit Suisse affirmatively
11 represents that it freely agrees to the signing of this Order by the Department, and that no threats, promises,
12 representations, inducements, or offers of any kind, other than as stated in this document, have been made
13 by the Department, any member of the staff of the Department, or any agent or employee of the Department
14 in connection with the negotiation and signing of this Order.

15 19. This Order shall become final upon entry.

16 DATED this 30th day of October, 2009.

17 BY ORDER OF MONICA J. LINDEEN
18 Commissioner of Securities and Insurance

19 By: 
20 LYNNE EGAN
21 Deputy Securities Commissioner
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**CONSENT TO ENTRY OF FINAL ORDER
BY CREDIT SUISSE SECURITIES (USA) LLC**

Credit Suisse Securities (USA) LLC (hereinafter "Credit Suisse") hereby acknowledges that it has been served with a copy of this Consent Agreement and Final Order ("Order") has read this Order, is aware of its right to a hearing and appeal in this matter, and has waived the same.

Credit Suisse admits the jurisdiction of the Department, neither admits nor denies the Findings of Fact and Conclusions of Law contained in this Order, and consents to entry of this Order by the Department.

Credit Suisse states that no promise of any kind or nature whatsoever was made to it to induce it to enter into this Order and that it has entered into this Order voluntarily.

Credit Suisse agrees that it shall not claim, assert, or apply for a tax deduction or tax credit with regard to any state, federal, or local tax for any administrative monetary payment that Credit Suisse shall pay pursuant to this Order.

Patrick M. Gustin represents that he/she is the Managing Director of Credit Suisse and that, as such, has been authorized by Credit Suisse to enter into this Order for and on behalf of Credit Suisse.

Dated this the 30th day of October, 2009.

CREDIT SUISSE SECURITIES (USA) LLC

By: [Signature]
Title: Managing Director

STATE OF New York
County of New York ; ss

SUBSCRIBED AND SWORN TO before me this 30th day of October, 2009

[Signature]
(Signature)
John J. MacDonald
(Printed Name)
Notary Public for the state of: New York
Residing at: 116 West 82nd St Apt 100
My commission expires: May 18, 2010