

1 Iowa Insurance Division
2 330 Maple Street
3 Des Moines, IA 50319-0065

3 In the matter of)
4) **Docket No. 72282**
4 **RAYMOND JAMES & ASSOCIATES,**)
5 **INC., AND RAYMOND JAMES**)
5 **FINANCIAL SERVICES, INC.,**) **ADMINISTRATIVE CONSENT ORDER**
6)
7 Respondents.)

8 WHEREAS, Raymond James & Associates, Inc. (“Respondent RJA”) and Raymond James
9 Financial Services, Inc. (“Respondent RJFS”) (collectively, “Respondents”) are broker-dealers
10 registered in the state of Iowa; and

11 WHEREAS, Respondents’ activities regarding the sale of auction rate securities have been
12 the subject of coordinated investigations conducted by a multi-state task force; and

13 WHEREAS, Respondents have cooperated fully with regulators conducting the
14 investigations by providing documentary evidence and other materials and by providing regulators
15 with access to information relevant to their investigations; and

16 WHEREAS, on June 29, 2011 Respondents and the multi-state task force reached an
17 agreement to resolve the investigations relating to Respondents’ sale of ARS to certain customers;
18 and

19 WHEREAS, Respondents agree, among other things, to purchase certain auction rate
20 securities from customers and to make certain payments; and

21 WHEREAS, Respondents elect to waive permanently any right to a hearing and appeal
22 under Iowa Code sections 502.604, 502.609, and 17A.19 (2011)), with respect to this
23 Administrative Consent Order (the “Order”); and

24 WHEREAS, Respondents admit the jurisdiction of the Iowa Insurance Division and consent
25 to the entry of this Order by the Iowa Insurance Division; and
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1 7. ARS are usually issued with thirty (30) year maturities, but ARS maturities can
2 range from five years to perpetuity.

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

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

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

8 11. Under the typical procedures for an ARS auction in effect prior to February 13,
9 2008, an investor, including a customer of either Respondent, who wished to purchase ARS at
10 auction, submitted a bid that included the minimum interest or dividend rate that the investor would
11 accept.

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

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

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

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

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

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

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

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1 underwritten by other broker-dealers. Additionally, RJA submitted bids in the auctions it managed
2 to prevent them from failing, to maintain an orderly market, or to set a clearing rate.

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

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

11 Respondents' ARS Sales to Customers

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

20 32. Respondents' ARS trade confirmations, sent after customers purchased ARS,
21 disclosed the risks that these auctions could fail and that Respondents were not obligated to ensure
22 their success. Nevertheless, Respondents did not provide customers with adequate and complete
23 disclosures regarding the complexity of the auction process, including failing to adequately
24 disclose to customers that Respondent RJA managed the auctions of the MARS and that RJA
25 routinely bid in MARS auctions to prevent a failed auction, maintain an orderly market, or set a
26 particular clearing rate. For example, some of Respondents' registered representatives and

1 financial advisors did not adequately disclose to customers that their ARS could become illiquid
2 for an indeterminate period of time in the event of an auction failure.

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

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

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

15 III.

16 CONCLUSIONS OF LAW

17 36. The Iowa Insurance Division has jurisdiction over this matter pursuant to the Iowa
18 Uniform Securities Act, Iowa Code chapter 502 (2011).

19 37. By engaging in the acts and conduct set forth in paragraphs II.3 through II.35,
20 Respondents engaged in dishonest or unethical practices in violation of Iowa Code Section
21 502.412(4)(m) (2011).

22 38. By engaging in the acts and conduct set forth in paragraphs II.3 through II.35,
23 Respondents failed to reasonably supervise their agents in violation of Iowa Code Section
24 502.412(4)(i) (2011).

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1 IV.

2 ORDER

3 On the basis of the Findings of Fact, Conclusions of Law, and Respondents' consent to the
4 entry of this Order, without admitting or denying the facts or conclusions herein,

5 IT IS HEREBY ORDERED:

6 1. This Order concludes the investigation by the Iowa Insurance Division and
7 precludes any other action that the Iowa Insurance Division could commence against the
8 Respondents under applicable Iowa law on behalf of the State of Iowa as it relates to Respondents'
9 sale of auction rate securities to Eligible Investors, as defined below.

10 2. This Order is entered into solely for the purpose of resolving the above-referenced
11 multi-state investigation, and is not intended to be used for any other purpose.

12 3. Respondents shall cease and desist from violating the Iowa Uniform Securities Act,
13 Iowa Code chapter 502 (2011) and will comply with the Iowa Uniform Securities Act, Iowa Code
14 chapter 502 (2011).

15 4. Within 10 days from the entry of this order, Respondents shall pay the sum of
16 \$52,039.74 as follows: Pay \$25,019.87 to the State of Iowa as a civil monetary penalty pursuant to
17 Iowa Code Section 502.412(3) (2011), to be deposited in the Iowa Securities Investor Education
18 and Training Fund, pursuant to Iowa Code Section 502.601(5) (2011), reimburse the Iowa
19 Insurance Division for \$2,000 for the costs of investigation, and pay \$25,019.87 to the Investor
20 Protection Institute ("IPI") to promote investor protection, primarily by conducting and supporting
21 research and investor education programs. The \$52,039.74 amount constitutes Iowa's
22 proportionate share of the total state settlement amount of \$1,750,000.00. In the event another
23 state securities regulator determines not to accept Respondents' settlement offer, the total amount
24 of the payment to the state of Iowa shall not be affected.

25 5. Respondents shall take certain measures with respect to current and former
26 customers with respect to "Eligible Auction Rate Securities", as defined below in Paragraph IV.6.

1 6. “Eligible Auction Rate Securities”. For purposes of this Order, “Eligible Auction
2 Rate Securities” means auction rate securities purchased at Respondents on or before February 13,
3 2008, and that have failed at auction at least once since February 13, 2008. Notwithstanding the
4 foregoing definition, the term “Eligible Auction Rate Securities” shall not include auction rate
5 securities that were purchased at Respondents in accounts owned, managed or advised by or
6 through correspondent broker-dealers or unaffiliated registered investment advisers.

7 7. “Eligible Investors”. For purposes of this Order, “Eligible Investors,” shall mean
8 the following:

9 (1) Any investor that purchased Eligible Auction Rate Securities at Respondents on or
10 before February 13, 2008, did not transfer such Eligible Auction Rate Securities away from
11 Respondents prior to January 1, 2006, and held those securities on February 13, 2008.

12 (2) “Eligible Investors,” for the purposes of this Order, shall not include institutional
13 money managers.

14 (3) “Eligible Investors,” for the purposes of this Order, shall not include customers who
15 resolved their ARS claims through arbitration proceedings or negotiated settlements with
16 Respondents.

17 8. Purchase Offer. Respondents shall offer to purchase, at par plus accrued and unpaid
18 dividends/interest, from Eligible Investors their Eligible Auction Rate Securities that have failed at
19 auction at least once since February 13, 2008 (the “Purchase Offer”).

20 9. Notification and Buyback Procedures.

21 a. Respondents shall create a written notice related to the Purchase Offer (the
22 “Notice”). The Notice shall explain the relevant terms of this Order and describe what Eligible
23 Investors must do to accept, in whole or in part, the Purchase Offer, including how Eligible
24 Investors may accept the Purchase Offer.

1 b. Initial Notice

2 i. Respondents shall provide the Notice to Eligible Investors who purchased Eligible
3 Auction Rate Securities at Respondents by no later than thirty (30) days from June 29, 2011.

4 ii. Furthermore, Respondents shall undertake their best efforts to identify and locate
5 customers who purchased Eligible ARS at Respondents but who transferred such Eligible ARS
6 away from Respondents prior to January 1, 2006 by no later than thirty (30) days from June 29,
7 2011. Respondents will provide any such customers the Purchase Offer described in Section IV.8,
8 the Notification and Buyback Procedures described in Section IV.9, and the other terms described
9 in Sections IV.11, IV.12, and IV. 13.

10 c. Second Notice

11 With respect to each Eligible Investor that Respondents sent the Notice required by
12 Paragraph IV.9.b above and who did not respond, Respondents shall provide a second copy of the
13 Notice on or before 45 days before the end of Offer Period, as defined below.

14 d. Offer Period

15 i. Respondents shall keep the Purchase Offer open for seventy five (75) days after
16 mailing the Initial Notice as required by Paragraph IV.9.b, above (“Offer Period”).

17 ii. Eligible Investors may accept the Purchase Offer by notifying Respondents as
18 described in the Purchase Offer, at any time before 11:59 P.M. Eastern Time, on or before the last
19 day of the Offer Period. For those Eligible Investors who accept the Purchase Offer within the
20 Offer Period, Respondents shall purchase their Eligible Auction Rate Securities by no later than
21 five (5) business days following the expiration of the Offer Period.

22 e. An Eligible Investor may revoke their acceptance of Respondents’ Purchase Offer at
23 any time up until Respondents’ purchase of such Eligible Investor’s Eligible Auction Rate
24 Securities or provide notice of their intent to purchase such Eligible Auction Rate Securities.

25 f. Respondents’ obligation to those Eligible Investors who custodied their Eligible
26 Auction Rate Securities away from Respondents as of the date of this Order shall be contingent on:

1 (1) Respondents receiving reasonably satisfactory assurances from the financial institution
2 currently holding the Eligible Investor's Eligible Auction Rate Securities that the bidding rights
3 associated with such Eligible Auction Rate Securities will be transferred to Respondents; (2) the
4 Eligible Investor reactivating their former account with Respondents; and (3) the transfer of the
5 Eligible Auction Rate Securities to the Eligible Investor's former account with Respondents.

6 g. Respondents shall use their best efforts to identify, contact and assist any Eligible
7 Investor who has transferred the Eligible Auction Rate Securities out of Respondents' custody in
8 returning such Auction Rate Securities to Respondents' custody, and shall not charge such Eligible
9 Investor any fees relating to or in connection with the return to Respondents or custodianship by
10 Respondents of such Eligible Auction Rate Securities.

11 10. Customer Assistance. Within two (2) days of June 29, 2011, Respondents shall
12 establish a dedicated toll-free telephone assistance line and website to provide information and to
13 respond to questions concerning the terms of this Order, and to provide information concerning the
14 terms of this Order and, via an e-mail address or other reasonable means, to respond to questions
15 concerning the terms of this Order. Respondents shall maintain the telephone assistance line for at
16 least nine months from the date of this Order.

17 11. Relief for Eligible Investors Who Sold Below Par. Respondents shall use their best
18 efforts to identify each Eligible Investor who: (i) purchased Eligible Auction Rate Securities at
19 Respondents on or before February 13, 2008; and (ii) who sold those Eligible Auction Rate
20 Securities below par between February 13, 2008 and the date of this Order ("Below Par Sellers").
21 Within 75 days of June 29, 2011, Respondents shall pay each Below Par Seller the difference
22 between par and the price at which the Below Par Seller sold the Eligible Auction Rate Securities,
23 plus reasonable interest thereon. Furthermore, Respondents will pay promptly the difference
24 between par and the price at which the Below Par Seller sold the Eligible Auction Rate Securities,
25 plus reasonable interest thereon to any Below Par Sellers identified more than 75 days after this
26 Order.

1 12. Consequential Damages Arbitration Process.

2 a. Respondents shall consent to participate in a special arbitration process
3 (“Arbitration”) for the exclusive purpose of arbitrating any Eligible Investor’s consequential
4 damages claim arising from their inability to sell Eligible Auction Rate Securities. In the
5 Arbitration, the Special Arbitration Process applicable to firms that have entered into settlements
6 with state regulators (the “State SAP”) will be available for the exclusive purpose of arbitrating any
7 Eligible Investor’s consequential damages claim. Respondents shall notify Eligible Investors of
8 the terms of the Arbitration process through the Notice.

9 b. The Arbitration shall be conducted under the auspices of FINRA, pursuant to the
10 NASD Code of Arbitration Procedures for Customer Disputes, eff. April 16, 2007. Respondents
11 will pay all applicable forum and filing fees.

12 c. Any Eligible Investors who choose to pursue such claims in the Arbitration shall
13 bear the burden of proving that they suffered consequential damages and that such damages were
14 caused by their inability to access funds invested in Eligible Auction Rate Securities. In the
15 Arbitration, Respondents shall be able to defend themselves against such claims; provided,
16 however, that Respondents shall not contest liability for the illiquidity of the underlying auction
17 rate securities position or use as part of their defense any decision by the Eligible Investor not to
18 borrow money from either Respondent.

19 d. Eligible Investors who elect to use the Arbitration provided for herein shall not be
20 eligible for punitive damages, or for any other type of damages other than consequential damages.
21 However, the State SAP will govern the availability of attorney’s fees.

22 13. Loan Interest Expense.

23 Respondents shall use their best efforts to identify Eligible Investors that obtained a loan
24 through Respondents (or its affiliates) secured by Eligible Auction Rate Securities that were not
25 successfully auctioning at the time the loan was taken and who paid more in interest on the loan
26 than the Eligible Investor received in interest or dividends from the Eligible Auction Rate

1 Securities during the time the loan was outstanding (“Negative Carry”). If the Eligible Investor can
2 provide Respondents documentation evidencing the amount of Negative Carry, Respondents, on or
3 before 75 days from the date of this Order, will reimburse the Eligible Investor the amount of
4 Negative Carry actually paid.

5 14. Best Efforts

6 Respondents will use their best efforts to provide the institutional money managers, within
7 nine (9) months of the date of June 29, 2011, opportunities to liquidate their Eligible Auction Rate
8 Securities including, but not limited to, facilitating issuer redemptions, restructurings, and through
9 other reasonable means. Although Respondents are required to use their best efforts to liquidate
10 Eligible Auction Rate Securities owned by the institutional money managers, the Respondents are
11 not obligated to purchase the securities.

12 15. Reports and Meetings

13 a. Respondents shall submit a bi-monthly written report detailing Respondents’
14 progress with respect to the provisions of this Order within 45 days of the end of each month in
15 which a report is required, beginning with a report covering the month ended after June 29, 2011
16 and continuing through and including a report covering the month ended nine months from June
17 29, 2011. This report shall be submitted to a representative specified by the North American
18 Securities Administrators Association (“NASAA”).

19 b. Beginning 120 days after June 29, 2011, Respondents shall confer at least quarterly
20 with the representative specified by NASAA to discuss Respondents’ progress with respect to the
21 provisions of this Order. Such quarterly conferences shall continue for nine months from June 29,
22 2011.

23 c. The reporting and conference deadlines set forth above may be amended or
24 modified with written permission from the representative specified by NASAA.

25 16. This Order is not intended to indicate that Respondents or any of its affiliates or
26 current or former employees shall be subject to any disqualifications contained in the federal

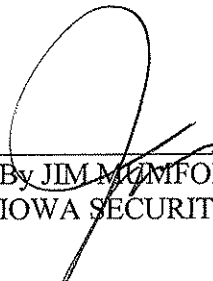
1 securities law, the rules and regulations thereunder, the rules and regulations of self regulatory
2 organizations or various states' securities laws including any disqualifications from relying upon
3 the registration exemptions or safe harbor provisions. In addition, this Order is not intended to
4 form the basis for any such disqualifications.

5 17. Except in an action by the State of Iowa to enforce the obligations of Respondents
6 in this Order, this Order may neither be deemed nor used as an admission of or evidence of any
7 alleged fault, omission or liability of Respondents in any civil, criminal, arbitration or
8 administrative proceeding in any court, administrative agency or tribunal. For any person or entity
9 not a party to this Order, this Order does not limit or create any private rights or remedies against
10 Respondents including, without limitation with respect to the use of any emails or other documents
11 of Respondents or of others concerning the marketing and/or sales of auction rate securities, limit
12 or create liability of Respondents, or limit or create defenses of Respondents to any claims.

13 18. This Order is not intended to disqualify Respondents or any of its affiliates or
14 current or former employees from any business that they otherwise are qualified or licensed to
15 perform under applicable state securities law and this Order is not intended to form the basis for
16 any disqualification.

17 DATED this 17th day of Sept, 2012.

18 BY ORDER OF SUSAN E. VOSS
19 COMMISSIONER OF INSURANCE

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21
22 By  FORD
23 IOWA SECURITIES ADMINISTRATOR
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1 **CONSENT TO ENTRY OF ADMINISTRATIVE ORDER BY RAYMOND JAMES &**
2 **ASSOCIATES, INC. AND RAYMOND JAMES FINANCIAL SERVICES, INC.**

3 Raymond James & Associates, Inc. and Raymond James Financial Services, Inc. (together
4 "Raymond James") hereby acknowledges that it has been served with a copy of this Consent Order,
5 has read the foregoing Order, is aware of its right to a hearing and appeal in this matter, and has
6 waived the same.

7 Raymond James admits the jurisdiction of the Iowa Insurance Division, neither admits nor
8 denies the Findings of Fact and Conclusions of Law contained in this Order, and consents to entry of
9 this Order by the Iowa Insurance Division as settlement of the issues contained in this Order.

10 Respondents shall not claim, assert, or apply for a tax deduction or tax credit with regard to
11 any state, federal, or local tax for any administrative monetary payment that Respondents shall pay
12 pursuant to this Order.

13 Raymond James states that no promise of any kind or nature whatsoever was made to it to
14 induce it to enter into this Order and that it has entered into this Order voluntarily.

15 Tash S. Elwyn represents that he is President of Raymond James & Associates, Inc., and that,
16 as such, has been authorized by Raymond James & Associates, Inc., to enter into this Order for and on
17 behalf of Raymond James & Associates, Inc.

18 Donald K. Runkle represents that he is Senior Vice President, Chief Compliance Officer of
19 Raymond James Financial Services, Inc., and that, as such, has been authorized by Raymond James
20 Financial Services, Inc., to enter into this Order for and on behalf of Raymond James Financial
21 Services, Inc.

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23 DATED this 27th day of Aug., 2012.
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RAYMOND JAMES & ASSOCIATES, INC.

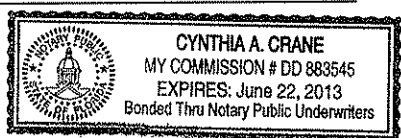
By: [Signature]
Tash S. Elwyn
Title: President

STATE OF Florida
County of Pinellas

SUBSCRIBED AND SWORN TO before me this 27th day of August, 2012.

[Signature]
Notary Public

My commission expires:



RAYMOND JAMES FINANCIAL SERVICES, INC.

By: [Signature]
Donald K. Runkle

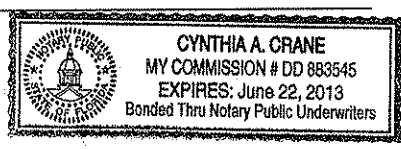
Title: Senior Vice President, Chief Compliance Officer

STATE OF Florida
County of Pinellas

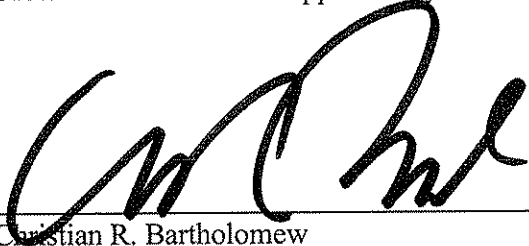
SUBSCRIBED AND SWORN TO before me this 27th day of August, 2012.

[Signature]
Notary Public

My commission expires:



1 The foregoing Administrative Consent
2 Order was reviewed and approved by:

3 

4 Date: 9/4/12

5 Cristian R. Bartholomew
6 Attorney for Respondents
7 Raymond James & Associates, Inc., and
8 Raymond James Financial Services, Inc.

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