

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

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IN THE MATTER OF:)		
)		
Raymond James & Associates, Inc.;)		
)	No.0900447	
Raymond James Financial Services, Inc.,)		
)		
Respondents.)		
)		

NOTICE OF HEARING

TO THE RESPONDENTS: Raymond James & Associates, Inc.
c/o its attorney
Christian Bartholomew
Weil, Gotshal & Manges LLP
1300 Eye Street NW, Suite 900
Washington, DC 20005-3314

Raymond James Financial Services, Inc.
c/o its attorney
Christian Bartholomew
Weil, Gotshal & Manges LLP
1300 Eye Street NW, Suite 900
Washington, DC 20005-3314

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 FJ (“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. Respondent Raymond James & Associates, Inc. (CRD #705) (“RJA”) was, at all times material herein, a Florida corporation with its principal place of business at 880 Carillon Parkway, St. Petersburg, Florida 33716.

2. Respondent Raymond James Financial Services, Inc. (CRD #6694) (“RJFS”) was, at all times material herein, a Florida corporation with its principal place of business at 880 Carillon Parkway, St. Petersburg, Florida 33716.

3. Respondents are each in the business of effecting transactions in securities in Illinois as a “broker-dealer” within the meaning of the Act.

4. Respondents have customers located across the United States of America, including Illinois.

5. Prior to February 13, 2008, Respondents sold financial instruments known as auction rate securities (“ARS”) to Illinois residents.

ARS

6. ARS are bonds or preferred stocks that have interest rates or dividend yields that are periodically reset through an auction process, typically every seven (7), twenty-eight (28), or thirty-five (35) days.

7. ARS are usually issued with thirty (30) year maturities, but ARS maturities can range from five years to perpetuity.

8. ARS can be attractive investments to investors because ARS may offer slightly higher yields than various alternative products, including forms of cash alternative products.

9. An ARS yield is determined by the periodic auctions (commonly referred to as “Dutch” auctions) during which ARS are auctioned at par.

10. ARS can be bought or sold at par at one of these periodic Dutch auctions.

11. Under the typical procedures for an ARS auction in effect prior to February 13, 2008, an investor, including a customer of either Respondent, who wished to purchase ARS at auction, submitted a bid that included the minimum interest or dividend rate that the investor would accept.

12. ARS holders could either choose to keep their securities until the next auction or submit offers to sell their ARS.

13. An auction agent collected all of the bids and offers for a particular auction.

14. The final yield rate at which the ARS were sold was the “clearing rate” and the clearing rate applied to that particular ARS until the next auction.

15. Bids with the lowest rate and then successively higher rates were accepted until all ARS sell orders were filled.

16. The clearing rate was the lowest rate bid sufficient to cover all ARS offered for sale in the auction.

17. If there were not enough bids to cover the ARS offered for sale in an auction, then an auction would fail.

18. In a failed auction, investors who want to sell are not able to do so and such investors must hold their ARS until at least the next auction.

19. In the event of a failed auction, an ARS issuer pays the holders a maximum rate or “penalty” rate, which is either a flat rate or a rate based on a formula set forth in the ARS offering documents.

20. Penalty rates might be higher or lower than the prior clearing rate or market rates on similar products.

21. To facilitate the auction process, issuers of ARS selected one or more broker-dealers to underwrite an offering and/or manage an auction process.

22. In many instances, these broker-dealers submitted their own bids to support the ARS auctions and to prevent the auctions from failing, maintain an orderly market, or set a clearing rate.

23. Due to various market conditions in the early part of 2008, many of the broker-dealers that acted as underwriters of the ARS offerings or as lead managers for the ARS auctions stopped submitting their own bids in support of the ARS auctions.

24. As a result, by February 13, 2008, the ARS market began to experience widespread auction failures, leaving ARS investors, including some of Respondents' customers throughout the United States of America, unable to sell their ARS holdings.

25. On February 13, 2008, through the date of this Order, the ARS market has continued to experience widespread failures, making ARS holdings illiquid.

26. Some ARS have been redeemed by their issuers since February 13, 2008. Thousands of ARS investors, however, including some of Respondents' customers, have been unable to liquidate their ARS positions through the auction process.

27. Respondents' customers currently hold hundreds of millions of dollars in illiquid ARS that they are unable to sell through the auction process.

Respondents' Roles in the ARS Market

28. Respondent RJA acted as an underwriter of single-issue municipal auction rate securities ("MARS"). RJA managed the auctions of MARS it underwrote and of MARS underwritten by other broker-dealers. Additionally, RJA submitted bids in the auctions it managed to prevent them from failing, to maintain an orderly market, or to set a clearing rate.

29. Respondent RJFS did not underwrite or act as an auction manager for ARS, and did not at any time submit bids in auctions.

30. Respondents also acted as agents for their customers, on a solicited and unsolicited basis, by submitting customers' orders to purchase and sell two other ARS products: auction rate preferred securities backed by a pool of municipal bonds ("ARPS") and taxable auction rate securities, which were variable rate perpetual preferred stock issued by closed-end funds ("TARS"). As distributing or "downstream" broker-dealers for the ARPS and TARS, Respondents did not submit bids in these auctions.

Respondents' ARS Sales to Customers

31. In selling ARS to its customers prior to the middle of February 2008, some of Respondents' registered representatives and financial advisors made inaccurate comparisons between ARS and other investments, such as money market funds, telling customers that ARS were "cash equivalents," "the same as cash," and "highly liquid," but with a slightly higher yield. Respondents' registered representatives and financial advisors also did not accurately characterize the investment nature of ARS since ARS are highly complex securities that are very different from money market funds, as evidenced by, among other things, the dependence of ARS on successful auctions for liquidity.

32. Respondents' ARS trade confirmations, sent after customers purchased ARS, disclosed the risks that these auctions could fail and that Respondents were not obligated to ensure their success. Nevertheless, Respondents did not provide customers with adequate and complete disclosures regarding the complexity of the auction process, including failing to adequately disclose to customers that Respondent RJA managed the auctions of the MARS and that RJA routinely bid in MARS auctions to prevent a failed auction, maintain an orderly market,

or set a particular clearing rate. For example, some of Respondents' registered representatives and financial advisors did not adequately disclose to customers that their ARS could become illiquid for an indeterminate period of time in the event of an auction failure.

33. The information described in Paragraphs 31 through 32 was material to Respondents' customers.

34. Respondents should have known that their registered representatives and financial advisors marketed ARS to customers as highly liquid and as an alternative to cash or money market funds without adequately disclosing that ARS are complex securities that may become illiquid.

35. In connection with the marketing of ARS, Respondents failed to adopt policies and procedures reasonably designed to ensure that its registered representatives and financial advisors recommended ARS only to customers who had stated investment objectives that were consistent with their purchase of ARS. Some of Respondents' registered representatives and financial advisors recommended ARS to customers as a liquid, short-term investment. As a result, some of Respondents' customers who needed short-term access to funds invested in ARS even though ARS had long-term maturity dates, or in the case of ARPS and TARS, no maturity dates.

36. By virtue of the forgoing, RJA and RJFS are subject to sanctions pursuant to Sections 8.E(1)(b) and 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.

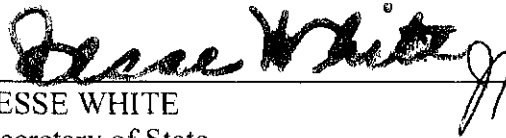
Furthermore, you may be represented by legal counsel; may present evidence; may cross-examine witnesses and otherwise participate. A failure to so appear shall constitute default, unless any Respondent has upon due notice moved for and obtained a continuance.

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 16th day of July 2012.



JESSE WHITE
Secretary of State
State of Illinois

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