

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

IN THE MATTER OF:)
)
Credit Suisse Securities (USA) LLC,)
) **No. 0900085**
)
Respondent.)
)

NOTICE OF HEARING

TO THE RESPONDENT: Credit Suisse Securities (USA) LLC
c/o its attorney
Mr. Andrew J. Geist
O'Melveny & Myers LLP
Times Square Tower
7 Times Square, 34th Floor
New York, New York 10036

You are hereby notified in accordance with Sections 11.E and F of the Illinois Securities Law of 1953 [815 ILCS 5/11.E and F] ("the Act") and 14 Ill. Adm. Code 130, subpart K, that a public hearing will be held at the Secretary of State's office at the office of the Illinois Securities Department, 69 W. Washington Street, Suite 1220, in Chicago, Illinois 60602, on August 31, 2012 or as soon thereafter as possible before Soula Spyropoulos, or such other hearing officer who shall be presiding at that time.

Said hearing will be held to determine whether an Order shall be entered pursuant to Section 11.E of the Act sanctioning the Respondents and/or granting such other relief as may be authorized under the Act including, but not limited to, the imposition of a monetary fine in the maximum amount pursuant to Section 11.E of the Act, payable within ten (10) business days of the entry of the Order.

The grounds for this proposed action are as follows:

1. At all times relevant herein, the Respondent, CREDIT SUISSE SECURITIES (USA) LLC, (hereinafter "Respondent Credit Suisse") a limited liability company organized under the laws of the state of Delaware, has been and remains a securities dealer registered with the Illinois Securities Department under the provisions of the Illinois Securities Law of 1953

[815 ILCS 5/1 *et seq.*] (hereinafter “the Act”). In addition, Respondent Credit Suisse is a registered securities broker-dealer and an investment adviser covered under federal law offering brokerage and investment products and services to investors across the United States of America.

DEFINITIONS

2. For the purposes of this Notice of Hearing:

(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 an account at Respondent Credit Suisse 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 Respondent Credit Suisse, 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 2(b), above, and which purchased auction rate securities from or through Respondent Credit Suisse.

(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 Notice of Hearing 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

3. 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.

4. 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.

5. 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, lead, 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.

6. In August of 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.

7. 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 the fall of 2007 until February of 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

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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.

8. In February of 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.

9. In certain instances, representatives of Respondent Credit Suisse 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.

10. In the context of the offer and sale of auction rate securities, the failure of certain employees acting on behalf of Respondent Credit Suisse to adequately state complete facts concerning auction rate securities constituted a basis for sanctions pursuant to Section 8.E(1)(b) of the Act.

11. Respondent Credit Suisse, by failing reasonably to supervise its registered salesmen under the Act, is subject to sanctions pursuant to Section 8.E(1)(e)(i) of the Act.

NOTICE: You are further notified that you are required pursuant to Section 130.1104 of the Rules and Regulations (14 Ill. Adm. Code 130)(the "Rules"), to file an answer to the allegations outlined above within thirty (30) days of the receipt of this Notice. A failure to file an answer within the prescribed time shall be construed as an admission of the allegations contained in the Notice of Hearing.

Furthermore, you may be represented by legal counsel; may present evidence; may cross-examine witnesses and otherwise participate. A failure to so appear shall constitute default, unless any Respondent has upon due notice moved for and obtained a continuance.

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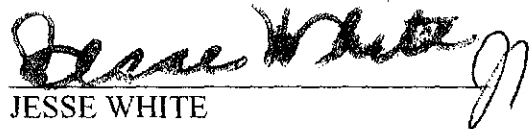
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A copy of the Rules and Regulations promulgated under the Illinois Securities Law and pertaining to hearings held by the Office of the Secretary of State, Illinois Securities Department, are available at the Department's website at:

<http://www.cyberdriveillinois.com/departments/securities/lawrules.html>, or on request.

Delivery of Notice to the designated representative of any Respondent constitutes service upon such Respondent.

Dated: This 10th day of July, 2012.

A handwritten signature in black ink, appearing to read "Jesse White", is written over a horizontal line. The signature is stylized and includes a large, decorative flourish at the end.

JESSE WHITE
Secretary of State
State of Illinois

Attorney for the Secretary of State:
James Gleffe
Office of the Secretary of State
Illinois Securities Department
69 West Washington Street, Suite 1220
Chicago, Illinois 60602
Telephone: (312) 793-3593

Hearing Officer:
Soula Spyropoulos
4125 W. Lunt
Lincolnwood, IL 60712