

DENISE VOIGT CRAWFORD  
SECURITIES COMMISSIONER

JOHN R. MORGAN  
DEPUTY SECURITIES COMMISSIONER

Mail: P.O. BOX 13167  
AUSTIN, TEXAS 78711-3167

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## Texas State Securities Board

208 E. 10th Street, 5th Floor  
Austin, Texas 78701-2407  
www.ssb.state.tx.us

BETH ANN BLACKWOOD  
CHAIR

BRYAN K. BROWN  
MEMBER

EDWARD ESCUDERO  
MEMBER

DERRICK MITCHELL  
MEMBER

E. WALLY KINNEY  
MEMBER

IN THE MATTER OF  
THE DEALER REGISTRATION OF  
CREDIT SUISSE SECURITIES (USA)  
LLC

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§  
§  
§

**Order No. IC10-CDO-02**

TO: Pierre Gentin, Managing Director  
Credit Suisse Securities (USA) LLC (CRD No. 816)  
One Madison Avenue, 9<sup>th</sup> Floor  
New York, New York 10010

### CONSENT ORDER

WHEREAS, at all times relevant herein, the Respondent, Credit Suisse Securities (USA) LLC, a limited liability company organized under the laws of the state of Delaware, (hereinafter "Respondent Credit Suisse") has been and remains a securities dealer registered with the Securities Commissioner of Texas ("Securities Commissioner") under the provisions of The Securities Act , TEX. REV. CIV. STAT. ANN. art. 581-1 et. seq. (Vernon 1964 & Supp. 2009)("Texas Securities Act"); and

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

WHEREAS, Respondent Credit Suisse has cooperated with regulators

conducting the investigations by responding to inquiries, providing documentary evidence and other materials, and providing regulators with access to facts relating to the investigations; and

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

WHEREAS, Respondent Credit Suisse admits that this matter is within the subject matter jurisdiction of the Texas Securities Board and that it is personally subject to the jurisdiction of the Texas Securities Board; and

WHEREAS, Respondent Credit Suisse neither admits nor denies the Findings of Fact and Conclusions of Law contained in this Administrative Consent Order (the "Order") (except as to jurisdiction), and consents to the entry of this Order by the Securities Commissioner; and

WHEREAS, Respondent Credit Suisse elects to permanently waive any right to a hearing, the making of findings of fact and conclusions of law, and all further proceedings before the Texas Securities Board to which it may be entitled under the Texas Securities Act, or any other law, including an appeal under the Texas Securities Act and the Administrative Procedures Act, TEX. GOV'T CODE ANN. §2001.001 et. seq. (Vernon 2008 & Supp. 2009)("Administrative Procedure Act") with respect to this Order, and all rights to seek judicial review or otherwise challenge the validity of this Order.

NOW, THEREFORE, the Securities Commissioner, as administrator of the Texas Securities Act, hereby enters this Order:

## I. FINDINGS OF FACT

### DEFINITIONS

1. For the purposes of this Order:

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

(b) "Individual Investor" means any natural person who purchased auction rate securities from or through a Respondent Credit Suisse account prior to February 14, 2008, and also includes:

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

(ii) charities and non-profits; and

(iii) small- to medium-sized businesses with up to \$10 million in assets in accounts with Credit Suisse Securities (USA) LLC, any of which purchased auction rate securities from or through Respondent Credit Suisse prior to February 14, 2008. Notwithstanding any other provision, "Individual Investor" does not include broker-dealers, banks, Registered Investment Advisers, other investment firms or investment institutions regardless of whether any of the foregoing were acting for their own account or as conduits for their customers.

(c) "Institutional Investor" means any other legal entity not meeting the definition of "Individual Investor" in paragraph 1.1(b), above, and which purchased auction rate securities from or through a Respondent Credit Suisse account.

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

(e) All other words, terms, and phrases used in this Order shall have the usual and ordinary meanings given to them in everyday speech, and are to be taken and understood in their plain, ordinary, and popular sense.

## **EVENTS**

2. Respondent Credit Suisse was an underwriter of a limited number of offerings of auction rate securities. Respondent Credit Suisse also acted as a manager for certain issues of auction rate securities. When acting as a sole manager,

Respondent Credit Suisse was the only firm that could submit bids into the auction on behalf of its clients and/or other broker-dealers who wanted to buy and/or sell any auction rate securities. When acting as a co-lead manager, Respondent Credit Suisse and the other co-lead managers could directly submit orders into the auction, while other broker-dealers were able to submit orders on behalf of their clients and on their own behalf into the auction through a co-lead manager. Respondent Credit Suisse received revenue in connection with auction rate securities, including underwriting fees representing a percentage of total issuance and a fee for managing the auctions.

3. From time to time over many years, Respondent Credit Suisse submitted support bids, or purchase orders, for some or all of an auction rate security issue for which it acted as the sole or lead manager. Support bids were Respondent Credit Suisse's proprietary orders that would be filled, in whole or in part, if there was otherwise insufficient demand in an auction. When Respondent Credit Suisse purchased auction rate securities through support bids, those auction rate securities were then owned by Respondent Credit Suisse and were recorded on Respondent Credit Suisse's balance sheet.

4. Because investors could not ascertain how much of an auction was filled through proprietary bids of Respondent Credit Suisse and other firms acting as sole or lead managers, they could not determine if auctions were clearing because of normal marketplace demand, or because Respondent Credit Suisse and other firms acting as lead managers were supporting the auctions through their own proprietary purchase orders. Generally, investors also were not aware of the extent to which the auction rate securities market was dependent upon Respondent Credit Suisse's and other broker-dealers' use of support bids for its successful operation. While Respondent Credit Suisse could track its own inventory as a measure of the supply and demand for auction rate securities for which it was a sole or co-lead manager, ordinary investors had no

comparable ability to assess the operation of the market. There was no way for those investors to monitor supply and demand in the market or to assess when broker-dealers might decide to stop supporting the market, which could cause numerous and repeated auction failures.

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

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

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

8. In certain instances, Respondent Credit Suisse representatives told certain of the firm's customers that auction rate securities were liquid investments that were alternatives to money market funds as part of a strategy for cash management. Specifically, certain employees acting on behalf of Respondent Credit Suisse represented to certain investors that auction rate securities were highly liquid, highly rated alternatives to money market investments and other cash-equivalent investments.

#### **ACTION NECESSARY TO PROTECT PUBLIC**

9. Action by the Texas State Securities Board to halt further conduct by Respondent Credit Suisse in violation of the Texas Securities Act is necessary and appropriate in the public interest and for the protection of investors, and is consistent with the purposes fairly intended by the policy and provisions of the Texas Securities Act.

10. The undersigned Respondent Credit Suisse agrees that this Order contains, constitutes, and embodies the entire agreement between the undersigned, there being no agreement of any kind, verbal or otherwise, which varies, alters, or adds to this Order; and that this Order supersedes any prior communication, understanding, or agreement, whether written or oral, concerning the subject matter of this Order.

11. The undersigned Respondent Credit Suisse agrees that the presentation of this Order to the Securities Commissioner without the undersigned Respondent Credit Suisse or any counsel for Respondent Credit Suisse being present shall not constitute an improper *ex parte* communication between the staff of the Texas State Securities Board and the Securities Commissioner.

12. Respondent Credit Suisse, by execution of this Order, affirmatively states that it has freely agreed to the signing of this Order, and that no threats, promises, representations, inducements, or offers of any kind, other than as stated in this document, have been made by the Texas State Securities Board or any member of the

Texas State Securities Board, or any agent or employee of the Texas State Securities Board in connection with the signing of this Order.

## **II. CONCLUSIONS OF LAW**

1. The Texas State Securities Board has jurisdiction over the subject matter of securities transactions with persons in Texas and the person of Respondent Credit Suisse under the Texas Securities Act.

2. The above conduct constitutes: (i) inequitable practices in the sale of securities and (ii) violations of §115.10(b)(1) of the Rules and Regulations of the Texas State Securities Board.

## **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 Texas State Securities Board 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 Texas State Securities Board, 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 Texas State Securities Board 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 Texas Securities Act and will comply with the provisions of the Texas Securities Act.

4. Within ten (10) days following the entry of this Order, Respondent Credit Suisse shall pay the sum of One Million Three Hundred Sixty Nine Thousand Two Hundred Eighty Eight Dollars and One Cent (\$1,369,288.01) to the general fund of the State of Texas.

5. In the event another state securities regulator determines not to accept Respondent Credit Suisse's offer of settlement and does not enter an administrative or civil consent order approving the terms of the NASAA settlement, the total amount of the Texas allocated payment shall not be affected, and shall remain at One Million Three Hundred Sixty Nine Thousand Two Hundred Eighty Eight Dollars and One Cent (\$1,369,288.01).

6. Respondent Credit Suisse 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 Respondent Credit Suisse shall pay pursuant to this Order.

7. Respondent Credit Suisse shall fully and fairly comply with all of the following requirements:

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

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

c. Respondent Credit Suisse shall keep such offer open until

December 31, 2009, and shall promptly purchase such securities from any Individual Investor who accepts the offer between December 11, 2008, and December 31, 2009;

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

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

f. No later than December 11, 2008, Respondent Credit Suisse shall have notified all Individual Investors that a public arbitrator (as defined by section 12100(u) of the *NASD Code of Arbitration Procedure for Customer Disputes*, effective April 16, 2007), under the auspices of the Financial Industry Regulatory Authority ("FINRA"), will be available for the exclusive purpose of arbitrating any Individual Investor's consequential damages claim. Arbitration shall be conducted by public arbitrators and Respondent Credit Suisse will pay all applicable forum and filing fees. Any Individual Investors who choose to pursue such claims shall bear the burden of proving that they suffered consequential damages and that such damages were caused by investors' inability to access funds consisting of investors' auction rate securities holdings in Credit Suisse accounts. Respondent Credit Suisse shall be able to defend itself against such

claims; provided, however, that Respondent Credit Suisse shall not contest in these arbitrations liability related to the sale of auction rate securities; and further provided that Respondent Credit Suisse shall not be able to use as part of its defense an Individual Investor's decision not to borrow money from Respondent Credit Suisse. Punitive damages, or any other type of damages other than consequential damages, shall not be available in the arbitration proceedings;

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

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

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

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

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

l. Respondent Credit Suisse shall make its best efforts to identify Individual Investors who took out loans from Respondent Credit Suisse, between February 14, 2008, and December 11, 2008, that were secured by auction rate

securities that were not successfully auctioning at the time the loan was taken out from Respondent Credit Suisse, and who paid interest associated with the auction-rate-securities-based portion of those loans in excess of the total interest and dividends received on the auction rate securities during the duration of the loan. Respondent Credit Suisse shall reimburse such customers for the excess expense, plus reasonable interest, of the loan. Such reimbursement shall occur no later than March 31, 2009. This paragraph does not apply to margin loans;

m. Respondent Credit Suisse shall, upon request by the Texas State Securities Board, provide all documentation and information reasonably necessary for the Texas State Securities Board to verify compliance with this Order;

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

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

9. If payment is not made timely by Respondent Credit Suisse, or if Respondent Credit Suisse defaults in any of its obligations set forth in this Order, the Securities Commissioner may vacate this Order, at the Securities Commissioner's sole discretion, upon ten (10) days notice to Respondent Credit Suisse and without opportunity for administrative hearing.

10. Nothing herein shall preclude the state of Texas, its departments, agencies, boards, commissions, authorities, political subdivisions, and corporations (collectively, "State Entities"), other than the Texas State Securities Board and then only to the extent set forth in Paragraphs III.1 and III.8, and the officers, agents, or employees of State Entities from asserting any claims, causes of action, or applications for compensatory, nominal and/or punitive damages, administrative, civil, criminal, or injunctive relief against Respondent Credit Suisse in connection with the marketing and sale of auction rate securities by Respondent Credit Suisse.

11. This Order is not intended to indicate that Respondent Credit Suisse or any of its affiliates or current or former employees shall be subject to any disqualifications contained in the federal securities law, the rules and regulations thereunder, the rules and regulations of self regulatory organizations or various states' securities laws including any disqualifications from relying upon the registration exemptions or safe harbor provisions. In addition, this Order is not intended to form the basis for any such disqualifications.

12. For any person or entity not a party to this Order, this Order does not limit or create any private rights or remedies against Respondent Credit Suisse including, without limitation, the use of any e-mails or other documents of Respondent Credit Suisse or of others for auction rate securities practices, limit or create liability of Respondent Credit Suisse, or limit or create defenses of or for Respondent Credit Suisse to any claims.

13. This Order shall not disqualify Respondent Credit Suisse or any of its

affiliates or current or former employees from any business that they otherwise are qualified or licensed to perform under applicable securities laws of the State of Texas and this Order is not intended to form the basis for any disqualification.

14. This Order and any dispute related thereto shall be construed and enforced in accordance with, and governed by, the laws of the state of Texas without regard to any choice of law principles.

15. This Order shall be binding upon Respondent Credit Suisse and its affiliates, its successors and assigns as well as the successors and assigns of relevant affiliates, with respect to all conduct subject to the provisions above, and all future obligations, responsibilities, undertakings, commitments, limitations, restrictions, events, and conditions under the above provisions.

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

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

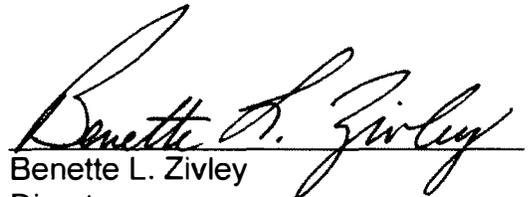
18. By its consent to and execution of this Order, Respondent Credit Suisse affirmatively represents that it freely agrees to the signing of this Order by the Securities Commissioner, and that no threats, promises, representations, inducements, or offers of any kind, other than as stated in this document,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

19. This Order shall become final upon entry.

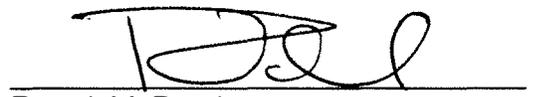
SIGNED AND ENTERED BY THE SECURITIES COMMISSIONER this 25<sup>th</sup>  
day of January, 2010.

  
DENISE VOIGT CRAWFORD  
Securities Commissioner

Approved as to Form:

  
Benette L. Zivley  
Director  
Inspections and Compliance Division

 1/21/10  
Andrew J. Geist  
O'Melveny & Myers LLP  
Attorney for Credit Suisse Securities  
(USA) LLC

  
Ronak V. Patel  
Attorney  
Inspections and Compliance Division

**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 Administrative Consent 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 Texas State Securities Board, 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 Securities Commissioner.

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.

Pierre M. Gentin 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 20<sup>th</sup> day of January, 2010.

**CREDIT SUISSE SECURITIES (USA) LLC**

By: [Signature]  
Title: Managing Director

STATE OF New York

COUNTY OF New York

SUBSCRIBED AND SWORN TO before me this 20<sup>th</sup> day of January, 2010.

[Signature]  
Notary Public

My commission expires:  
May 18, 2010