

OFFICE OF THE ATTORNEY GENERAL  
BUREAU OF SECURITIES  
STATE OF NEW JERSEY  
153 HALSEY STREET  
P.O. BOX 47029  
NEWARK, NEW JERSEY 07101

**COPY**

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IN THE MATTER OF:

Banc of America Securities LLC  
(CRD #26091),

And

Banc of America Investment Services, Inc.  
(CRD #16361).  
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**CONSENT ORDER**

BEFORE MARC B. MINOR, BUREAU CHIEF

Pursuant to the authority granted to the Chief of the New Jersey Bureau of Securities (“Bureau Chief”) by the Uniform Securities Law (1997), N.J.S.A. 49:3-47 et seq. (“Securities Law”), and after investigation, review, and due consideration of the facts and statutory provisions set forth below, the Bureau Chief has determined that civil monetary penalties and other remedies be ordered against Banc of America Securities LLC (“BAS”) and Merrill Lynch, Pierce, Fenner & Smith Incorporated (“MLPF&S”) as successor by merger to Banc of America Investment Services, Inc. (in such capacity, “BAI”) (collectively, hereinafter “Respondents”).

**WHEREAS**, the New Jersey Bureau of Securities (the “Bureau”) is the State agency with the responsibility to administer and enforce the Securities Law; and

**WHEREAS**, N.J.S.A. 49:3-67 authorizes the Bureau Chief from time to time to issue such Orders as are necessary to carry out the provisions of the Securities Law, upon

a finding that the action is necessary or appropriate in the public interest or for the protection of investors and consistent with the purposes fairly intended by the provisions of the Securities Law; and

WHEREAS, on October 23, 2009, Banc of America Investment Services, Inc. merged with Merrill Lynch, Pierce, Fenner & Smith Incorporated; and

WHEREAS, it is in the interest of the parties to this order to address only pre-merger conduct and customers of BAI; and

**WHEREAS**, Respondents are broker-dealers registered with the Bureau; and

**WHEREAS**, coordinated investigations into Respondents' activities in connection with certain of their sales practices regarding the underwriting, marketing, and sale of auction rate securities ("ARS") during the period of approximately August 1, 2007, through February 11, 2008, have been conducted by a multistate task force; and

**WHEREAS**, Respondents have cooperated with regulators conducting the investigations by responding to inquiries, providing documentary evidence and other materials, and providing regulators with access to facts relating to the investigations; and

**WHEREAS**, Respondents have entered into a Settlement Term Sheet dated September 22, 2008 with the North American Securities Administrator's Association ("NASAA"), which recommends to NASAA members the settlement terms intended to resolve the investigation into the marketing and sale of auction rate securities by Respondents; and

**WHEREAS**, Respondents agree to make (or to have made on their behalf) certain payments as part of the resolution of the investigations; and

**WHEREAS**, Respondents elect to waive permanently any right to a hearing and appeal under N.J.S.A. 52:14B-1 et seq., with respect to this Consent Order;

**WHEREAS**, Respondents and the Bureau Chief wish to resolve these issues without the expense and delay that formal administrative proceedings would involve; and

**WHEREAS**, Respondents consent to the form and entry on this Consent Order without admitting or denying the findings of fact and conclusions of law set forth herein.

Accordingly, Respondents waive the following rights:

- a. To be afforded an opportunity for hearing on the Bureau Chief's findings and conclusions of law in this Consent Order after reasonable notice within the meaning of N.J.S.A. 49:3-58(c)(2); and
- b. To seek judicial review of, or otherwise challenge or contend, the validity of this Consent Order; and

**WHEREAS**, Respondents agree that for purposes of this matter, or any future proceedings to enforce this Consent Order by the Bureau Chief, this Consent Order shall have the same effect as if proven and ordered after a full hearing held pursuant to N.J.S.A. 52:14B-1 et seq.; and

**WHEREAS**, the provisions set forth in this Consent Order constitute the entire agreement between the Bureau and Respondents.

### **FINDINGS OF FACT**

The Bureau Chief makes the following findings of fact:

1. Respondents admit to the jurisdiction of the Bureau, neither admit nor deny the Findings of Fact and Conclusions of Law contained in this Consent Order, and consent to

the entry of this Consent Order by the Bureau.

2. Respondents have engaged in the sale of ARS in the state of New Jersey.

### **Auction Rate Securities**

3. ARS as a general term refers to long-term debt or equity instruments tied to short-term interest rates that are reset periodically through an auction process. Common categories of ARS instruments include: auction preferred shares of closed-end funds, municipal auction rate certificates, and student loan-backed auction rate certificates. The interest rates paid to ARS holders are intended to be set through a Dutch auction process.

4. The interest rate set at an ARS auction is commonly referred to as the “clearing rate.” In order to determine the clearing rate, the buy bids are arranged from lowest to highest interest rate (subject to any applicable minimum interest rate). The clearing rate is the lowest interest rate at which all ARS available for sale at the auction can be sold at par value.

5. An ARS auction is regarded as a “fail” or “failed auction” if there is not a buyer available for every ARS being offered for sale at the auction. A failed auction requires investors to continue to hold their ARS and wait until the next successful auction to liquidate their positions at par value.

6. In or about August and September 2007, some ARS auctions experienced failures. These failures were primarily based on credit quality concerns related to the ARS at issue, which often involved underlying assets of collateralized debt obligations.

7. During the fall of 2007 and into the beginning months of 2008, as the default rates

on subprime mortgages soared and the market in general began experiencing significant credit tightening, monoline insurers that insured many issuances of ARS were also becoming distressed and were at risk of ratings downgrades.

8. The result of the overall market conditions in the fall of 2007 and into the beginning of 2008 resulted in increasing concerns regarding market liquidity, as well as a declining demand for ARS.

### **Respondents Made Misrepresentations in Connection with the Sale of ARS**

9. Beginning in March 2008, a multistate task force began its investigation of Respondents' underwriting, marketing, and sale of ARS.

10. The multistate task force concluded that Respondents should have had knowledge that, during the fall of 2007 and winter of 2008, the auction markets were not functioning properly and were at increased risk for failure.

11. During that time period, significant numbers of buyers had been exiting the market and the continued success of the auctions was reliant upon the lead broker-dealers, such as BAS, making increased support bids. These support bids had the effect of artificially propping up the market and creating the illusion that the auction rate market was functioning as normal.

12. However, during that time, Respondents continued to market and sell ARS without informing customers of the heightened risks associated with holding these securities.

13. Instead, Respondents engaged in a concerted effort to market ARS underwritten by BAS towards its large retail customer accounts without advising the retail customers of any of the potential risks associated with a failed auction or market illiquidity.

14. On or about February 11, 2008, without notifying any of its customers, BAS stopped broadly supporting the auctions for which BAS was lead broker-dealer.

15. The decision left thousands of Respondents' customers stuck holding illiquid ARS.

16. On or about September 10, 2008, Respondents, Bank of America Corporation ("BAC"), and Blue Ridge Investments, L.L.C. ("Blue Ridge") agreed, in principle, that BAC would cause Blue Ridge to buy back, at par plus accrued but unpaid interest or dividends, ARS for which auctions were in failed mode from "Eligible Investors," which included all individual investors, all charitable organizations with account values up to \$25 million and small and medium sized businesses with account values up to \$10 million who purchased ARS from Respondents.

### **CONCLUSIONS OF LAW**

Solely for the purpose of this Consent Order, and without admitting or denying the Findings of Fact and Conclusions of Law set forth herein, Respondents consent to the Bureau Chief making the following conclusions of law:

1. As described in the Findings of Fact section above, Respondents inappropriately marketed and sold ARS without adequately informing their customers of the increased risks of illiquidity associated with the product for the time period August 1, 2007, through February 11, 2008.

2. Respondents' conduct described above constitutes dishonest and unethical conduct in the securities business, pursuant to N.J.S.A. 49:3-58(a)(2)(vii).

3. As described in the Findings of Fact section above, Respondents failed to properly supervise their agents with respect to the marketing and sale of ARS from October 1, 2007, to February 11, 2008.

4. Respondents' conduct described above constitutes a failure to reasonably supervise its agents pursuant to N.J.S.A. 49:3-58(a)(2)(xi).

5. The activities set forth herein are grounds, pursuant to N.J.S.A. 49:3-58(a)(1), N.J.S.A. 49:3-58(a)(2)(vii), and N.J.S.A. 49:3-58(a)(2)(xi), for the initiation of administrative proceedings; and further, pursuant to N.J.S.A. 49:3-67, to impose such other appropriate remedial measures as may be necessary in the public interest.

### **ORDER**

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

It is on this 5<sup>th</sup> day of FEBRUARY 2010, HEREBY ORDERED:

1. Respondents are assessed and shall pay a civil monetary penalty in the amount of \$1,268,393.30, due and payable within ten days of the entry of this Consent Order to "State of New Jersey, Bureau of Securities," 153 Halsey Street, 6<sup>th</sup> Floor, Newark, New Jersey 07102. The civil monetary penalty payment shall be deposited in the Securities Enforcement Fund, pursuant to N.J.S.A. 49:3-66.1.

2. In the event another state securities regulator determines not to accept Respondents' settlement offer, the total amount of the payment to New Jersey shall not be affected, and shall remain at \$1,268,393.30.

3. Respondents shall comply with the following requirements:

a. Eligible Investors

i. No later than October 21, 2008, BAC shall have caused Blue Ridge to offer to buy back, at par plus accrued and unpaid interest or dividends, Eligible ARS (as such term is defined below) for which auctions are in failed mode from Eligible Investors (as such term is defined below) who purchased such Eligible ARS from Respondents prior to February 13, 2008 (the "Offer"). For purposes of the Offer, Eligible ARS means ARS purchased from Respondents on or before February 13, 2008, that were subject to an auction failure on or after February 11, 2008. The Offer shall remain open for a period between October 10, 2008, and December 1, 2009, unless extended by Blue Ridge.

ii. "Eligible Investors" shall mean:

- (a). Natural persons (including their IRA accounts, testamentary trust and estate accounts, custodian IGMA and UTMA accounts, and guardianship accounts) who purchased Eligible ARS from Respondents;
- (b). Charities, endowments, or foundations with Internal Revenue Code Section 501(c)(3) status that purchased Eligible ARS from Respondents and that had \$25 million or less in assets in their accounts with Respondents as determined by the customer's aggregate household position(s) at Respondents as of September 9, 2008; or
- (c). Small Business that purchased Eligible ARS from Respondents. For purposes of this provision, "Small Business" shall mean Respondents' customers not otherwise covered in paragraphs 6.a.ii(a) and ii(b) above that had \$15 million or less in assets in their accounts with Respondents as of September 9,

2008.

iii. Respondents will have provided prompt written notice to customers of the settlement terms and Respondents will have established a dedicated telephone assistance line, with appropriate staffing, to respond to questions from customers concerning the terms of the settlement.

b. Relief for Eligible Investors Who Sold Below Par

No later than December 31, 2008, Respondents shall have promptly provided written notice to any Eligible Investor that Respondents could reasonably identify who sold Eligible ARS below par between February 11, 2008, and September 22, 2008. Such investors will be paid the difference by Respondents between par and the price at which the Eligible Investor sold the Eligible ARS. Any such Eligible Investors identified after December 31, 2008, shall be promptly paid the difference between par and the price at which the Eligible Investors sold the Eligible ARS.

c. Consequential Damages Claims

No later than October 10, 2008, Respondents shall make reasonable efforts promptly to notify those Eligible Investors who own Eligible ARS that, pursuant to the terms of the settlement, an independent arbitrator, under the auspices of the Financial Industry Regulatory Authority ("FINRA"), will be available for the exclusive purpose of arbitrating any Eligible Investor's consequential-damages claim.

Respondents shall consent to participate, at an Eligible Investor's election, in the North American Securities Administrators Association ("NASAA") Special Arbitration Procedure (the "State SAP") established specifically for arbitrating claims arising out of an Eligible Investor's inability to sell Eligible ARS. Respondents shall notify Eligible Investors of the terms

of the State SAP. Nothing in this Consent Order shall serve to limit or expand any party's rights or obligations as provided under the State SAP. Arbitration shall be conducted by a single non-industry arbitrator and Respondents will pay all forum and filing fees.

Arbitrations asserting consequential damages of less than \$1 million will be decided through a single chair-qualified public arbitrator who will be appointed through the FINRA list selection process for single arbitrator cases. In arbitrations where the consequential damages claimed are greater than or equal to \$1 million, the parties can, by mutual agreement, expand the panel to include three public arbitrators who will be appointed through FINRA's list procedure.

Any Eligible Investors who choose to pursue such claims through the State SAP shall bear the burden of proving that they suffered consequential damages and that such damages were caused by their inability to access funds invested in Eligible ARS. The State SAP will govern the availability of attorneys' fees. In the State SAP, Respondents shall be able to defend themselves against such claims; provided, however, that Respondents shall not contest liability for the illiquidity of the underlying ARS position or use as part of their defense any decision by an Eligible Investor not to borrow money from Respondents.

All customers, including but not limited to Eligible Investors who avail themselves of the relief provided pursuant to this Order, may pursue any remedies against Respondents available under the law. However, Eligible Investors that elect to utilize the State SAP are limited to the remedies available in that process and may not bring or pursue a claim relating to Eligible ARS in another forum.

d. Institutional Investors

Respondents shall endeavor to work with issuers and other interested parties, including regulatory and governmental entities, to expeditiously and on a best efforts basis provide liquidity solutions for institutional investors that purchased Eligible ARS from Respondents and are not entitled to participate in the Offer (“Institutional Investors”).

Beginning on December 31, 2008, and then quarterly thereafter, Respondents shall submit a written report to a representative specified by NASAA outlining the efforts in which Respondents have engaged and the results of those efforts with respect to Institutional Investors’ holdings in Eligible ARS. The written reports will be submitted 20 days following the end of the quarter. Respondents shall confer with the representative no less frequently than quarterly to discuss Respondents’ progress to date. Such written reports and quarterly meetings shall continue until no later than December 31, 2009. Following every quarterly meeting, the representative shall advise Respondents of any concerns and, in response, Respondents shall detail the steps that Respondents plan to implement to address such concerns.

e. Relief for Municipal Issuers

Respondents shall refund refinancing fees to municipal auction rate issuers that issued such securities through Respondents in the initial primary market between August 1, 2007, and February 11, 2008, and refinanced those securities through Respondents after February 11, 2008. Refinancing fees are those fees paid to Respondents in connection with a refinancing and are

exclusive of legal fees and any other fees or costs not paid to Respondents in connection with the transaction.

f. Repayment of Interest on Loans Provided To Eligible Investors

To the extent that Respondents loaned money to Eligible Investors secured by Eligible ARS, after February 11, 2008, at an interest rate that was higher than that paid on such Eligible ARS, Respondents shall refund the difference to such Eligible Investors.

g. Penalties

i. Respondents shall pay a total civil penalty of FIFTY MILLION (\$50,000,000) DOLLARS, which shall be allocated among and paid to the Commonwealth of Massachusetts, the state of New York, and such other states and territories that enter administrative or civil consent orders approving the terms of the NASAA settlement (together with the Commonwealth of Massachusetts and the state of New York, the "Approving States"). Any such allocation shall be made at the discretion of the Approving States;

ii. The Bureau's portion of the civil penalty shall be \$1,268,393.30 and shall be paid to the Bureau no later than ten business days after the date of entry of the Consent Order.

h. In Consideration of the Settlement

The Bureau will:

i. Terminate the investigation of Respondents' underwriting, marketing, and sale of ARS to Eligible Investors as defined herein; and

ii. Refrain from taking legal action, if necessary, against Respondents with respect to their institutional investors until December 31, 2008; the Bureau shall issue continuances of that period as it deems appropriate; and

iii. The Bureau will not seek additional monetary penalties from Respondents in connection with all underlying conduct relating to Respondents' underwriting, marketing, and sale of ARS to Eligible Investors.

i. Compliance with Terms of the Consent Order

If, after this Consent Order is executed, Respondents fail to comply with any of the terms set forth herein, the Bureau may take appropriate remedial action.

4. If payment is not made by Respondents, or if Respondents default in any of their obligations set forth in this Consent Order, the Bureau may vacate this Consent Order, at its sole discretion, upon 10 days notice to Respondents and without opportunity for administrative hearing.

5. Respondents will cease and desist from violating the Securities Law and will comply with the Securities Law.

6. This Consent Order concludes the investigation by the Bureau and any other action that the Bureau could commence under applicable New Jersey law on behalf of New Jersey as it relates to Respondents' marketing and sale of ARS to Respondents' "Individual Investors," as defined above.

7. This Consent Order is entered into solely for the purpose of resolving the referenced multistate investigation, and is not intended to be used for any other purpose.

8. This Consent Order as entered into by the Bureau waives any disqualification contained in the laws of New Jersey, or rules or regulations thereunder, including any disqualifications from relying upon the registration exemptions or safe harbor provisions that BAI, BAS, or any of their affiliates may be subject to as a result of the findings contained in this Consent Order. This Consent Order also is not intended to subject BAI or BAS or any of their affiliates to any disqualifications contained in the federal securities laws, the rules and regulations thereunder, the rules and regulations of

self regulatory organizations, or various states' or U.S. Territories' securities laws, including, without limitation, any disqualifications from relying upon the registration exemptions or safe harbor provisions. In addition, this Consent Order is not intended to form the basis for any such disqualifications.

9. For any person or entity not a party to this Consent Order, this Consent Order does not limit or create any private rights or remedies against Respondents including, without limitation, the use of any e-mails or other documents of Respondents or of others for auction rate securities sales practices, limit or create liability of Respondents, or limit or create defenses of Respondents to any claims.

10. Nothing herein shall preclude the State of New Jersey, its departments, agencies, boards, commissions, authorities, political subdivisions and corporations, other than the Bureau and only to the extent set forth in paragraph 6 immediately above, (collectively, "State Entities") 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 Respondents in connection with certain auction rate securities sales practices at Respondents.

11. This Consent Order and any dispute related thereto shall be construed and enforced in accordance with, and governed by, the laws of New Jersey without regard to any choice of law principles.

12. Respondents, through their execution of this Consent Order, voluntarily waive their right to a hearing on this matter and to judicial review of this Consent Order under N.J.S.A. 52:14B-1 et seq.

13. Respondents enter into this Consent Order voluntarily and represents that no threats, offers, promises, or inducements of any kind have been made by the Bureau or any member, officer, employee, agent, or representative of the Bureau to induce Respondents to enter into this Consent Order.

14. This Consent Order shall be binding upon Respondents and each of their

successors and assigns with respect to all conduct subject to the provisions above and all future obligations, responsibilities, undertakings, commitments, limitations, restrictions, events, and conditions.

Banc of America Securities LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated as successor by merger to Banc of America Investment Services, Inc. hereby consent to the form and entry of this order without admitting or denying the findings of fact and conclusions of law set forth herein.

BANC OF AMERICA SECURITIES LLC

By: Steve Chaiken

Name: Steve Chaiken  
Title: Managing Director

DATED: 1/6/10

MERRILL LYNCH, PIERCE, FENNER &  
SMITH INCORPORATED as successor  
by merger to BANC OF AMERICA  
INVESTMENT SERVICES, INC.

By: \_\_\_\_\_

Name:  
Title:

DATED:

NEW JERSEY BUREAU OF SECURITIES

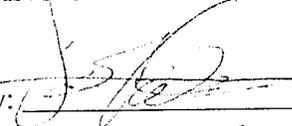
By: Marc B. Minor  
Marc B. Minor  
Chief, Bureau of Securities

DATED: 2-5-10

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BANC OF AMERICA SECURITIES LLC

By:  \_\_\_\_\_

Name: David Fotterman  
Title: Assoc. Gen. Counsel

DATED: Jan 26, 2010

MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED as successor by merger to BANC OF AMERICA INVESTMENT SERVICES, INC.

By:  \_\_\_\_\_

Name: David Fotterman  
Title: Associate General Counsel

DATED: Jan 26, 2010

NEW JERSEY BUREAU OF SECURITIES

By:  \_\_\_\_\_  
Marc B. Minor  
Chief, Bureau of Securities

DATED: 2/5/10

**CONSENT TO ENTRY OF CONSENT ORDER BY BANC OF AMERICA  
SECURITIES LLC AND BANC OF AMERICA INVESTMENT SERVICES, INC.**

Banc of America Securities LLC (“BAS”) and Merrill Lynch, Pierce, Fenner & Smith Incorporated (“MLPF&S”) as successor by merger to Banc of America Investment Services, Inc. (“BAI”) (collectively, “Respondents”), hereby acknowledge that they have been served with a copy of this Consent Order, have read the foregoing Consent Order, are aware of their right to a hearing and appeal in this matter, and have waived the same.

Respondents admit the jurisdiction of the Bureau, neither admit nor deny the Findings of Fact and Conclusions of Law contained in this Consent Order, and consent to entry of this Consent Order by the Bureau as settlement of the issues contained in this Consent Order.

Respondents agree that they shall not claim, assert, or apply for a tax deduction or tax credit with regard to any state, federal, or local tax for any administrative monetary penalty that Respondents shall pay pursuant to this Consent Order.

Respondents state that no promise of any kind or nature whatsoever was made to them to induce them to enter into this Consent Order and that they have entered into this Consent Order voluntarily.

Steve Chaiken represents that he/she is Managing Director of BAS, and that, as such, has been authorized by BAS to enter into this Consent Order for and on behalf of BAS.

\_\_\_\_\_ represents that he/she is \_\_\_\_\_ of MLPF&S and that, as such, has been authorized by MLPF&S to enter into this Consent Order for and on behalf of MLPF&S.

**CONSENT TO ENTRY OF CONSENT ORDER BY BANC OF AMERICA  
SECURITIES LLC AND BANC OF AMERICA INVESTMENT SERVICES, INC.**

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Respondents state that no promise of any kind or nature whatsoever was made to them to induce them to enter into this Consent Order and that they have entered into this Consent Order voluntarily.

David Fullmer represents that he/she is Asst. General Counsel of BAS, and that, as such, has been authorized by BAS to enter into this Consent Order for and on behalf of BAS.

David Fullmer represents that he/she is Asst. General Counsel of MLPF&S and that, as such, has been authorized by MLPF&S to enter into this Consent Order for and on behalf of MLPF&S.



