

**STATE OF ILLINOIS
SECRETARY OF STATE
SECURITIES DEPARTMENT**

IN THE MATTER OF:)	
)	
Stifel, Nicolaus & Company, Inc.)	
)	No. 0900025
)	
Respondent.)	
)	

CONSENT ORDER

WHEREAS, Stifel, Nicolaus & Company, Incorporated (“Stifel”) is a broker-dealer registered in the State of Illinois, with its home office at 501 North Broadway St. Louis, Missouri 63106; and

WHEREAS, a multistate task 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 regulators of its agreement to resolve the investigations relating to its marketing and sales practices to certain investors in auction rate securities; and

WHEREAS, Stifel elects to permanently waive any right to a hearing and appeal under the Illinois Securities Law of 1953 [815 ILCS 5/1 *et seq.*] (hereinafter “the Act”) 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 Illinois Securities Department 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 public statement creating the impression that this Order is without a factual basis. Nothing in this paragraph affects Stifel's: (a) testimonial obligations; (b) right to take legal or factual positions in defense of litigation or in defense of other legal proceedings in which the Illinois Securities Department is not a party; or (c) right to make public statements that are factual;

NOW, THEREFORE, the Illinois Securities Department hereby enters this Order.

I.

FINDINGS OF FACT

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

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

3. At a Dutch auction, bidders generally state the number of ARS they wish to purchase and the minimum interest rate they are willing to accept. Bids are 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 ARS at auction, known as the "clearing rate," becomes the rate paid to all holders of that particular security until the next auction. The process is then repeated, typically every seven, twenty-eight, or thirty-five days.

4. While ARS are all long-term instruments, one significant feature of ARS (which historically provided the potential for short-term liquidity) is the interest/dividend reset through

periodic auctions. If an auction is successful (i.e., there are enough buyers for every ARS being offered for sale at the auction), investors are able to exit their positions at the auction. If, however, auctions “fail” (i.e., there are not enough buyers for every ARS being offered for sale), investors are required to hold all or some of their ARS until the next successful auction in order to liquidate their funds.

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

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

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

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

9. A number of Registered Agents did not sufficiently understand, and therefore did not adequately communicate to retail purchasers, the risks and features of ARS. As a result, in January of 2009 some Illinois retail investors who had purchased ARS from Stifel or its Registered Agents began to submit complaints regarding these purchases.

Stifel’s Failure to Supervise the Sale of ARS

10. Stifel failed to reasonably supervise its Registered Agents, which subjects Stifel to sanctions under Section 8.E(1)(e)(i) of the Act. Stifel failed to provide reasonable supervision by failing to provide pertinent information and comprehensive training to its Registered Agents and other sales and marketing staff regarding ARS and the mechanics of the auction process.

II.

CONCLUSIONS OF LAW

1. The Illinois Securities Department has jurisdiction over this matter pursuant to the (the "Act").
2. The Illinois Securities Department finds Stifel failed to reasonably supervise its Registered Agents in Illinois, and that this conduct constitutes grounds to discipline Stifel under Section 8.E(1)(e)(i) of the Act.
3. The Illinois Securities Department finds this Order and the following relief appropriate, in the public interest, and consistent with the purposes intended by the Act.

III.

ORDER

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

IT IS HEREBY ORDERED:

1. This Order concludes the investigation by the Illinois Securities Department and any other action that the Illinois Securities Department could commence under applicable Illinois law on behalf of the State of Illinois as it relates to Stifel, relating to the marketing and sale of auction rate securities. The Illinois Securities Department shall refrain from initiating any action against Stifel based upon or related to the conduct set forth in this order. Specifically excluded from and not covered by this paragraph are any claims by the Illinois Securities Department arising from or relating to the Order provisions contained herein.
2. This Order is entered into solely for the purpose of resolving the multistate investigation and is not intended to be used for any other purpose.

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

4. Stifel shall have modified its Voluntary Offer to Repurchase Eligible Auction Rate Securities at Par dated April 9, 2009 (the "Voluntary Offer") for all Eligible Investors as described in Paragraph 5 below. For purpose of this Order, Eligible Investors shall be defined as investors who hold Eligible Accounts as that term is defined in the Voluntary Offer. Except as modified by this Order, all other terms and conditions of the Voluntary Offer shall remain in full force and effect and shall in no way be modified by this Order.

5. Stifel shall have accelerated its repurchase of Eligible ARS from Eligible Investors who have accepted the Voluntary Offer as follows:

- a. January 2010 Repurchase - Stifel will have repurchased at par up to the greater of twenty-five thousand dollars (\$25,000) of the remaining Eligible ARS holdings or ten percent (10%) of the remaining Eligible ARS holdings plus any accrued and unpaid interest or dividend of such amount no later than January 15, 2010.
- b. December 2010 Repurchase - Stifel will have repurchased at par up to the greater of twenty-five thousand dollars (\$25,000) of the remaining Eligible ARS holdings or ten percent (10%) of the remaining Eligible ARS holdings plus any accrued and unpaid interest or dividend of such amount no later than December 31, 2010.
- c. 2010 Supplemental Repurchase - Stifel will have repurchased at par all of the Eligible ARS that remain after the December 2010 Repurchase from Eligible Investors who, as of January 1, 2009, maintained in an Eligible

Account, Eligible ARS in an amount of one hundred fifty thousand dollars (\$150,000) or less. Such repurchase shall have been completed no later than December 31, 2010.

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

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

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

8. Within ten (10) calendar days following the entry of this Order, Stifel shall pay to the Illinois Secretary of State, Investor Education Fund the sum of thirty two thousand, six hundred and nineteen dollars (\$32,619.00), which amount constitutes Illinois's allocated share of the total settlement payment described in the preceding paragraph.

9. If Stifel defaults in any of its obligations set forth in this Order, the Illinois Securities Department may vacate this Order, at its sole discretion, upon ten (10) days notice to Stifel and without opportunity for administrative hearing or may refer this matter for enforcement as provided in the Act.

10. This Order is not intended to indicate that Stifel 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 there under, 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.

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

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 Stifel including, without limitation, the use of any e-mails or other documents of Stifel or of others for the marketing and sale of auction rate securities to investors, limit or create liability of Stifel, or limit or create defenses of Stifel to any claims.

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

14. Nothing herein shall preclude the State of Illinois, its departments, agencies, boards, commissions, authorities, political subdivisions and corporations (collectively, "State Entities"), other than the Illinois Securities Department and only to the extent set forth in paragraph 1 of section III above, 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 Stifel in connection with the marketing and sale of auction rate securities at Stifel.

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

Entered: This 29th day of August, 2012.

A handwritten signature in black ink that reads "Jesse White" with a stylized flourish at the end.

JESSE WHITE
Secretary of State
State of Illinois

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