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**ADMINISTRATIVE PROCEEDING**  
**BEFORE THE**  
**SECURITIES COMMISSIONER OF SOUTH CAROLINA**

In the matter of: )  
STIFEL, NICOLAUS & COMPANY, ) **ADMINISTRATIVE CONSENT ORDER**  
INCORPORATED ) **File Number 10018**  
Respondent. )

WHEREAS, Stifel, Nicolaus & Company, Incorporated (“Stifel”) is a broker-dealer registered in the State of South Carolina, with its home office at 501 North Broadway, St. Louis, Missouri 63102; and

WHEREAS, a multistate task force led by the Enforcement Section of the Securities Division of the Missouri Secretary of State (the "Enforcement Section") conducted an investigation into Stifel’s marketing and sale of auction rate securities to investors during the period January 1, 2006, through February 14, 2008; and

WHEREAS, Stifel has advised the Enforcement Section of its agreement to resolve the multistate task force investigation relating to its marketing and sale of auction rate securities to investors; and

WHEREAS, Stifel elects to permanently waive any right to a hearing and appeal under S.C. Code Ann. §§ 35-1-604 and 35-1-609 (Supp. 2009) with respect to this Administrative Consent Order (the “Order”); and

WHEREAS, Stifel agrees that Stifel is not the prevailing party in this action and Stifel elects to specifically forever release and hold harmless the Securities Commissioner of the State of South Carolina (the “Securities Commissioner”) and its representatives and agents from any and all liability and claims arising out of, pertaining to, or relating to this matter; and

WHEREAS, Stifel agrees not to take any action or to make or permit to be made any

1 public statement creating the impression that this Order is without a factual basis. Nothing in  
2 this paragraph affects Stifel's: (a) testimonial obligations; (b) right to take legal or factual  
3 positions in defense of litigation or in defense of other legal proceedings in which the Securities  
4 Commissioner is not a party; or (c) right to make public statements that are factual;

5 NOW, THEREFORE, the Securities Commissioner hereby enters this Order.

6 I.

7 **FINDINGS OF FACT**

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

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 South Carolina-registered securities agents (“Registered Agents”)  
5 sold ARS to South Carolina 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 one or more retail purchasers or potential retail purchasers, the  
13 risks and features of ARS.

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

15 10. Stifel failed to reasonably supervise its Registered Agents, which is a ground to  
16 discipline Stifel under S.C. Code Ann. § 35-1-412(d)(9) (Supp. 2009). Stifel failed to provide  
17 reasonable supervision by failing to provide pertinent information and comprehensive training to  
18 its Registered Agents and other sales and marketing staff regarding ARS and the mechanics of  
19 the auction process.

20 **II.**

21 **CONCLUSIONS OF LAW**

22 11. The Securities Commissioner has jurisdiction over this matter pursuant to the  
23 South Carolina Uniform Securities Act of 2005 (the “Act”).

24 12. The Securities Commissioner finds Stifel failed to reasonably supervise its  
25 Registered Agents in the State of South Carolina, and that this conduct constitutes grounds to  
26 discipline Stifel under S.C. Code Ann. § 35-1-412(d)(9) (Supp. 2009).



1 Stifel will provide to the Enforcement Section a copy of such report. Stifel shall authorize the  
2 Enforcement Section to share these written reports with the Securities Commissioner pursuant to  
3 Missouri law, provided that such written reports are given confidential treatment and are treated  
4 as nonpublic, nondisclosable records to the extent possible under South Carolina law.

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

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

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

15 a. January 2010 Repurchase

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

20 b. December 2010 Repurchase

21 Stifel will repurchase at par up to the greater of twenty-five thousand  
22 dollars (\$25,000) of the remaining Eligible ARS holdings or ten percent (10%) of the  
23 remaining Eligible ARS holdings plus any accrued and unpaid interest or dividend of  
24 such amount no later than December 31, 2010.

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1 c. 2010 Supplemental Repurchase

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

7 d. 2011 Repurchase

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

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

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

25 10. Stifel shall pay fines and/or penalties totaling five hundred twenty-five thousand  
26 dollars (\$525,000) to the states and other jurisdictions participating in this multistate task force

1 as allocated by the North American Securities Administrators Association to resolve matters  
2 relating to Stifel's marketing and sale of ARS in those states or other jurisdictions.

3 11. Within ten (10) calendar days following the entry of this Order, Stifel shall pay to  
4 the State of South Carolina the sum of one thousand four hundred forty-six dollars and twenty-  
5 five cents (\$1,446.25), which amount constitutes the State of South Carolina's allocated share of  
6 the total settlement payment described in the preceding paragraph.

7 12. If Stifel defaults in any of its obligations set forth in this Order, the Securities  
8 Commissioner may vacate this Order, in his sole discretion, upon ten (10) days notice to Stifel  
9 and without opportunity for administrative hearing or may refer this matter for enforcement as  
10 provided in S.C. Code Ann. § 35-1-604(g) (Supp. 2009).

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

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

20 15. For any person or entity not a party to this Order, this Order does not limit or create  
21 any private rights or remedies against Stifel including, without limitation, the use of any e-mails or  
22 other documents of Stifel or of others for the marketing and sale of auction rate securities to  
23 investors, limit or create liability of Stifel, or limit or create defenses of Stifel to any claims.

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



**CONSENT TO ENTRY OF ADMINISTRATIVE ORDER BY STIFEL**

1  
2 Stifel hereby acknowledges that it has been served with a copy of this Administrative  
3 Consent Order ("Order"), has read the foregoing Order, is aware of its right to a hearing and appeal  
4 in this matter, and has waived the same.

5 Stifel admits the jurisdiction of the Securities Commissioner; neither admits nor denies the  
6 Findings of Fact and Conclusions of Law contained in this Order; and consents to entry of this  
7 Order by the Securities Commissioner as settlement of the issues contained in this Order.

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

10 Scott B. McCluaig represents that he/she is President of Stifel,  
11 Nicolaus & Company, Incorporated and that, as such, has been authorized by Stifel to enter into this  
12 Order for and on behalf of Stifel.

13 Stifel agrees that it shall not seek or accept, directly or indirectly, reimbursement or  
14 indemnification, including, but not limited to, payment made pursuant to any insurance policy,  
15 with regard to any administrative monetary penalty that Stifel shall pay pursuant to this Order.  
16 Stifel further agrees that it shall not claim, assert, or apply for a tax deduction or tax credit with  
17 regard to any state, federal, or local tax for any administrative monetary penalty that Stifel shall  
18 pay pursuant to this Order. Stifel understands and acknowledges that these provisions are not  
19 intended to imply that the Securities Commissioner would agree that any other amounts Stifel  
20 shall pay pursuant to this Order may be reimbursed or indemnified (whether pursuant to an  
21 insurance policy or otherwise) under applicable law or may be the basis for any tax deduction or  
22 tax credit with regard to any state, federal, or local tax.

23 Dated this 21 day of Sept, 2010.

24 Stifel, Nicolaus & Company, Incorporated

25 By: Scott B. McCluaig  
26 Title: President

